Emerald

Guido Stein

MANAGING PEOPLE *and* ORGANIZATIONS

Peter Drucker's Legacy

From Peter Drucker to Guido Stein – regarding the original Spanish text

May 1, 1999

Ill. Dr. Guido Stein, Secretario General
Universidad de Navarra
Pamplona, Spain

Dear Dr. Stein;

you ask me about my reaction to your book about my work and me . I am greatly honored and flattered to be the subject of so profound and scholarly a book. And I am greatly impressed by two of your main themes— they run like threadsthrough the entire book. One is that you see clearly that for me THEORY and PRACTICE are inseperable. Management is not a "SCIENCE" in the way Mathematics or Physics are. It is a PRACTICE— a DISCIPLINE- similar to Medicine, to the Priesthood, to the Law. And there, good practice is only what rests on good theory; and good theory is only what is validated in and through good practice. And so— as you rightly discern- I have always been BOTH, a Theoretician and a Practitioner- in fact, my extensive Consulting Practice has, all along been my Laboratory; and all my theories have been, in turn, been tested in practice.The other of your main themes is one I have been preaching for more than forty years: Management is NOT "Business Management"; it is the ruling organ and decisive function of EVERY modern social institution. This isparticularly important, I maintain, as we have learned, in every developed country, that the STATE can do only so much and that the Free Market,i.e. Business, can do only so much— the COMMUNITY ORGANISATIONS (of which the University is one of the most importantones) must and will do more and more of the community jobs— and they all require MANAGEMENT (and management of a high order).

But I am also surprised— agreeably so- by a third theme of your book. You show— much to my surprise, I must admit— that there is a straight basic progression and logical development in my seventyyears of writing. Indeed you almost make me out a "systematic philosopher"— perhaps the way to describe it is to say that from myearliest beginnings in the nineteen-thirties, I have seen management- and business- as parts of SOCIETY and as embodying major values of society— call it a "systems approach" if you will. In retrospect, that is from your perspective, that comes through loud and clear. But to me it was a surprise— and a most agreeable one.

I do have, however, one real criticism: YOU ARE FAR TOO LAUDATORY about my work— I have been wrong as often as I have been right. Perhaps that is not relevant to the purpose of your book which, after all, is to acquaint a larger public— and especially Spanish executives and academicians- with what they might learn from my work. But I am very conscious of all the mistakes I have made— I only hope that I have learned from them.

And how should the book be used? you asked— I hope that it will first and above all, help Spanish executives in their important work. And then I hope it will advance the DISCIPLINE of Management in Spain— as you point out creating it has both been a major goal of mine and perhaps my main and most important achievement.

With best wishes for the success of your book

Peter F. Drucker

From Peter Drucker to Guido Stein – Regarding the Original Spanish Text

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With best wishes for the success of your book

Peter F. Drucker

Praise for Previous Spanish Language Editions

How should this book be used? I hope that, first and foremost, to assist directors in their important work. And then to encourage the DISCIPLINE of Management: As Stein points out, developing this discipline has been not only one of my key objectives, but also probably my greatest and most important achievement.

Peter F. Drucker

I have enjoyed reading — from cover to cover — Guido Stein's book on the management of organizations in general and especially on the management of companies. Neither Stein nor Drucker want to be management technicians. They have both observed human behaviour in business organisations and sometimes suggest and sometimes recommend on structures (''meetings are by definition a concession to deficient organization''), on people (''there are no capable people in general but in specific tasks''), etc. I cannot imagine any business executive or manager who takes pride in his work not adding this to his list of essential bedside reading. Reading Guido Stein's work has been a joyful adventure, entertaining and informative. Soon it will become a classic of business literature and a reference work.

Luis Valls Taberner,
Former Chairman, Banco Popular

Peter Drucker will always be relevant; we should thank Guido Stein for reminding us of this and for bringing us Drucker's ideas undistorted. In these times when the leading business schools of the world focus on the relevance and applicability of corporate knowledge, the thinking of Peter Drucker once again becomes the undisputed reference for those working in this field.

Pedro Nueno,
IESE professor

According to Guido Stein, what makes Drucker so relevant today is that he is a man of the future because he is so familiar with the past.

Expansión

Stein presents through his work an overview of the different contributions that Drucker has made to the general management, policy and understanding of the changes in the workings of society.

La Gaceta de los Negocios

Besides offering an overview of some of the aspects that Drucker has dealt with, the book gives us direct access to Drucker's German writings, and also shows us the Drucker as a novelist.

El País

The author is sure to become a classic of business literature and this book, his reference work.

Actualidad Económica

Praise for this edition

In a crisis-ridden world we need to rediscover management as a purposeful function beyond short term objectives and profits. Guido Stein's book contributes to establish orientation and meaning. He achieves this by masterfully re-tracing the fundamental ideas and concepts of Peter F. Drucker, thus making them accessible to the reader in a compact but never superficial way. Guido Stein elucidates Peter Drucker's thinking in a way that its relevance for today and tomorrow can be fully comprehended. He challenges the reader to engage personally in deep reflection as opposed to finding a new management "solution" or quick fixes for problems of the day. I would hope that this book will help experienced managers and executives to rediscover Peter Drucker and above all that it will find its way to the young generation, who are keen to develop a new understanding of management's role in 21st century society.

Richard Straub
Founder and President of the Peter Drucker Society Europe

GUIDO STEIN

MANAGING PEOPLE AND ORGANIZATIONS: PETER DRUCKER'S LEGACY

Foreword by

PEDRO NUENO

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INVESTOR IN PEOPLE

In memory of Otto Stein

Zum Sehen geboren
Zum schauen bestellt

Born to see,
called to discover

(J.W. v. Goethe, Faust II,
Act V, scene IV)

Contents

Foreword

Thirty years ago, as a doctoral student at Harvard Business School, Professor Bruce Scott of the Business Policy Department added to our reading list a book Peter Drucker had recently published: *The Age of Discontinuity: Guidelines to Our Changing Society*. I remember that the impact of the book was so significant that I even went out and bought it, despite my limited student resources. Shortly afterwards, Professor Jordan Baruch, who has contributed so much to the teaching of technology management, asked us to read another book by Drucker: *Technology, Management and Society*.

On my course, we were lucky that our reading seminar was directed by Alfred Chandler, who had just left MIT for Harvard. Chandler, already famous in those days, made us look in detail at the fundamental issues of management through Drucker's books such as *Managing for Results*, *The Effective Executive*, or even *The Concept of the Corporation*, written in 1946.

For Harvard's leading intellectuals at that time, Peter Drucker was already number one. The academic world is often cruel to its own kind, preferring to criticize an academician rather than hold them as an exemplar. Therefore, doctoral students were — and are — valued for their critical capacity. But with Drucker, even then, there was a kind of closed season. More than criticize his ideas, you had to extract them. You could criticize Forrester, Friedman, or Simon, but you had to extract from Drucker.

During my 30-year career, Peter Drucker remained active. Unlike other artists, Drucker did not go through gray or abstract periods; he remained steady and constant, with his feet firmly on the ground, explaining yesterday's events in line with today's realities and predicting a tomorrow that turns out to be very close to what actually happens. He always presents us with the most important aspects first.

A long productive life in terms of ideas, a capacity to keep up-to-date and a readiness to speak using the appropriate language have positioned Drucker as the top management thinker of the past century (the only century in which our discipline of management has been around) and he managed all this without getting carried away by fashionable trends and the mainstream. Peter Drucker has earned everyone's respect. Some praise his deep understanding of reality, people, sectors, and different geographical environments. Others value his ability to synthesize, his capacity to address business issues along with the relevant relationships between

them. Others remember the tremendous humanity and humility with which he dealt with people. Peter Drucker was able to create a school of enthusiastic followers worldwide. He lovingly cared for this school and gave his followers his time and attention.

The field of management seems to have some difficulty in producing figures such as Peter Drucker. The word "figure" carries with it the idea of a combination of philosopher, scientist, and teacher. Someone with the capacity to handle the basics of management, in such a way as to help others understand it, facilitate working in this field and make it easier to explain. To Peter Drucker, management was a practice, not a science. A business school should resemble a university hospital rather than a conventional university department. A business professor should have one foot in the complex business environment and the other in the rigorous intellectual process of a scientist. The results of research should create impact in the classroom.

Peter Drucker will always be relevant and we should thank Guido Stein for reminding us of this and for bringing us Drucker's ideas undistorted. At the current time when the world's leading business schools are beginning to place new emphasis on things such as "research should create an impact in the classroom," and when they are clearly committed to the relevance and applicability of business knowledge, Peter Drucker's way of thinking once again becomes the unquestionable point of reference.

Guido Stein's work is spot on. It was a risky project that has turned out well. To distill conclusions from such a large number of publications is not an easy thing to do, but Dr. Stein has managed to add two things to Drucker's contribution. Reading Guido Stein's work gives one a comprehensive overview of Peter Drucker's contribution to management thinking. Also, Dr. Stein adds his own ideas, connecting Drucker with his environment, organizing and analyzing these ideas with rigor and accuracy.

The book that follows is an excellent work that should help managers to reflect on the essence of their tasks. For those interested in finding out how we got to where we are today in management, the work of Dr. Stein gives an answer. For those academicians who wish to study management in detail, it provides an excellent guideline. Clearly, this is one of the books that needed to be written right now.

Pedro Nueno
Professor at IESE

Introduction: A Social Ecology

Why write a book on the management thoughts of Peter Drucker? Why introduce it as a social ecology? Why start with two verses by the poet of Weimar? These three different questions point us in the same direction.

Peter Drucker was born in Vienna on November 19,1909 and died in California on the November 11, 2005. He enjoyed a long and fruitful life as a thought leader, characterized by the works of his keen intellect and tireless activity. We can apply to Drucker's life the words that the Spanish writer and philosopher, Miguel de Unamuno, mused in his watchtower at the Peña de Francia: ''the hours seem to go by without feeling yet they remain within one.'' Drucker has remained ''within his hours'' and he has given us his writings, which not only are prolific, but also on a range of very varied themes, from the philosophy of law in its early years, to today's international economy, passing through political philosophy, sociology, management and business administration, reflections on technology, historical interpretation and literary creation.

His pen vibrates with a current of broad thought; coherent, fascinating, sometimes fast-flowing and shallow, sometimes a deep pool, but always evocative. Like Oscar Wilde, he questions the truth, posing the most obvious questions, the right kind of questions to promote unprejudiced thinking (such as, in his main field of focus: what is our business? who is our client? what will our business be in the future? what should it be? etc.) and he makes it easier for us to see the reality of the situation.

The richness of his thought is indebted to his personality. To follow the tracks that the passage of time has imprinted on his character, that is, his biography, written by his own hand, has been our thread of Ariadne. This has helped us to methodically weave this book together and has made a thick forest pleasantly navigable. We hope that after reading these pages, our findings offer a picture that is far removed from the mythological labyrinth.

The methodological approach of reconstructing an intellectual biography has allowed us to bring meaning to a project that has proved frankly laborios and sometimes arduous — such as the task of simultaneously considering the ever-changing environmental aspects over 90 years, dealing with two cultures (German and Anglo-American), and going through a couple of dozen books and numerous articles.

Drucker's amazing array of sources of inspiration and the multiplicity of his work has been a challenge when attempting to develop a comprehensive and coherent

synthesis. We have exhaustively gone through his books (many of which are collections of papers, in some cases published twice under different titles). We also worked selectively on a couple of dozen articles not listed in books, particularly the oldest and the most recent ones. However, our goal is not to produce a synthesis of everything that has ever been conceived, written, or said by Peter Drucker (there are many audio–visual materials available of our author, to which we have had partial access).

Above all it has to be said that Drucker was a man of our time; nothing that happened around him was beyond him. This multidimensional synthetic (essentially humanist) view allowed him to think ahead of the intellectual opinion of his time in many respects. Anecdotally, we should remember that he was the first social scientist to use the term "post-modernity." However, the same universal point of view singles him out in our times of such short-sighted specialization. Drucker was one of the last humanists; this is why studying him is so exciting and challenging.

We start with a general approach to his science, explaining his vision of industrial society, then we go on to describe the role that the corporation plays in this society, and we conclude with a practical concept: management understood as an essential institution of the industrial system and an expression of the Western belief in freedom of the people and their aspiration toward economic progress and social justice.

We have tried to follow the advice of Professor Rafael Alvira, who in *La Razón De Ser Hombre* says "being aware of the limits also necessarily means that it is a great paradox to go beyond them." We do not know if we have managed to overcome our obvious limitations by a little or a lot. Nevertheless, we do know with certainty that there are many facets of Drucker that we have not sought to consider in depth and that deserve further research for themselves. For example, his contribution to the understanding and management of the nonprofit sector; to a host of business areas such as marketing, innovation, and entrepreneurship, decision theory and information systems; to the field of economics where he put forward some creative views on its theory and history; to social and political philosophy with his acute insights into U.S. culture, politics, history, and economics; and in the international arena, with his opinions about Japan and Asia in general.

Any attempt to explain all the aspects of Drucker's work would require rewriting all of it, adding connections between seemingly separate issues and the reasons that Drucker sees them as conjoined. To limit him is without doubt to make him smaller, but it is the only way to deal with some crucial aspects of his extensive intellectual contribution.

Apart from the synthesis offered, we believe that the other fruits of our work have been: to bring Drucker's German writings to light for the first time (these have seldom been mentioned by those who know Drucker and where they are it is always indirectly and never using citations); to offer Drucker's vision as a novelist, a side of him which is completely ignored, except in his autobiographical writings; and to have worked on almost unknown books and seldom cited books by our author such as *The End of Economic Man*, *The Future of Industrial Man* or *Landmarks of Tomorrow*.

We are convinced that we have shown the significant intellectual stature (and in some cases the moral standing) of Peter Drucker. His critics say he speaks in generalities and clichés and they are right. However, they forget that all truth can be

considered to be an obvious cliché or a way of life; what matters is whether it is only talked about or whether it is also used as a basis for action.

In one of his works, Drucker confesses that he is conscious of his Western education, his preference for the great European traditions and especially for the Anglo-American conservative political philosophy expressed in the defence of liberty, law and justice, accountability and work, the unique dignity of the person and his fallibility as a human being. From this perspective, he has considered human nature and man's actions, focusing on the modest study of some of them; he never intended for his works to be considered scientific or theoretical, but rather shapers of *discipline* and *practice*.

Drucker says that he is a social ecologist, because his object of observation and perception is man and the environment built for him (as the biological world is to the natural ecologist). Druckerian social ecology is a discipline that focuses on human action, and is also a practice (knowledge is a "tool" for action). The social ecology of Peter Drucker is not sterile or neutral. It is the result of 90 years lived by the motto expressed in Goethe's poetry. Few authors provide such an accurate and evocative introduction to the study of management or discussion of its main issues.

Thanking someone gladdens the soul and is a sign of the good upbringing to which we are obliged. In nonalphabetical order, we would like to thank Professor Alejandro Llano for his good advice in the drafting of this book; our magnificent rector, Professor Jose Maria Bastero, with whom I have the fortune and honor to work, for his generosity and ongoing support; Professor Rafael Alvira, for his teachings on the Company and Humanism; José Ramón Gil, born facilitator, for his internet expertise and his endless availability; Loreto Terés and Claudia Osinaga, for their impeccable, diligent work; and the University of Navarra Library in Pamplona and at IESE in Barcelona, personified by Mari Ángeles Aranda and Ana León.

Finally, I would like to thank Luisa, my wife, for her continued support and generosity for allowing Peter Drucker to become another member of the family; and of course we also thank Professor Drucker who was kind enough to read this book and to acquiesce to my wishes for him to give an opinion on my work, which he considered too favorable. For my part, to be fair, I also I believe that his letter is far too laudatory, for this highlights Professor Drucker's generosity in overlooking the weaknesses of a study, whose errors are entirely my own.

Chapter 1

Getting to Know Peter F. Drucker

1.1. The Style of Peter Drucker

Peter Drucker writes in a simple, straightforward, and elegant style on a wide range of topics that had previously been addressed only obscurely.[1] He tries to narrow down the issues and background by being very economical with words. He attempts to get to the heart of arguments with speed and agility, while maintaining rigor and assisting with the reader's comprehension of the issues. His constant quest to synthesize ideas is combined with his scrupulous care of the logical thread of the argument. One may disagree with his reasoning or even propose significant amendments, but his arguments are always understood. He is not a convoluted, verbose, or difficult thinker.

His use of the pen could be well described as an aesthetic pragmatism. His objective of being useful is accomplished with a beautiful display of simplicity. Drucker may have been often criticized for not being formally profound, but it cannot be denied that he writes with an air of pleasure and freshness.

As an American by adoption, he is not pompous in his manner of speaking. As a European educated in the Austro-German world, his culture and training have given him access to a spiritual world that unexpectedly shines through on every page of his work and at every step of his thinking. Uniquely for a management thinker, Drucker was unclassifiable among his many colleagues; as a result of his classical education, his mind relates everything to everything else because ultimately everything has to do with everything else. This allows him, when addressing an issue, to understand concepts, classify problems, and discover horizons with a wealth and apparent ease that are unknown in other authors.

Drucker was educated from childhood in one of the early Montessori method centers and later in a *Gymnasium*, and the nonprejudiced, practical, objectives-led learning styles, which we can justifiably call American, have been incomparably combined in Drucker. Who else could have published on management with constant

1. At a very early age I knew it was likely that I could write well … and that writing was perhaps the only thing I could do well." See Peter Drucker (1979a).

allusions to other areas relevant to the history of humanity: theology, literature, philosophy, art, politics, technology, and economics?

His uniqueness is also manifested by the versatility with which he so prolifically addresses a wide range of topics, something that can be seen simply by reading the titles of his work.

Theodore Levitt quite rightly says of Drucker:

> The range of subjects Drucker treats and the range of audiences and journals to which he appeals are obviously impressive — his is the work of a civilised citizen with wide and penetrating interests. But what is even more impressive is the dignity, learning, grace and cultivation he brings to each subject he approaches. The things he writes has the glow of the Renaissance man for whom nothing is new. He sees the connection with other times, other disciplines, other cultures and other values, but he marvels at and delights in the new twists that are perceptible in the old relationships; the new meanings and policies suggested by the unexpected conjuncture of old opposites; the new expression taken by the assertion of venerable values and ancient morality; the new imperatives in politics, economics, morality, management, and world affairs imposed by science, technology, population change, weapons of mass destruction and communication.
>
> (Ritchie, 1970)

Levitt himself confesses it was Drucker who made him see the legitimacy of being a respectable generalist who knows about many things in a world full of insular and one-dimensional specialists.

Drucker's commitment to generalism must be combined with his refined pragmatism.[2] He is not a manager or a businessman, but a teacher and writer, yet he knows how to be useful, so that his thoughts and advice can be applied. It is highly likely that he held that a good theory is the most useful thing because he would have understood that a good theory is one that deals with the human condition and its concerns and desires, and that is rich in suggestions that, when implemented, improve human kind.

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2. For Drucker, management as a discipline belongs to the field of social sciences, and is not a subject for limited specialisation but rather a broad knowledge base. "It is just as important to know who Dante was or know the history of technology as it is to understand statistical regression analysis." And he develops this approach by saying: "The main point I would say, is that the organisation is a human and social, indeed even a moral phenomenon. For me it was pretty obvious that this new phenomenon, this new organisation called the corporation should be considered and studied as a socio-political phenomenon, and not exclusively as 'economic'. Contrary to the prevailing approach in the West since the days of Machiavelli, however, I must stress that the essence of organisations is not power, but responsibility. That's the fundamental nature of my work; I have kept it unchanged for over forty years" (Clutterbuck & Crainer, 1991, p. 107).

We can illustrate this with an example. Drucker is recognized as one of the forerunners to the conceptualization and academic development of marketing. The phrase commonly cited to back up this claim is the answer to the question of what the purpose of a company is, "The purpose of a company is to create a customer."

This statement has a double purpose: on the one hand, to describe the goal, the essence of what a company is for; and on the other, to define what has to be done to achieve that goal. Drucker has not only offered a definition but also goes further by prescribing a course of action. Very often his definitions are guidelines for action: his American pragmatism emerges here.

Sometimes brevity is achieved by posing the right question without bias or preconceived ideas. Legend has it that Drucker was appointed as a consultant for a company that made glass bottles. At the first meeting with the steering committee, he asked them a very simple question:

> Well, gentlemen, what is your business?
>
> "Our business," said the chairman, surprised by the naiveté of the question, "is to manufacture glass bottles for soft drinks and beer."
>
> "No," said Drucker, "I disagree. Your business is the packaging of products."

This attitude allows him to understand how things really work and enables him to concentrate on what matters. Drucker was not solely interested in a practical management application, nor in solutions to specific problems taken from textbooks. As the philosopher that in a way he is, he looks for a solution based on a principle that is intellectually satisfying.

In this sense, Chris Argyris says of him: "Peter Drucker has the rare ability to combine high-level analytical skills, with the capacity to understand the requirements of efficient managerial action, especially at the top … Perhaps some social scientists criticize Peter for failing to be more empirical as a researcher. I don't, because if he were, I do not see how he could have given the conceptual contributions that opened the way as he did. If I were to criticize Peter for something it would be that he never seemed to realize that embedded in his research methods, his 'unscientific' methods based on his consultations, are the seeds of a new social science methodology, and this is something that social science badly needs in order to really be applicable."

Drucker is endowed with a unique combination of features: an extraordinarily keen and sharp sense of intuition; a vivid and rich imagination; creative power in analysis; an amazing ability to get to the root of problems and approaches by asking, as we have seen, the most appropriate and unexpected questions in every circumstance. These qualities made him particularly good at consultancy work, which he describes as a form of psychiatry, where he seeks to organize what he is hearing. This characteristic contrasts sharply with our author's emphatic assertion, included in many of his passages, that he considers himself absolutely incapable of

taking on any management role whatsoever.[3] In an interview, when asked "why did not become a manager," he replied:

> I'm not an administrator. I'm very bad, very poor at managing. I am not good, above all, in managing people because all the things I preach I cannot, I don't practice. I don't delegate. I've got to do it myself, and I get absolutely no satisfaction except out of doing it myself. Every secretary I have had bitterly complains that I don't let her make my airplane reservations, that I don't trust her. I never could convince any of my girls that it wasn't because I didn't trust them but because I enjoy making them myself. I am not a manager. I could not have built a big consulting practice. For a big consulting practice you have to want to sell, and I don't. Many people have asked me this question, and the answer is very simple. It is not because I don't want to but because I don't think I could have done it. In fact, I know I couldn't have done it. Whenever I am in an administrative situation I am both ineffectual and miserable, and am bitterly disliked by my associates, for being arbitrary and capricious and secretive.

Many may accuse him of writing and saying generalities and platitudes. However, that can be answered, as Drucker would, by saying that truths are likely to be considered either trivial (especially if we bear in mind claims based on common sense) or rich and fruitful life choices, depending on whether we just talk about them or we actually try to embody them.

Whether it is expressing profound, complicated truths, or trivial displays of common sense, his prose cannot be considered academic in the accepted sense, but rather it is impressionistic, forceful, often anecdotal, and more than a little dogmatic.

Surprisingly, when answering the question "how do you write?" this expert author of several dozen books and hundreds of articles says "In an unsystematic way. It is a compulsive neurosis. There is no prior model."

To this we could add the following comment by Ronald Ritchie: "Drucker is more of the style and tone of Alexis de Tocqueville, who was very focused on the Old Testament prophets, although a great social commentator, critic and prophet of his time. Self-assured enough to be certain of his judgments about the people and events of his own time, it seems beyond doubt that Drucker's most important insights will pass the test of time over the centuries as well as they have passed the last thirty years" (Ritchie, 1970, p. 83).

To conclude, this consideration of the characteristics that may give us an idea of our author's style, now that we have looked at his method of writing and his ways as a consultant, we will have to describe him as a teacher; one of the three activities that he devoted his professional life to, initially at Sarah Lawrence College, then at the

3. I could not work in a large organisation. They bore me to death." (Drucker, 1986, p. 5.)

Graduate Business School of the University of New York, and finally at Claremont Graduate School in California, where he held the Clarke Chair in Social Sciences and Management. To this we must also add his work as a visiting professor and lecturer at many American and Japanese universities and other international forums.

Perhaps his most paradigmatic stage was during the 20 years he dedicated to the training of experienced managers in evening classes at the University of New York. The students were of very diverse origins. The methodology used was the case method in classes of around a hundred students. John Flaherty, a colleague at New York, emphasizes five related objectives in his teaching style.

First, temporal continuity allowed students to understand the reasons and consequences of business decisions that are not everlasting (Ritchie, 1970, p. 273 et seq.). As we shall see, continuity and change as cultural forces always captured the intellectual interest of our author. He seeks to understand problems within the appropriate framework something that is never static, but dynamic.

Second, while creativity cannot be taught as such, Drucker believes that one can learn it in a practical way, by trying not to take anything for granted and encouraging his students to bring their own personalities to bear on their work. Drucker applies this same reasoning to his dialogues with the giants of modern management, such as Taylor, Fayol, and Sloan, always asking himself the question: What did they see that their contemporaries could not see due to lack of vision or excessive credulity?

Third objective is concept. The relevance and usefulness of a solid, serious theory is undeniable. The works *The Practice of Management* (1954), and *Management: Tasks, Responsibilities, Practices* (1974) consider companies as sets of subsystems where management is a conceptual process. It should be noted here that Drucker does not really have a theory of management as such, but rather as many conceptual approaches as are necessary to shed light on the issues that arise, helping to find the most appropriate way of decision-making to achieve the desired results. In this sense, the case method is appropriate.

Fourth is curiosity. It seems that one of the recurring questions Drucker asked his students was: Are you learning anything? What he is trying to find out is whether the students had changed their attitudes and given way to curiosity in order to grow as professionals. The achievement of this aim helped him build on his extensive, solid education (from mythology to statistics, through art, philosophy, history, and so on) as well as his virtuosity in the theatrical function that every class became, the logical consequence of which being that each student continued to contemplate the matter at hand in more detail after they left the classroom.

Finally, challenges. All his teaching is inspired by the desire to focus on opportunities: managers are not "organisation men," but those who, through innovation, create and move the company forward, transforming challenges into economic opportunities. If, while carrying out this responsible task, they come up against contradictions with stances they had taken previously, they do not feel imprisoned: the primacy of practice liberates them. They would say that any other approach was organizational shortsightedness, unsuitable for someone who wishes to have their finger on the pulse and make the most of the opportunities that the future brings.

To conclude, Flaherty describes Professor Drucker as "a kind of Socrates who seeks the participation and commitment of the student and directs his study towards contribution, the fruit of understanding. All of this plus a warm personality, a keen sense of humour, a genuine respect towards the student, an analytical, sharp mind, and a personal commitment that borders on a love of teaching."

1.2. Early Writings

Most readers of Peter Drucker's books on business management are unaware of his beginnings as a writer and teacher. To shed some light on this we need to go back to 1927 when he traveled from Vienna to Hamburg to work as an analyst in a branch of an investment bank. Just two years later, and because of the economic crisis of 1929, he was forced to change jobs and city. He moved to Frankfurt and left the financial sector to embark on the world of journalism, finding work as the economic editor at the *Frankfurter General Anzeiger*, then the largest circulation daily in the city. In 1931, he was appointed Economics and International Editor, and became one of the editorial chiefs.

At the same time, as he began working in the investment bank, he enrolled in a law degree and, in 1931, received his Ph.D. in International Law. His thesis was entitled "*The Justification of International Law and the Will of the State* (1932)" (*Die Rechtfertigung des Völkerrechts aus dem Staatswillen*). According to the testimony of Berthold Freyberg,[4] a friend and fellow student, Drucker was very interested in the legal status of "quasi-governments." According to legal doctrine, these are rebellions that have established effective control over part of a territory, governments in exile, colonies about to become independent, and other institutions that, even though not yet formally recognized as sovereign entities within the international community, are taken into account in international relations and, therefore, in international law. Being written in 1931, it may be said that the young Drucker, still in his early days as a writer and thinker, already liked to anticipate those things that would become meaningful in the course of human history, and he viewed them as challenges. This approach would accompany him throughout his life.

In the years 1927–1931, he also wrote two works that he calls "econometrics" and that focused on trade in goods and the Stock Exchange of New York, respectively. Neither of these can be held in high esteem, but neither could his articles for journals in economics and finance at that time.[5]

At the end of his doctoral thesis, he was offered the position of assistant professor at the University of Cologne's International Law Department, where he had

4. See Berthold Freyberg, "The Genesis of Drucker's Thought," in *Peter Drucker: Contributions to Business Enterprise*) (1970, p. 18).

5. Both papers were as wrong as possible. The premises were 'self-evident', the mathematics impeccable and the conclusions stupid; something that, even now, is by no means unknown in econometrics" (Drucker, 1979a, p. 174).

occasionally taught classes and conducted seminar sessions. If he accepted, this would be the first step in his academic career. While considering his answer to this offer, he also contemplated a further move, this time to Cologne to join a local Rhinelander newspaper, with more responsibilities than he had had at the *Frankfurter General Anzeiger*, and that would be more compatible with the continuation of his recently begun academic career at the University of Cologne or at the prestigious University of Bonn. The faculties of law of both universities have traditionally been seen in the Germanic world as highly prestigious.

Despite these promising career prospects, Drucker was aware of the impending political storm in Germany — the rise of Adolf Hitler's National Socialism — and the awful influence it would exert on his immediate environment. This led him to not take any decisions that would jeopardize his future with a regime that he deeply hated; therefore, he felt obliged to stonewall.

As demonstrated over more than 60 years, the situation in which our author found himself in the 1930s — still early in his professional career, writing and teaching classes — hardly changed throughout his long life. Ten years later, in the early 1940s, in addition to publisher and teacher, he also became a consultant, first to commercial companies and then to all types of nonprofit institutions and political and social bodies. It may be said that this role was a logical addition to his activities, given his profile.

It is easy to understand how a man of such broad, vital, and intellectual interests, driven by an enormous mental capacity, would be happy and satisfied with a professional life such as this, being a fertile, rich, and balanced combination of study, teaching, and action.

Thus, for our author the price that he would have had to pay in 1932 was unacceptable: to become a subordinate of Hitler's Germany, a requirement for becoming *Dozent*, was beyond question ("… I had not the slightest intention of becoming a subject of Hitler"). He decided to preserve his independence, which he has valued all his life, by publishing a short essay on Friedrich Julius Stahl (Drucker, 1933). Politically, this was a very inappropriate decision indeed in the Germany of that time.

Friedrich Julius Stahl (Würzburg, 1802–Brückenau, 1861) was a philosopher of law and a political conservative. Jewish by birth, he converted to Protestantism and trained in the Idealism school as represented by Schelling, who influenced Stahl's main scientific work, *Die Philosophie des Rechts nach Ansicht geschichtlicher* (Heidelberg, 1833). After studying law in Würzburg and Erlangen Universities, at which he taught, he came in 1840 to hold the chair of Philosophy of Law and Political Law at Berlin. He was appointed to the senate by King Frederich Willhelm IV and was Member of Parliament for Erfurt. From this period are the works *Der monarchische Prinzip Der* (1845), *Der christliche Staat* (1847) and *Die Revolution* and *konstitutionelle Die Monarchie* (1848). In these he confronts the state, founded on Christian reform, which emerged as a result of the Enlightenment (*der liberale Vernunftstaat*) and defends the institutional legitimacy of the monarchical principle against the onslaught of romantic and liberal constitutionalism. As a prominent representative of the Prussian Conservative Party, he attacked both absolutism and popular sovereignty.

Why did Peter Drucker choose to write, at the age of 24, on a relatively unknown author who was largely ignored even by German historians of political thought? Indeed, no one could say that Stahl was a thinker of any significance, either for his research, the quality of his thought or his teaching.

Berthold Freyberg provides possible reasons for this strange choice (Drucker, 1970, p. 19). On one side is Stahl's personal appeal to Drucker: he reconciles conflicting attitudes, summarizes conflicting positions, and challenges irreconcilable positions. Drucker enjoys developing innovative and creative combinations from what would be considered by most as incompatible. His proposals and developments often produce surprise, or even outrage, because of the tension that he maintains between extreme intellectual positions, which results in a brilliant combination, both powerful and self-possessed.

Stahl, although a Jew by birth, became a spokesman for Protestant political orthodoxy; although Bavarian, he worked hard for the Prussian crown; although a convinced conservative, he rejected absolutism in favor of constitutional monarchy; and as a parliamentarian he brilliantly criticized popular sovereignty and postulated the monarchical order. In short, Stahl defied pigeon holing, as does Drucker; we can suppose, therefore, that there was an "elective affinity." A good example is his adoption in those years of a certain conservative mentality, which, inherently linked with his inveterate iconoclastic tendency, accompanied him throughout his life. In his reflections on Stahl, Drucker speaks of a living, dynamic conservativism (*lebendiger Konservativismus*), which consists of looking at history in such a way that you can see the sequence of events and contingent behaviors, that is, those that may not have been, together with the attention that divine Providence (*Augen Gottes*) pays them, thus bestowing them with a certain dignity. From the conception of history as an equation between human action and divine Providence, there immediately follows a living conservatism.

A few years later he wanted to give his second book *The Future of Industrial Man* (1942) the subtitle "A Conservative Approach," but in the end reserved that for the final chapter of the book. All the early work exudes the need for a new conservatism. In addition to Stahl, Drucker's conservative sources include Tocqueville, Burke, Disraeli, Calhoun, the authors of *The Federalist Papers*, Washington, Lincoln, and many others.

The second motive involved a reason that was hardly less risky: Stahl's Jewish origins made him an undesirable figure with the National Socialist regime. For Drucker to base his work on Stahl, and to stress Stahl's importance, was to deliberately face that regime, to adopt a stand that was bold and unequivocal.

A few years later he published an accurate and profound critique of that totalitarian ideology in his book *The End of Economic Man* (1939), which was his first work in English.

Finally, Drucker may have found in Stahl an example of a thoughtful person who tries to find a solution to what our author a few decades later called "discontinuities" (Drucker, 1968a). In the words of Freyberg:

> Stahl, child of the French Revolution and yet archconservative, firm believer in traditional religion and traditional monarchy and yet heir of

> German idealist philosophy and master of parliamentary politics, believer in authority and yet uncompromising foe of tyranny and dictatorship, saw his mission in bridging the great discontinuity which the French Revolution had left behind in the political and social life of continental Europe. He saw his mission in building a new political and social structure, appropriate to the demands, the realities, and the opportunities of a new age, yet based on the fundamental values and beliefs inherited from the past. He saw his mission, above all, in making existing institutions — the Protestant church, the Prussian monarchy, the German University — serve the new needs and meet the new challenges by maintaining their own basic integrity and values.

Drucker saw in the Jewish thinker someone who did not predict what characteristic features would shape the future social and political reality, but examined discontinuity by looking at the present; someone who didn't ask the question "what will the future be like?" but rather, "what do we need to do today in order to build the future?"

This is the most productive way to approach deep cultural changes (discontinuities), which, because they're often buried, are often overlooked by eyes so accustomed to predictable continuity.

It seems reasonable to argue that, among other effects, the study of Stahl produced in our author a habit of looking at things in a synthesized, complementary way, encompassing the two poles of a "discontinuity"; echoes of a singularly assimilated Hegelian dialectic. To Drucker, synthesis does not have the metaphysical depth of the philosopher of Berlin, but it does have a certain "freshness" born of direct analysis by an independent spirit.

In another aspect, Stahl, the law philosopher and political conservative, influenced our author's reflections on the relationship between power and responsibility. Stahl argued that the exercise of power always involved a responsibility, and that the combination of responsibility and freedom gave rise to commitment. Drucker devoted many pages of his work to solving this "discontinuity" between responsibility and freedom; an idea that he most likely hit upon when he was studying Stahl (Drucker, 1950a, pp. 68 ff.; 1954, pp. 375 ff.; 1986a, pp. 88 ff.). In fact, one can say that Drucker's thinking on management is always in a broader framework than his thoughts on society.

His works tend to fall into two broad groups. On one hand, there are those on management; on the other, those dealing with society, politics, and culture. However, they are always intertwined. As we will see later, Drucker's passion for synthesis will lead him to combine management by objectives with decentralization and empowerment, long-term strategies with short-term objectives, and so on.

The analysis that relates freedom and responsibility, beginning with the study of Stahl in 1933, led him to write a paper on the origins of totalitarianism, a political example in which this relationship breaks down, the discontinuity is acute, and synthesis is not possible.

This paper came out in 1939 with the title *The End of Economic Man* and subtitled *Origins of Totalitarianism*. Three years later, in 1942, he published *The Future of Industrial Man*, with the subtitle *A Conservative Approach* in which he examines the institution that should carry out, in an innovative way, the failed synthesis between freedom and responsibility. Back then, Drucker felt, as did Stahl, that this institution should be the constitutional monarchy, but later, at the midpoint of the century, he felt that the institution that should shape the future, based on the foundation that represents the beliefs and traditional values (hence the sense of *a conservative approach*), is the business corporation. As also discussed later, our author hands the corporation the burden of innovatively creating rank and social function (social order) for individuals who work in them: corporate social responsibility.

Four years later, Peter Drucker landed squarely in the world of business literature with *Concept of the Corporation* (1946a), the book that he would release in the United States and which is considered the cornerstone of the rest of his literary production. It introduces and discusses many of the core issues of his thinking on management.

Again, as his friend Freyberg said, the seed that was planted in the study of Stahl bears fruit in *Concept of the Corporation:*

> In retrospect, the path that led Drucker the political philosopher of his essay on Stahl to the Drucker of *the Concept of the Corporation* (that is, to the student, analyst, and mentor of management) is a straight and almost necessary one. His emphasis on responsibility leads him to the rediscovery of profit as a responsibility of enterprise.

Perhaps, following the threads strung together on the previous pages, which connect the first papers written in German with the first three books in English (*The End of Economic Man*, *The Future of Industrial Man*, and *Concept of the Corporation*), one can see why he began writing so early on the issues and tools of business management, and would later write on sociological, political, and cultural problems; it could well be said that it was in his very being to be a thinker and writer:

> A year earlier, during the spring of 1939, I published my first major book *The End of Economic Man*, in which I had attempted to analyse the roots of Nazism and the decline of liberal and humanist traditions in Europe. In fact, the book was conceived some years earlier, shortly after Hitler took power in Germany in 1936. And for a while I had been thinking and working on a book that would deal with the future more than the past, a book that would address the political and social integration ahead of us in the event that Hitler would finally be defeated. By 1940 I was ready to begin writing.
>
> This work, published two years later with the title *The Future of Industrial Man*, noted first that the company was oriented towards a society of organisations — now call 'post-industrial society' — and that the problems of hierarchy, function and citizenship in these

> organisations, as well as those relating to their governance, would be key themes in the second post-war period. *The Future of Industrial Man* was the first book that saw what is now almost commonplace: that the business corporation, or for that matter any organisation, is a social organisation, a community and society, while at the same time an economic organ. This book also laid the foundation of my interest in the administration of institutions, and allowed me to approach the study of management. It was also the work that, a few years later, moved General Motors to propose that I analyse its management structure and corporate policies. Then, thanks to this work, I wrote my first book about the 'administration': *Concept of the Corporation* (published in England under the title *Big Business*), written during the last months of the Second World War and published in 1946. Since then, in general, I have alternated between the books of social and political synthesis and books about administration.
>
> (*Adventures of a Bystander*, 1979a, Spanish translation, p. 147)

Back in the spring of 1933, after publishing his study on Stahl, Drucker left Germany and traveled to London, where he tried to find a steady job. He failed in that effort, but he met the woman who would become his wife (Op. cit., p. 34). At Christmas he returned to Vienna, the city he would leave shortly afterward to return to London and start work, in the winter of 1934, as an equity analyst at Freedberg & Co., a finance company investing in the stock market.

His driving energy did not allow him to spend much time in the same place, even though his economic position at Freedberg & Co. was very comfortable. Indeed, in the spring of 1937 he moved with his wife to America as a correspondent for several English and Scottish newspapers (and as American financial adviser of a number of European financial institutions, mainly British), and settled in New York. Through his contacts in the publishing industry, he began to become known for his articles in *Fortune* magazine, established in 1930 by Henry Luce (owner of *Time Magazine*).

The publication in 1939 of *The End of Economic Man* opened the doors of the *Washington Post* and *Harper's*. From then on, he published in the most prominent US magazines and newspapers and in specialized publications in the fields his work focused on. In fact, many of his books are collections of articles, later edited for publishing in book form.

As one might expect, Drucker lost no time in connecting with the academic world. In the early 1940s, while writing *The Future of Industrial Man*, he taught economics and statistics at Sarah Lawrence College in Bronxville, near New York, where he lived. Although initially he only taught one day a week, in 1942 he decided to join the college full time in order to spend more time studying what he then found most interesting. He was given the freedom to learn those subjects who, in his view, he needed to learn in relation with political theory and American government, American history, economic history, philosophy, and religion.

This was a program of comprehensive and ambitious study, typical of Drucker; an inquisitive and well-educated person who is prepared to expand his store of

knowledge before tackling other stages of his literary output. With this broad education, his reflections on business management would be strongly enriched. It is difficult to find a *management* theorist so widely read on fields as varied and yet so necessary for a central understanding of man and his actions.

As I want to show throughout this work, Drucker understands the business world immersed in a sociocultural environment; he sees in people the substantive component of every business activity; he understands that the point of this activity is the creation of goods for man to meet his needs and allow him to enjoy the core values of living; therefore, the basis for his theories on the organization and operation of business is inseparable from a vision of man in his social life.

1.3. The Birth of a Thinker: 1939–1950

The publication of *The End of Economic Man* in 1939 coincided with Peter Drucker's election by the American Association of Political Science as a member of its committee for the investigation of political theory that, combined with his work at Sarah Lawrence College, marked the serious beginnings of his university career.

His spirit of self-taught scholar with wide-ranging interests led him to reject job offers from Harvard and Princeton, who demanded a specialization that he considered premature; instead he decided to follow his own intellectual path. In these years of intense study, he clearly develops the sociological and political philosophy that was to form part of Druckerian thought. He also lays the first stone that would serve as the necessary foundation of all his theories on management. There are four strands of study that mark his powerful first steps, beginning with the aforementioned work of 1939, and continuing with *The Future of Industrial Man* (1942), and reaching its peak in 1946a with *Concept of the Corporation*. In his fourth book, *The New Society* (1950a), he develops an enriched summary of his thinking until this point. From then on, he more clearly developed the theory of the company against the theoretical background of society. Indeed, 1950 was his first year as professor of management. We will now explore some of Drucker's defining characteristics during those years.

Having arrived, in *The Future of Industrial Man*, at the conclusion that the company had become the core institution of industrial society, and that within it must take shape the guiding principles of government, social status and function, he now saw the desirability of studying particular cases of penetrating the dynamic performance of an institution that would be a patchwork of decisions and actions with an economic purpose and with an overwhelming wealth of causes and effects in society. However, his first attempts to find a company that would allow itself to be his object of study failed.

In 1943, he was already well established as a freelancer at *Harper's Magazine* (New York) and the *Saturday Evening Post* (Philadelphia). Over time, he would contribute to many other periodicals such as *The Public Interest*, *Harvard Business Review* and *Journal of Marketing*, to name but a few. At the same time as the

Japanese attack on Pearl Harbor, he was working as a consultant to the Federal Government, having rejected the offer to become a clerk: "I myself was surprised to find that I could make an effective contribution as a consultant; and also make a far more important contribution than had I been a bureaucrat.[6]"

During the late autumn of 1943, he received a call from the head of public relations for General Motors, Paul Garrett, who offered him an interview with the Vice President of the company, Donaldson Brown, to discuss conducting a possible study of General Motors. Here is a summary of that conversation, reported by Drucker himself:

> I have read your book, *The Future of Industrial Man*, said Brown. At General Motors we have been working on the issues to which you refer — the management of big business, its structure and organisation, the place of the big corporation in society and the principles of industrial order. Of course, we do not use those terms; we are not political scientists but, in general, engineers or accountants. Still, the General Motors people who belong to my generation are aware, albeit vaguely, that we were doing pioneering work. But we cannot stay here much longer. Pierre Du Pont, who first outlined our structure when, in 1920, he took over a GM on the brink of bankruptcy, disappeared long ago; Alfred Sloan, whom Mr. DuPont appointed as president of GM and who has been the architect of the company and its chief director for twenty years, has already passed retirement age and will remain only as long as the war continues; and I, though I am much younger, intend to leave the company when Mr. Sloan retires. The next generation takes for granted what we have tried to do. Our courses of action and our structure are almost a quarter of a century old, we need a new approach. I understand that you know nothing of the automobile industry, or much about business in general. But your book led me to believe that perhaps you are willing to study GM as a political and social scientist would, analyse our structure, our policies, our internal and external relations and then report to senior management and especially to the young smart guys who will take on the management of the company after the war has ended, in two or three years.
>
> (*Adventures of a Bystander*, 1979a, Spanish translation, pp. 281–282)

Drucker found this commission very rewarding and motivating. He spent a lot of time doing interviews and, during 1944 and 1945, he visited all the factories and divisions that the company had east of the Mississippi. They were years of hard but interesting work, and sowed the seeds of much of what followed.

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6. *Adventures of a Bystander* (1979a), Spanish translation, p. 280.

As he began to reflect on the future book, which was to be the product of the requested study, and to consider the possibility of using his own editor to edit it, both Drucker and his editor came to the conclusion that books on leadership and management of companies of the style that they wanted had never had a large potential audience. So far, these works consisted of compilations of lectures to very specialize small circles, such as the work of Chester Barnard on the functions of executives (*The Functions of the Executive*, 1938) or the pioneering and "prophetic" work, in Drucker's words, by Mary Parker Follett. Our author and his editor thought that a book on these matters would not have been accepted:

> The general public was very interested in knowing how the rich amassed their money but had not heard of management. A work about such esoteric topics as organisation and structure, the development of management and the role of the foreman and the middle manager would probably have no readers.
>
> (*Adventures of a Bystander*, 1979a, Spanish translation, p. 283)

The publication of the book and its subsequent reception was unexpected; it became a bestseller while still in its first edition. Its influence continues in the present through constant reissues.[7] There also soon appeared negative opinions; the reason could already be found in the prologue, in which Drucker sets out the approach of his work: the company, studied as "a social structure that brings together human beings in order to satisfy economic needs and desires of a community" (Drucker, 1972b, p. IX). This was the first time that anyone had tried to show how an organization works and what its challenges, issues, and principles are; the concept of management is conceived as an organized, systematic study of the structures, policies and the social and human issues of a modern organization. Ultimately, Drucker attempts a synthesized approach to two sciences: economics and sociology. An intellectual enterprise as compelling and innovative as it is misunderstood by economist and sociologist defenders of scientific specificity, purity and rigor of their own knowledge. Only an amateur would dare to blur the requirements of a serious and well-established scientific method.[8] The review in the *American Economic Review* highlighted that, trying to be a study of the company, it was not a work of microeconomics to be addressed when talking about how prices are fixed; or, when discussing the financing of investments, did not treat the theoretical aspects of the distribution of scarce resources. As we will see in the chapter on Corporation, what

7. For example, in a recent book by John Micklethwait and Adrian Wooldridge, editors of *The Economist*, *The Witch Doctors. What the Management Gurus are Saying, Why it Matters and How to Make Sense of It*, London, 1997 (cf. p. 77).

8. "You have started," said Lewis Jones (rector of the Benmington University and personal friend of Drucker), "a promising academic career, as an economist or a scientific sociologist. A book about a commercial and industrial enterprise, conceived as a social and political institution, will hurt you in both fields" (*Adventures of a Bystander*, Spanish translation, p. 286).

our author intended was far from being a development of a consistent set of microeconomic considerations, however, interesting and useful they might be. The critic for *The American Political Science Review* concluded his article by saying: "it is hoped that this promising young scholar will now devote his considerable talents to a more serious matter" Drucker (1946a, p. XIII). Despite this, he did not.

Fifty years after the first edition, it is obvious to say that our society is a society of organizations, in which the most important undertakings are prepared in all kinds of institutions and through them: corporations, government agencies, hospitals, colleges, universities, churches, armies, etc. "All of them within themselves face the problems of the status and the function of the individual. All of them have to manage internal power relations and thus require principles of constitutional order. These are the very issues which *Concept of the Corporation* first identified and described" Drucker (1946a, p. XVII).

To that list might be added social responsibility, the role of senior management, the decision-making process, development and training of managers, labor relations, relations with customers and suppliers, decentralization, and a long list that we will cover in due course.

The importance and meaning of these concepts were revealed when discussing company policies with the most of the senior managers. They thought that time, in some cases more than 20 years, had granted them absolute legitimacy. In fact, there were no debates about the policies themselves, for what Drucker wanted to reveal was that the nature of these policies was not the same as the principles of Nature. The founding principles of corporate policies were, according to our author, heuristics, of human creation — ways of identifying the right question, rather than the correct answer. This insistence, that the art or skill of leading and managing companies lies in posing the right questions the right way, persists throughout his work.

Ever since that time he held the belief that the fundamental problems of business management can be grouped into a relatively small set, and that the starting point for dealing with them lies in certain values, basic and mainly anthropological. The decisive point was not only to find the single right answer but also to choose the approach that would produce the desired outcomes, the working solution: "Management, I always thought, is not a branch of theology, but rather approaches a clinical discipline. The test, as in the practice of medicine, is not whether the treatment is 'scientific,' but whether the patient recovers." When, eight years after the publication of *Concept of the Corporation*, he published his first book on management, he deliberately titled it *The Practice of Management* instead of *Principles of Management*, "even though my editor pointed out that the title would hinder the acceptance of the book as a textbook in universities" Drucker (1946a, pp. 296–297).

For critics of Drucker, it is not hard to find occasions, texts, and references that, frankly, make his theses vulnerable. The foregoing text is an easy target for academic criticism, and we should accept that management is indeed a science, with its own methodology and systematics. Our author also would agree. After a careful reading of his works I think that you can apply to Druckerian thought the statement attributed to Ortega y Gasset: "It is necessary to exaggerate in order to be

understood." Our author offers insights with an emphatic rhetoric, but they are also relevant, sharp, clarifying, not lacking in nuance, and even present different theoretical perspectives.

He also faced strong opposition from the United Automobile Workers, UAW, because he advised in the study that, once the war was over, managers should set out a strategy to develop a self-reliant mindset that would encourage workers to develop the skills to enable them to direct their own work, with the aim of creating, as he rather inelegantly put it, a "self-governing plant community." This idea would be a constant from that moment on in his writings and that we consider an important antecedent of what today is understood by "empowerment." In 1947, management conducted a survey among its employees entitled "My job and why I like it." It sought to discover what they expect from the company, from their supervisors and their own work; where they saw the best opportunities for promotion; and whether they felt able to assume more responsibility. The initiative was well received and resulted in strong commitment to improvement. The program, however, had had to stop because the union was not willing to lose their powerful position of intermediary, jeopardized by the tide of cooperation generated between the company and workers, and because the management were not unanimously in favor of quality programs and improvement led by the workers themselves; it was believed, rather, that this was a managerial responsibility. Drucker always lamented:

> As for me, I have always considered the responsible worker with his managerial attitude and the self-governing plant community as my most important and most original ideas and my greatest contributions. Their rejection by General Motors and its executives, with the result that these concepts have had little impact in my own country — never mind how much impact they have had in Japan — I consider my greatest and my most galling failure.
>
> (Drucker, 1946a, pp. 304–305)[9]

Alfred Sloan, president of General Motors for 23 years, advocated commissioning the study from Drucker. However, neither did he participate in the study nor buy into the conclusions drawn. Drucker thought, and continued to think throughout the rest of his life, that, in a society full of organizations, they and the professionals who run them should assume a major share of responsibility for the common good; that they do, in fact, have enough real authority. Others cannot do this. History teaches that a pluralistic society cannot depend on the conflict and confluence of particular interests for obtaining the common good and serving the public interest. Instead, Sloan, a believer that executives should exercise authority to the maximum and,

9. A later development of these two ideas can be compared in Drucker (1954, Chap. 17: Structure; and Chap. 22: Human organisation for optimal performance) and in Drucker (1973, Chap. 21: The responsible employee).

therefore, assume the corresponding responsibility, limited his action to a purely professional scope, denying that the management of companies was entitled to exceed those limits.

This position is magnificently demonstrated in his book *My Years with General Motors* (1963). Drucker praised it from the start, although it seemed to him to be an incomplete analysis. In fact, Sloan was always personally very concerned about social aspects, the common good, and public and political consequences of the business activity. With his own money he founded, for example, the Sloan Management School at the Massachusetts Institute of Technology.

Indeed, Drucker's study did not influence the management style of the company in either the short or medium term (Sloan doesn't cite it even once in the nearly 550 pages of his book). Nevertheless, and I don't know if it is for this reason, the book is today considered one of the pioneering works of modern literature on management.

Four years later, in 1950a, with *The New Society*, Drucker closes the trilogy of books devoted to the study of the industrial society that emerged around the years of World War II.

Although we will dedicate greater analyses to *The Future of Industrial Man* (1942) and *Concept of the Corporation* (1946a) later, we can say now that they were intended to present a theory of society as a general framework in which to position the industrial society, and to study their most representative institution, the large corporation, with the motive of the work commissioned by senior management at General Motors. However, in *The New Society* Drucker seeks to derive a systematic set of theoretical and practical conclusions. It focuses on describing the main protagonists in this new society: the industrial corporations, unions, and government. It searches for the location of the individual in this complex context and explains the political principles of a free society. Without doubt it is a book that, over time, has had a great impact. In my view, it contributes fewer elements than *Concept of the Corporation*, one of his outstanding works, to reconstructing the evolution of our author's thinking, which, as we have seen, took him from sociological and political philosophy approaches to the systematic study of company management, administration, and leadership.

As argued by Ronald S. Ritchie, Drucker develops the concept of management as an integral part of his intellectual discourse on the nature of modern society and the forces that influence it (Ritchie, 1970, p. 83). This could be a key to understanding how his books on social analysis, which in some sense were philosophical, have almost alternated with his works on economics and business management. Thus, *The New Society* (1950a) is preceded by *Concept of the Corporation* (1946a) and followed by *The Practice of Management* (1954).

Any reading of *The New Society* since the late 1990s will not reveal any predictions that were not already in his book of 1946 or *Landmarks of Tomorrow* from 1957, such as the emergence of the knowledge worker who would usurp the industrial worker, the latter taking second place for a while before eventually disappearing.

These days, the industrial sector has given way to other economic sectors. Large firms and industrial conglomerates desperately compete with medium-sized, highly

profitable, new technology companies. Moreover, from a social standpoint, the so-called sector of organizations, comprising nonprofit institutions and companies, has arrived with a bang.

1.4. The Future that Has Already Begun: Social Philosophy

The Future That Has Already Happened is what Drucker had thought to call his book *Landmarks of Tomorrow* published in 1957b with the then-surprising subtitle *A Report on the New Post-modern World*. With this book he began a deliberation on how to identify those changes that have taken place, but whose effects have not yet begun to be experienced; how to develop a methodology for perceiving and analyzing these changes. Continuing in the same vein are *The Age of Discontinuity* from 1969a, *The New Realities* from 1989a, and finally, *Post-Capitalist Society* from 1992b.

This set of books comes from a young Drucker's intellectual interest in delimiting the power of government. Decades later, having studied in detail the organization as a new social phenomenon, its structure, constitution, management and functions, Drucker would go on to reconsider issues of political and sociological theory relevant to modern society.

We need to go back to the source of this. In the 1930s, Drucker's intellectual interests had led him to the philosopher Friedrich Julius Stahl and the study of the tension between continuity and change, and the limits of state power. It was on these issues that he wrote the essay that we have analyzed. Now is the time to add that this minor work was intended as one of the three parts comprising what was thought to have been entitled *Der Rechtsstaat* (The Rule of Law). The other two parts were to be devoted, respectively, to Wilhelm von Humboldt (1767–1835) and Joseph von Radowitz (1797–1853). Humboldt was a great figure of the "Enlightenment," founder of what has been called the first modern university, the University of Berlin, in 1809, and was also the precursor of modern linguistics. He was also politically active during the Napoleonic Wars. Radowitz also happens to be one of the founders of political ideology in Catholicism. He and Stahl sought a balance between continuity and change, but they didn't declare themselves liberals or reactionaries. "They tried to create a stable society and a stable set of politics that would preserve the traditions of the past and also allow for change — a very rapid change at that" (Drucker, 1993h, p. 443).

According to Drucker, they were right to create this political structure; it worked for decades until the World War I, after which it collapsed. They failed because they failed to submit military power to civilian political control, and thus also control foreign policy. In any case, what our author did not suspect in 1930 was that, as he confessed years later, what the three Germans wanted had already been discovered by the Founding Fathers of the American Constitution some time earlier:

> Of course, Humboldt, Radowitz and Stahl did not realise that what they were trying to do had actually been accomplished in the

> United States. They did not realise that the U.S. Constitution first and so far practically alone among written constitutions, contains explicit provisions how to be changed. This probably explains more than anything else why, alone of all written constitutions, the American Constitution is still in force and a living document. Even less did they realise the importance of the Supreme Court as the institution which basically represents both conservation and continuity, and innovation and change and balances the two.
>
> (Drucker, 1993h, p. 444)

As explained in the section referring to the early writings, the Nazis' coming to power drove him to publish his testimonial work on Stahl, delaying indefinitely the completion of what would have been the entire work *Der Rechtsstaat*. As mentioned, years later came *The End of Economic Man* (1939), and the beginning of the collapse of that society; *The Future of Industrial Man* (1942), where Drucker presents the industrial society that had to be able to simultaneously innovate and preserve; and from there he went on to find the institution that, in this society, would be the instrument to give its members citizenship, status and social function, integrating individual efforts into a common shared goal: *Concept of the Corporation* (1946a).[10]

This interest in the change–continuity dichotomy, as something central to modern industrial society, led him to study the technological aspects of the issue. He did not focus on the technology itself, but rather on how human activity is integrated into society: "Man is the only animal capable of conscious evolution: he invents tools". At that time he began writing *History of Work*, which never appeared under that title but as a series of articles.[11] The common theme was work as a central factor that shapes society, social order, and community. Drucker was achieving progressively greater clarity in his vision of society's situation as the tension between ideas, especially religion, and the way people work: technology.

From his work in 1957b (*Landmarks of Tomorrow*) onward, Drucker recognizes that he recovers the connection between his work on Stahl and his unwritten essays on Humboldt and Radowitz and on the power and limits of the state (*Der Rechtsstaat*), and he continues this in the subsequent three already mentioned:

> In other words for five decades we asked what *should* government do? Very few people, if any, asked what *can* government do?
>
> To me this question became, however, a central question fairly early. I probably owe this also to my interest in those Germans liberal conservatives (or conservative liberals) Humboldt, Radowitz and Stahl. For Humboldt, while a very young man, barely twenty-five,

10. Drucker addresses the problem of how to manage change in 1986, in his work *Innovation and Entrepreneurship*.

11. They were collected years later in Drucker (1970).

> and living as a student in the Paris of the French Revolution, had written a little book called *The Limits of the Effectiveness of Government* (*Die Grenzen der Wirksamkeit des Staates*) — which however was not published during his lifetime, being much too unfashionable even then. I began to ask the same question — what are the limits of government's effectiveness? — in the early years after World War II, and started doing so with increasing urgency as we went into the Eisenhower administration. I first raised it obliquely in my 1957 book *Landmarks of Tomorrow* and then head-on, in my 1969 book, *The Age of Discontinuity*. It is a central theme of my 1989 book *The New Realities*, and is being discussed in considerable depths in a chapter entitled 'The Megastate and Its Failure' in a book I am presently (1992) working on, tentatively entitled *The Post-Capitalist Society*.
>
> And thus my work began to embrace both the political and social institutions of modern society.
>
> (Drucker, 1993h, p. 449)

Now we'll briefly consider each of these books; this will allow us to continue with the reconstruction, from a genetic and chronological point of view, of the tapestry onto which is woven the thinking of Peter Drucker.

1.4.1. Landmarks of Tomorrow *(1957b)*

This book connects almost directly to *The New Society* (1950a), insofar as it gives a diagnosis of American society of the 1950s. Drucker wonders where the most important changes have occurred that will make the future very different from what the majority would consider the most secure and "normal." The book's subtitle (*A Report on the New Post-Modern World*) assumes that we had already entered the new era he calls "post-modern."

The first three chapters of the book deal with the new worldview, new concepts, and the new human capabilities characteristic of the "tomorrow" that has already begun. Undoubtedly, there has been a change in direction: the Cartesian view of the universe characterized in summary form by the mechanism has given way to a universe of models, goals, and processes (as in other parts of this book, I also emphasize here that Drucker's comments on subjects and authors are intended to offer insights to help frame problems, philosophically, culturally, and historically. Although what he says can sometimes be criticized as superficial, stereotypical, and obvious; it is never completely false. The merit, in our view, lies in the broad synthesis, rich and potent in diverse knowledge and interests, and in how pervasive and predictive his way of thinking turns out to be). The Cartesian legacy is felt very clearly when dealing, for example, with the study of business management that, to deserve the adjective "scientific," has to use methods that Drucker described as

mechanistic and static, and that measure operations or deal with the laws of the organizations. With these methods, one cannot properly address problems such as the management process, the climate of an organization, training and development of employees or the essence of planning, and business objectives. As Hurni says, "*Landmarks of Tomorrow* talks about the commercial company not from the point of view in which everything is the result of the sum of its parts, but where the parts exist in contemplation of the whole" Ritchie (1970, p. 141).

His great intellectual eagerness, his theoretical effort, lies in attempting to learn, understand, and contemplate all, rather than just parts.

To achieve this objective necessarily requires theoretical paths closer to the qualitative, to change, to development, growth or decay; to the explanation of phenomena by their purpose and future, not their causes. A philosophy is needed to examine the aims and purposes, and a qualitative logic that helps to measure the qualitative change, the opportunity, the changing factors of uncertainty and risk; unity and diversity as necessary and simultaneous poles of the same reality.

Once the Cartesian mechanistic view is called into question, the first consequence is the critical examination of inevitable and almost automatic progress. Drucker replaces it with the practice of innovation, which is a systemic change organized with a goal, a source of a renewed capacity for action driven by an also-renewed vision. The tools that must be used are scientific, but the process is that of the imagination, the method, and the organization of ignorance (he would dedicate a monograph to this in his book *Innovation & Entrepreneurship*, 1985a).

Innovation for our author is not only or primarily an entrepreneurial attitude, but, especially and above all, a social attitude:

> But innovation is more than a new method. It is a new view of the universe, as one of risk rather than of chance or of certainty. It is a new view of man's role in the universe; he creates order by taking risks. And this means that innovation, rather than being an assertion of human power, is an acceptance of human responsibility.
>
> (Drucker, 1957b)

Of course, Drucker is not intended to be considered innovative for having discovered innovation, but rather for introducing the consideration of man as a creator of order through anticipation, control, and change management. The application to social change obviates the need for revolutions and traumatic, conflictive social reforms. Innovation does not look to correct errors or remove institutions, beliefs or values; it tries to reach new achievements out of habits, beliefs, and traditional values, or to obtain old goals and objectives via new paths, which, in turn, require the changing of habits and beliefs. Innovation is essentially a method to identify what is newly possible and how to achieve it, accepting and creating risks that replace randomness and fortune, typical of the premodern era, and also the enlightened faith in progress.

Annexed to innovation is the resurgence of ethics (we think that ethics and responsibility are two conceptual seeds that germinate in Druckerian thought,

especially after the influences of Stahl, Humboldt, and Radowitz). All social innovations (policy, education, and business), as well as aesthetic perception and intellectual process, contain an implicit moral evaluation that somehow expresses what man and society are and must be. Innovation arises from the conviction to progress without possible resources, where ethics are necessarily diminished, and this is the exaltation of the ability to choose. It also highlights the dilemma between centralization and decentralization. Innovation involves some risks that are better handled from a unit that is local, flexible, fast, independent, and competitive, than from a head office that can plan uniformly. For our author the question is no longer strictly a choice between one model or another. It is to know to what extent planning has to be decentralized. At one extreme, there is a lack of the minimum capacity of vision and resources necessary for innovation; at the other, innovation inevitably degenerates into central planning: this is the problem that needs to be solved.

The postmodern, post-Cartesian world has bet on decentralization (the discussion on decentralization was already raised in *Concept of the Corporation*, and it continued, closely linked to the commercial enterprise, throughout the book *The Practice of Management*, specifically in Chap. 17 "Building the Structure").

The third feature that appears to us to be framed in the new worldview is that which represents the new organization resulting from postindustrialization: the union of the efforts of highly qualified and knowledgeable men with a common goal, which they arrive at based on responsible decisions and the contribution of their work that, being essentially knowledge, can be used to measure the extent of their contribution.

This new approach to the organization differs from the previous one in that work is not limited to discipline, nor skill to obedience, nor knowledge to practice, nor cooperation to the assembly line; rather it has caused a significant impact on the social environment. It has also clearly influenced the evolution of society. Our author notes the following consequences: the emergence of new leadership; new ethical and legal approaches to power, and social approaches in terms of the integration of specialists and unqualified people; and new educational approaches related to the theoretical birth of business management as a liberal art;[12] a previously unknown class: knowledge workers; the possible way to overcome the collectivism–individualism antagonism; the appearance of information and decision systems; and so on.

The new organization still needs "a discipline of managing, that is, a systematic body of knowledge that can be taught, learned, increased and improved through systematic work and study. This is a discipline of the new, post-Cartesian world-view. Its subject matter is a process. It starts out with a purpose of accomplishment. No matter how we quantify, the basic phenomena are qualitative ones: change and innovation, risk and judgement, growth and decay, dedication, vision, rewards and motivation. And the end product of the knowledge we are trying to gain is value decisions affecting individual and society" (Drucker, 1957b, pp. 90–91).

12. A few extraordinary pages with this approach can be read in the last chapter of Drucker (1989a).

A constant throughout our author's body of work is the idea that any reflection upon organizations, whether commercial or nonprofit, has to be founded on a philosophy of man (anthropology) and society (philosophy of law, sociology): a vision of man in society. An organization will derive more power, more wealth and a better ability to achieve its objectives, to the extent that it benefits the individuals who work in it to grow as people. And, conversely, the integrity and coherence of an organization is the best environment for personal development. To say this almost 50 years ago was certainly an innovation. One may wonder if it still is today.

In my view, these first three chapters just examined are the most evocative and compelling, and make *Landmarks of Tomorrow* a unique reference in Druckerian literature. The next six chapters (from fourth to ninth) may also be considered together as forming a thematic unity: whereas the first three focus on defining the concepts of the new worldview, the following ones describe the new frontiers, challenges, and opportunities that are generated by the four realities that have emerged: educated society, economic development, the decline of nation-states, and the Westernization of the East.

In the new Druckerian society, knowledge and education are synonymous with the ability to create wealth, the criteria for acquiring status and social function and, therefore, the paramount competitive factor. In the mid-1950s, it was not so obvious that the most important resource for economic development — well ahead of capital and raw materials — was qualified people, those with knowledge and education. Rather, they talked, even years later, of the wealth of Brazil or other Latin American and African countries with their natural resources that were then only scarcely exploited. Time has not proved our author wrong:

> The greatest need in developing countries is the people who can adopt the new organisational work, the job of building an effective organisation of qualified and experienced people who can perform analysis and make responsible decisions.
>
> (Drucker, 1957b, p. 180)

He went further in his prediction and attributed the decisions over possible global conflicts, not to military or economic capability, even though they are influential factors, but to leaders and small groups of people. Ultimately, the conflict would be over their different values, beliefs and skills; in a word, visions.

If it was not obvious to say that the differential resource was people, it was even less evident to openly say that the real purpose of economic development and its only justification was not profit, nor the production of goods and services, but people. I think that, even though we are still only in the beginning of the book, sufficient has been seen of Drucker to say that he is a major supporter and promoter of what might be called the personalization of economic activity and society.

To this new social and economic environment belongs an examination — in the political field — of classical concepts like "sovereignty," "nation state," "balance of power," "rule of law," etc., which has not been done. Once again we can observe a strong and radical intuition, which opens a new horizon of work to be done and for

which Drucker provides only a few rough but decisive sketches: the new political philosophy is to establish a government, a state, robust and effective, countered simultaneously by the defense of individual freedom and fundamental rights entrenched in it. It must safeguard the existence of local governments (the right to self-government in a free society) and, in turn, create new institutions specific to the international community. It must provide that the centers of power promote the common good and the freedom of individuals. It must preserve pluralism rooted in law and transcended by it.[13]

When dealing with the Westernization of the East, various concepts arise, such as educated or "knowledge" society, economic development, and the need for a new political philosophy. Knowledge society is the cause of Westernization (the reader may add all the nuances that he desires) that arises through economic development. The failure of economic development can lead, as it has many times before, to interracial and international wars, rather than the social wars of old. It is difficult, therefore, not to also draw inspiration from how the West resolves its political questions:

> Above all these countries need the new post-modern, post-Cartesian world-view. This alone can enable them to integrate the best of their own non-Western tradition with the beliefs, the institutions, the knowledge, and the tools of the West. And no living civilisation can clothe itself entirely in somebody else's cast-off garments.
>
> The emergence of a common, basically Western world civilization is the greatest of our new frontiers-the greatest change and the greatest opportunity. But in whose image will it be cast?
>
> (Drucker, 1957b, p. 247)[14]

Drucker ends his book on the postmodern world reflecting on the need that man has for spiritual values (he also calls these metaphysical) in order to not succumb, crushed between knowledge and power — two forces that yearn to be absolute.

The modern world has exalted the rights of man. Drucker's postmodern world calls for a philosophy of responsibility as a principle of freedom, one of whose ideas would be that knowledge is power and power is responsibility. One of his objectives is to determine the purpose and limits of power, so as to clarify what is fair use and to prevent abuse: "Power is not external to human existence and its social purpose: it has become the centre of both."

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13. Drucker's favorite readings on political philosophy then were *The Federalist Papers*, John Adams, Jefferson, Marshall, and Calhoun, from whom he adopted the concept of pluralism.
14. Today we know that communism is not that model. Even back then, our author remarkably predicted: "For the short run we do not have to fear the strength of Communism but its weakness. In the long run, we do not have to fear the success of Communism but our default. It cannot triumph; but we may fail" (Drucker, 1957b, p. 252).

It is certain that "echoes of doom" are common to postmodern discourses, regardless of whoever uses them. Drucker, at least, always uses them generously, and it was not in vain that he wrote three novels.

1.4.2. The Age of Discontinuity *(1969a)*

This book was published in 1969, 12 years after *Landmarks of Tomorrow*. Together they form the core of what we want at this point to classify as Drucker's social philosophy. To the main themes established in 1957 are added the fruitful and powerful reflections on knowledge technologies, knowledge society, global economy, and society of organizations. Twenty years later, and over four years, *The New Realities* and *Post-Capitalist Society* would appear, with new fundamental ideas for the expansion of social thought. As we shall see, the interpretations of the historical moment from the conceptual skeleton are, unsurprisingly, thought provoking.

Let us complete the work begun in the preceding paragraph. Although *Landmarks of Tomorrow* was a preferred title to *The Future That Has Already Happened*, the book's purpose was to sketch the landscape of a world that was to come. *The Age of Discontinuity* is also a look toward the horizon as we approached it in 1969. For that reason, it was subtitled *Guidelines to Our Changing Society*. The book has no other aim than to illuminate what Drucker sees as the pillars of our changing society; to explain the bases, rationales, and general principles from which can be found a full explanation, consistent with the same reality of some of the most relevant social behaviors that are taking place, and that will be decisive in influencing the shape of the future.

What is a discontinuity? Let us approach this by first simply defining what is meant by "continuous." According to the Oxford English Dictionary, something continuous is "without interruption, forming a series with no exceptions or reversals." A discontinuity is, therefore, an interruption, an interval, a cut, a gap. The result is a change, an alteration, or a deviation from the course of what is done; and this change spreads. Something that influences decisively to stop what was going happen. As a geological fault, it is a subsidence of the ground caused by a movement.

This is not about making any prophecy, nor a prediction that can be confirmed with a trend, that is, a continuity, no matter how interesting, valuable, or useful it may be. This is about reflecting, anticipating the significance of what has already happened in the context of a different future:

> This book does not project trends; it examines discontinuities. It does not forecast tomorrow; it looks at today. It does not ask 'what will tomorrow look like?' It asks instead What do we have to tackle today to make tomorrow.
>
> (Drucker, 1969a, p. x)

Drucker points in the first place to technology as an area where there have been very significant discontinuities. We will not undertake here a careful analysis of the technological changes of recent decades[15] and their influences on certain sectors of the economy, but instead describe the context of what Drucker meant by technology and its dynamics. This is interesting, but not in the sense of listing inventions and their profitability. Discontinuity has occurred precisely in the perception of what technology is. It is seen as the tools and the organization of work. The importance of technology is that it unites two spheres, two distinct worlds: knowledge and action. The new worldview of the postmodern world we analyzed previously led Drucker to state:

> The fact that new technologies are not based solely on science, but in the new knowledge as a whole, means that technology is no longer divided and outside the culture, but is an integral part of it. Of course, civilisation has always been shaped by technology. The idea that technology has become important only during the last two hundred years or so is absurd. Tools and work organisation — the two elements of what we call technology — have shaped what man does and can do. In large part, they have determined what he wants to be. For several millennia (…) work, with its tools, methods and organisation, has been regarded as being devoid of culture and interest for a cultured person.
>
> (Drucker, 1969a, p. 36)

Technology is culture, and its foundation is knowledge: in the new emerging economic sectors (in the late 1960s Drucker stresses the plastics sector, the shipping, IT, etc.), knowledge is the core economic resource.[16] Thus, its systematic acquisition, formally organized by education, had replaced the experience acquired traditionally through learning, as the foundation of training to carry out truly productive work.

A new step in the Druckerian concept is that a good manager must be a generalist, mainly trained to think, to judge correctly, and get it right. He requires a combination of humanistic skills and knowledge that makes his scientific expertise effective, and knowledge of science that does not make his humanistic education irrelevant. We will return to this later since it is a discontinuity that has been quoted and analyzed in all subsequent works, in addition to being present in *The Practice of Management* (1954).

The second pillar of the new analyzed society is the evolution or transition from an international economy to a global economy. According to our author, at the end

15. This is dealt with in Drucker (1970, p. 48 et seq).

16. Professor Alejo José Sison suggests that, before Drucker, it was Carl Menger who drew attention to knowledge in the company: "Perhaps it was Carl Menger, the 'Father' of the Austrian economics school, who, in the late nineteenth century, first drew our attention to knowledge as the most crucial element and the main contribution of the entrepreneur to business and economic life."(no. 42 of the *Documentation Service* of the Business and Humanism Institute of the University of Navarra, March 1998, p. 5).

of the 1960s, we were still living in an international economy, that is, nations were units that differed in many respects and essentially related to each other through international trade. However, the progressive emergence of one market — a market where the involvement of different agents in the same information channels generated expectations, desires, aspirations, and common requests — led to the birth of a global economy, characteristic of a world that was also becoming globalized. The only financial institution that is to some extent appropriate to this new reality is the multinational.

Let us review some features of the new economy, resulting from the exposed discontinuity. Drucker believes that any economic theory that does not have balance as a desirable objective is obsolete.[17] Economic growth is the core concept around which any new economic theory should be built, and in which innovation has to be treated as the cause of growth and the entrepreneur as the main agent; something that the Austrian economist and Harvard professor Joseph Schumpeter, much admired by Drucker, had announced before the World War I.

The theory now required has to start with changing the capacity of wealth-producing economic resources, rather than attempting to rethink their use. In this respect, three concepts are intimately linked: the aforementioned innovation, profit, and risk:

> [The postulate of innovation] must shift the focus of economic theory from cost, where it has always been, to risk. This, in turn, leads to a re-evaluation of the nature, role and function of profit.

Among mainstream economists, the question of profit, according to our author, was more correctly a moral category and the attitudes that it engendered owed more to ideology than economics. The only economic risk was the lack of information about the past or present, and the objective was to minimize that risk. However, once growth is accepted, uncertainty appears immediately, or even simultaneously, and this arises from committing existing resources to a risk that is genuine for being essentially unknown: the future.

> In growth economics, therefore, profit becomes the cost of uncertainty. It is no longer 'surplus'. It can be formulated as a law of development-economics that there is no profit at all (excepting only such profit as results from politically imposed monopoly — which, of course, is 'tribute' rather than profit). All there is are *costs of the future*.

17. theory assumes that the goal of economic policy is a balance. Full employment to which the United States committed itself at the end of World War II is such equilibrium. It sees growth as needed only in so far as the labor force increases with the growing population. We have since learned that, what can give full employment is dynamic disequilibrium. An economy is like a bicycle: it only has balance when it is moving. Growth is always unbalanced. Yet only a growing economy can be in equilibrium" (Drucker, 1969a, p. 132).

> They cannot be measured yet, but are as real, as tangible and as certain as the costs of the past which our accounts record. Just as we ask with respect to the costs of the past whether there is enough revenue to meet them, we must ask with respect to the costs of the future whether there is enough revenue to cover them. The central question in respect to profits is whether they are high enough to allow the economy to take the risks it needs in order to grow.[18]

Of the many questions and challenges that this position raises — how, for example, to share profits among various stakeholders: shareholders, directors, employees, etc. — the one our author raises here is about the "discontinuity" arising from the power struggle between knowledge and capital: which of these two resources is in control? The answer is that knowledge is the foundation of productivity and, therefore, profitability. A theory that links knowledge and economy becomes unavoidable, claims Drucker.

The third discontinuity or set of discontinuities, addressed is that of society and politics. From a liberal individualist society that emerged in the eighteenth century, we have moved to what Drucker calls pluralistic society and politics, where social tasks and missions of certain importance are undertaken by institutions organized and led by professionals: the managers. In 1969, there was an inescapable historical context that forced a rethink of the new sociopolitical reality.

What does our author mean when he says that the new society is a pluralistic society, a society of organizations? He means that, instead of only one center of power, the state, the new society is characterized by multiple distributed power centers outside of the state and independent of it. These centers, institutions of all kinds, commercial enterprises, etc., play a role in which they seek efficiency: create wealth, provide training, health, or perform any other service. This particular pluralism that we're concerned with has a nonpolitical character, although there does exist a political pluralism that we will not deal with here.[19]

As leadership roles are not based on power but on function, and, although there may be no political power, it is essential to exercise this role of leadership on individuals; organizing, assigning tasks and responsibilities, establishing the criteria that must be applied to measure results, etc. — all of what it takes to organize and manage in the new context. The new pluralist society requires managers and trained workers, armed with knowledge, who face questions about the legitimacy of authority, legitimacy of decisions, and the effectiveness of the organization. Questions encompassed by our author in the field of management.

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18. Drucker (1969a, pp. 135–136). Applied to business management: Drucker (1954, pp. 44–45; 1974a, p. 114; 1992a, p. 213).
19. For a historical review of pluralisms, see Drucker (1989a, chapter VII).

It is very interesting to see what sources our author drew from when he picked up the concept of pluralism and "repackaged" it with semantics more usually applied to organizations and their management.

As we saw when we looked at "Early writings" and "The emergence of a thinker," Drucker spent much of his time during the 1940s studying the history and politics of the United States. One of the fruits of this was the publication in 1948 of an article in *The Review of Politics* entitled "Calhoun's Pluralism."[20] In it Drucker describes the political theories of John C. Calhoun (1782–1850), American statesman and twice vice president; while governor of South Carolina he predicted the Civil War. He wrote two important works on American political thought: *A Disquisition on Government* and *A Discourse on the Constitution and Government of the United States*. Calhoun did not think, as did Thomas Jefferson, that society would be composed of small independent members, such as farmers, shopkeepers and artisans, with no major differences between them; instead he foresaw a society of independent but at the same time dependent individuals, who need access to institutions and organizations in order to become effective.[21]

The theories that Calhoun defended can be summarized in that the major interest groups or sectors had the right to veto political decisions affecting them ("the rule of concurrent majority"), and, therefore, government had to be by means of compromise.

Drucker, no doubt, was influenced by reading this work, along with the *Federalist Papers* and Tocqueville. However, he undertook the most important work, in our view, in linking the management and administration of companies and organizations of all kinds, drawing up what he called a new general theory of society of organizations, which would save the discontinuity brought about by the powerful emergence of pluralism.

In our view, among the most important pages of *The Age of Discontinuity* are those that focus on the discussion on how an organization acts and works. Drucker distinguishes three parts: goals, management, and individual performance.

Organizations exist for the execution of a task and the achievement of an objective (external to it) for the benefit of the individual and society. When defining a goal it is necessary to bear in mind our author's words: "the law of organisation is concentration."

> Yet the twentieth-century political scientist was not entirely irresponsible when he abandoned concern with values, political programmes and ideologies, and focused instead on the process of decision-making. The most difficult and important decisions in respect to objectives are not what to do. They are not, as a rule, ideological decisions. They are

20. Reprinted successively in two collections of articles: Drucker (1971a; 1993).

21. Later we shall see examples that influenced our author, such as the British administration in India or Mary Parker Follett. Relationships between politics (ideas, theory or philosophy) and management have interested Drucker from the start and have helped to provide him with original approaches.

> judgements, of course; they are, and should be, informed judgements, they should be based on a definition of alternatives, rather than on opinion and emotion.
>
> The decision of what to abandon is by far the most important and the most neglected.
>
> (Drucker, 1969a, p. 179)

A key criterion at decision time is the maximization of the only fully human resource, knowledge, which is the source of creativity and innovation. These in turn are irreplaceable drivers in an environment of rapid and major change, in which the organization is always in danger of drowning under the tasks and obligations of yesterday.

Once we know what to do, we need to identify priorities. The temptation is to avoid it, dedicating oneself a little to everything. This behavior is often called reaching a consensus, yet what is achieved is often very different: conflict and dissent over priorities.

While individual organization's objectives can differ greatly, the management style required to achieve them does not. One of the first tasks to be addressed is the achievement of a balance between the goals of an organization and the desires and needs of its members, between the institutional order and the need for flexibility, and safeguarding individuals' areas of competence. Each organization needs to be structured according to principles that Drucker calls constitutional rules[22] (which, e.g., take into account the logic of the situation's context and the authority that emanates from it), which will lead to the best combination of effectiveness and efficiency.[23] However, organizations in themselves are nothing. They acquire legitimacy from the work accomplished by the individuals within them; it is they who plan, do and decide, influencing the results of the organization. In the knowledge society, it is the worker who governs; the organization is a mere tool to get what society expects and needs.[24] Conversely, the organization creates a new, demanding environment for workers, in which they are required to find new ways of understanding rather than new ways of acting.

As we will see when presenting the Druckerian ideas on society and the corporation, members of the modern organization obtain social status and function through their work, which is a source (not the only one) of deep personal satisfaction. However, this is not the mission that has to be accomplished; the mission is the attainment of the objectives that lie outside the organization, not inside. The first

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22. Our author argues that lawyers dealing with constitutional law are the true antecedents of management theories, and of the organization of knowledge as we know it today.

23. We will speak extensively about this distinction in the section entitled "Managerial effectiveness and leadership."

24. An approach to business ethics would address how social needs and desires must be satisfied by a profitable company.

mission is set in an external purpose, which is a given, imposed on its members, although they can harmonize the implicit desire to satisfy their wants and needs with the performance of the mission. That purpose is concrete, defined among the many others that pluralistic organizations are often asked for by a pluralistic society. If the organization focuses on this defined purpose, it has to have taken the first efficient step toward achieving the results. Results are the foundation of the legitimacy of power and authority, exercised by the organization that society tolerates. In this sense, we may properly speak of social responsibility.

There is a temptation, Drucker called it the sickness, which can befall any ruler, whether the state or any other institution or organization: to replace ruling with doing. To rule, to govern, is to make fundamental decisions and to do so efficiently. It is to emphasize the issues and present the basic options. Governing is incompatible with doing because doing paralyzes the ability to make decisions. To mix them is to distort them: it is to impoverish governance, and to make action inefficient.

How to mitigate the effects of this contagious and almost inevitable disease? Through decentralization and, in the case of the state, privatization (also applicable to its satellite organizations).

Decentralization does not mean weakening central senior management. On the contrary, as a principle of structure and "constitutional order" it tries to strengthen it and make it capable of fulfilling its own task: management and decision-making, cascading responsibility for doing and running down to operational management, which has its own mission, objectives, autonomy, and scope of action.

The reasons in favor of privatization as a solution to the confusion between governing and doing are applicable only to the state. In the background is a praise of capitalism, not as a system whose only desire is the pursuit of profit but as a system whose exponent is a strong institution: the company:

> The true role of the capitalist is to be expendable; to assume risks and losses, for which the private investor is better prepared than the public. We want privately owned firms because we want institutions that can fail and disappear. We want an institution that from the beginning can to adapt to change, an institution that can demonstrate again and again its right to survive. This is what a company is designed for, to create and manage change.
>
> (Drucker, 1969a, p. 222)

What legitimizes a private company is not profit; paradoxically, the best test is loss.

The social discontinuities originating in pluralism demand a government that does not do, but governs.

Finally, Drucker discusses the "cluster" of discontinuities annexed to the emergence of the knowledge society. Knowledge is the core resource of the economy, the crucial factor of capital and of costs. The knowledge society has changed the work, the worker, teaching, learning, and also management and its responsibility.

Following are some features generated by the emergence of the knowledge factor in society and economy that complete what we said earlier when speaking of *Landmarks of Tomorrow:*

(1) Knowledge work progressively creates its own demand, and demand is seemingly limitless. The reason is that knowledge work is inherently productive.
(2) Work does not eliminate technical skills and abilities, specific to the trades, but, on the contrary, provides its foundation; thus knowledge becomes productive: "It enables us to acquire in less time and with less effort what it took years of apprenticeship to learn. It enables us to acquire new skills, such as computer programming, which could never be acquired through apprenticeship alone. Knowledge, that is the systematic organisation of information and concepts, is, therefore, making apprenticeship obsolete. Knowledge substitutes systematic learning for exposure to experience."

    Anyone who has learned any technique in this way has laid the foundation for learning to learn, which opens an explicit path to new knowledge and skills. While a craftsman learns a trade, the use of a set of tools for the specific purpose of accomplishing a task in a particular way and drawing on years of learning from experience, learning based on knowledge has the versatility to make him unlearn and relearn: its flexibly combines knowledge, skills, and tools.
(3) Knowledge work supposes a social revolution as a consequence of radically transforming the nature of the work and life of the worker (this aspect will be discussed in the next few pages, while talking about postcapitalist society). We can say here that the opportunities for knowledge reside particularly in organizations. The revolution in knowledge spurred the birth of big business, international agencies, hospitals, research centers, the military, etc., and they in turn generated countless jobs and career opportunities for knowledge workers.[25]

The knowledge worker sees that he has a similar position to that of liberal professional, even in some cases better paid and, often, with better prospects. In turn, depending on the organization that he is in, he can perform his work thanks to the organization's investments. They are mutually dependent. As the successors of manual workers, they do not have the social standing of other professionals, nor are they as "intellectual." The outstanding challenge, and the one in which managers have a relevant role, is how to manage the knowledge worker in a way that he is productive and satisfied, he performs his work effectively and efficiently, and obtains social recognition.

One of the most effective ways to solve this problem is finding how to motivate the knowledge worker. Besides the traditional incentives, the key is to ensure that he himself will internally generate his own motivation, basing it on the exciting

25. Drucker believes that the knowledge worker is not the heir of the liberal professions, but of the manual worker, qualified or not.

challenge of doing his work to perfection. However, this in turn contains the seed of disappointment if, later on, his professional career is interrupted for personal reasons or demotivation: we are at a crossroads because the job was his desire and it is gone. It is a problem that has worsened because working life has greatly lengthened compared to the manual workers of yesteryear.

One option that seems to make sense, even today, is to increase the duration of the formative, training years. It makes sense because, in a knowledge-based economy where technology (way of working) changes dramatically, job security comes from the ability to learn quickly, having a good intellectual base, having learned to learn. Perhaps this educational policy could be augmented or even replaced by one that promotes continuous learning.[26]

Whether lengthening the training or opting for continuous training throughout a career, the goal is to achieve complementarity between the technical and the humanistic, generalization and specialization, absolutely essential in the management of knowledge workers. They must be able to understand the technology, even though they are not engineers or scientists, while at the same time they have to have a broad knowledge of the humanities, economics and politics, without being specialists in these fields. They must be able to make their knowledge productive, without being prisoners of a method or discipline.[27]

1.4.3. The New Realities *and* Post-Capitalist Society

Published in 1989 and 1993, respectively, *The New Realities* and *Post-Capitalist Society* tell us how changes in recent years set the scene for our entrance into the next millennium. They are transformations, often some frankly unexpected (*The New Realities* predicted the fall of the Berlin Wall, some months before this historic event that few people were even willing to recognize until it happened), others, difficult to characterize, such as the nonsocialist and postcapitalist society in which we are still getting used to living.[28] They are like topographical dividing lines: ''History too knows such divides. They also tend to be unspectacular and are rarely much noticed at the time. But once these divides have been crossed, the social and political landscape changes. Social and political climate is different, and so is social and political language. *There are new realities*'' (Drucker, 1989a, p. 3). A transformation then occurs and, in a few years, society, like a living being, tries to adapt: ''… society rearranges itself — its worldview; its basic values; its social and political structure; its arts; its key institutions. Fifty years later there is a new world. And the people born

26. It is interesting that, in almost all of his books, whether dealing with management or social philosophy, our author devotes some weighty chapters to education; a crucial theme throughout Druckerian thought.
27. There are many places in which Drucker addresses this matter. For example, see Drucker (1992b, Chap. 12) or Drucker (1995, Chap. 21).
28. The relevant question today is whether the same forces that sank Marxism as an ideology and a system are not those which are taking capitalism to obsolescence.

then cannot even imagine the world in which their grandparents lived and into which their own parents were born'' (Drucker, 1992b, p. 1).

We may speak in these pages, merging the two titles, of the new realities of the postcapitalist society. And as our author rightly says, the life of any ''post'' period is short, precisely for being a phase of transition: fate has cast the pieces into the air and we cannot know with certainty how and where they will fall. What is not in doubt is that this is the time to build the future, precisely because everything is changing; this is the time for action.

In our view, neither of these two books are Drucker's most outstanding. They are written quickly, as remnants of a larger and denser work. They lack the significance of *Landmarks of Tomorrow* or *The New Age of Discontinuity*. However, they are notable for the synthesis presented and the questions they pose. They are also among the most popular in the Spanish-speaking world.

The New Society (1950a) spoke of a society of employees. Ten years later, *Landmarks of Tomorrow* introduced the concept of knowledge worker, a concept that *The Age of Discontinuity* (1969a) intended to complete with the society of organizations. Postcapitalist society is presented as a synthesis of the knowledge society and organizations. Knowledge workers, or as our author now says, educated people, practice their knowledge by working as members of an organization. They must be, as we have seen above, a particular synthesis of intellectuals and managers, overcoming first inefficient individualism and then sterile bureaucracy.

Taylor revolutionized the world of business management because he applied knowledge to work, and thus produced previously unheard of productivity gains. We now face yet another transformation, the productivity of white-collar workers, which consists of the application of knowledge to knowledge. A question immediately arises: how to make knowledge productive and profitable? That is, how to coordinate the values of a knowledge worker — an educated person, an intellectual with traditional, and unavoidable company values — with productivity and profitability? The answer proposed by our author is that it is a question of leadership in management. Leaders of large organizations increasingly resemble orchestral conductors, who try to reconstruct the score as originally written while interpreting information through a constant feedback loop, and comparing results with expectations, where self-discipline and individual responsibility are essential.

The leaders that the new realities of postcapitalist and ''post-business'' society need have to be able to manage experts who know more than them in their specialist fields, and then be able to turn their skills into knowledge. To achieve this, they will have to make organizational decisions:

> Converting data into information thus requires knowledge. And knowledge, by definition, specialised. (In fact, truly knowledgeable people tend towards over-specialisation because there is always so much more to know!). The information-based organisation requires far more specialists overall than does the command-and-control structure we are accustomed to. Moreover, the specialists work in operations, rather than corporate headquarters. The operating organisation

> becomes an organisation of specialists of all kinds. Information-based organisations need central operating work such as legal counsel, public relations, human resources and labour relations as much as ever. But the need for service staffs — that is, for people without operating responsibilities who advise, counsel advise or coordinate — shrinks drastically. In its *central* management, the information-based organisation needs few, if any, specialists.
>
> (Drucker, 1989a, pp. 209–210)

Does the responsibility of the leader, the manager, reach this far? Or would it overload him by asking him to address corporate social responsibility?[29] How far is he responsible for the happiness and satisfaction of the members of the organization as people and individuals in society?[30] Perhaps a text entitled ''Management as a liberal art'' suggests some clues to answer these serious questions. If it sounds utopian, it is not precisely because of the ingenuity of its author:

> Thirty years ago, the English scientist and novelist C.P. Snow talked of the 'two cultures' of contemporary society. Management, however, fits neither Snow's 'humanist' nor his 'scientist'. It deals with action and application; and its test is the results. This makes it a technology. But management also deals with people, their values, their growth and development — and this makes it humanity. So does its concern with, and impact on, social structure and the community. Indeed, as everyone has learned who, like this author, has been working with managers of all kinds of institutions for long years, management is deeply involved in spiritual concerns — the nature of man, good and evil.
>
> Management is thus what tradition used to call a liberal art — 'liberal' because it deals with the fundamentals of knowledge, self-knowledge, wisdom and leadership; 'art' because it is practice and application. Managers draw on all the knowledge and insights of the humanities and the social sciences — on psychology and philosophy, on economics and history, on the physical sciences and ethics. But they have to focus this knowledge on effectiveness and results — on healing a sick patient,

29. In the sense that an organization in a society of organizations has a responsibility to try to find an approach to basic social problems that fits with its competences and skills, and transform a social problem into an opportunity for the organization.

30. In *Post-Capitalist Society* (1992b, pp. 157–158), he recognizes that the wishes expressed in the early works of 1942 and 1954 — that the corporation as a ''plant community'' would give individuals social status, role, and a responsibility of self-governance — did not take root in the West. However, he thought that it could succeed in knowledge-based organizations if it was understood as also being based on responsibility.

> teaching a student, building a bridge, designing and selling a 'user-friendly' software program.
>
> For these reasons, management will increasingly be the discipline and the practice through which the 'humanities' will again acquire recognition, impact and relevance.
>
> (Drucker, 1989a, p. 231)

1.5. The Prophet of Contemporary Management

One can find countless references attributing to our author the highest rank among thinkers and teachers of business management. As already commented on many occasions over the preceding pages, the style that characterizes Drucker, while attracting sincere admiration, also easily puts him in the spotlight of apparently justified criticism. We say "apparently" because it would be a relevant criticism only if Drucker had intended to achieve what he is criticized of being unable to do (Kantrow, 1980).[31] However, we think the reality is very different if one takes the viewpoint that we wish to in this section; that is, to justify, by examining his published work in chronological order, his reputation as "the leading philosopher of the practice of management" (Wren & Greenwood, 1998, p. 229).

In the generous, but essentially true, words of Charles Handy: "virtually almost anything can be traced back to Peter Drucker" (Micklethwait & Wooldridge, 1996). In the words of Tom Peters: "Our debt to Peter Drucker knows no bounds … there was no real discipline of management before him."

Two of the most renowned authors in recent years, Gary Hamel and C. K. Prahalad, in the preface to their famous book *Competing for the Future*, dedicated the following paragraph to Drucker:

> There is another individual whose wisdom has benefited our work enormously, one who is both a pioneer and a latter-day guru-Professor Peter Drucker. Professor Drucker has never lost sight of the fact that, for a theory or concept to be useful, it must ultimately be translated into the language and context of managers and managerial action. He has also been an unfailing beacon, lighting the way toward the management issues of tomorrow. Whatever small amount of managerial relevance and thoughtful foresight we achieve in this book owes much to Professor Drucker's shinning example.[32]

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31. Another critical approach can be found in an opinion article in *Management Theorists: Peter Drucker, Salvationist*

32. Harvard Business School Press (1994).

Clear vision and a quest for utility nicely summarize two features of Druckerian writing and thought.

Elaborating on this line, J. J. Tarrant, in his book *Drucker, The Man Who Invented The Corporate Society*, provides good reasons to say that both Frederick Herzberg in *The Motivation to Work* as well as in *Work and The Nature of Man* and Douglas McGregor in *The Human Side of Enterprise* were greatly inspired by works such as *The Future of Industrial Man*, *Concept of The Corporation* and *The Practice of Management*, all written years before.

In the context of the study of Peter Drucker, the essential point when addressing the subject of Herzberg and "Hygiene Theory" is that Drucker, in the most drastic way, clearly announced the fundamental doctrine of the theory, years before Herzberg.

According to Tarrant, Herzberg does not cite Drucker as a source in either of his two books: *The Motivation to Work* and *Work and The Nature of Man*. The fact is that Drucker mentioned this new theory in 1950a in his book *The New Society*.

In *The Future of The Industrial Man*, Drucker mainly focuses on the inadequacy of salary as a motivator. He pointed out that economic satisfactions are effective only in the negative form in society and politics. The lack of economic satisfactions creates serious social and political dislocations; however, if they exist, why does neither ensure the proper functioning of society?

He also likens economic satisfactions to vitamins, commenting that if they are missing, they would create deficiencies; but that if they are present, they still do not provide calories.

Drucker said that McGregor did not conduct original research. He openly recognized in *The Human Side of Enterprise* that he had not developed any new ideas, but had formulated the ideas of others. Whether McGregor's words constitute recognition on quite such a scale as is suggested, it does nevertheless lead to speculation. Drucker, who expressed a great esteem for Douglas McGregor and his "Theory X" and "Theory Y," has always been accepting and generous with other people's use of his ideas.

There is a little doubt that Drucker was the first exponent of the proposition that is central to McGregor's concept. To give just two examples, following Tarrant, we can see a couple of his works that came some years before *The Human Side of Business*. In *The Concept of the Corporation* (1946a), Drucker stresses that the second major lesson of the war was that it is really not true that the worker is happy and satisfied if his work does not get him anything except the salary; nor that is he uninterested in his work and what he produces. On the contrary, he longs to have a chance to know and understand everything about the job, the product, the factory, and his position in it. Then, in *The Practice of Management* (1954), Drucker sets out some principles about the way the company needs to learn to employ the worker as a "complete man," and draws the conclusion that the basis of these concepts is clear; it is necessary to assume that people want to work. It cannot be assumed that they do not want to work. Assuming that those who do not want to work will make the task of managing workers and work it is just impossible."

In my opinion, it would not be surprising if Herzberg and McGregor, like so many others, had been inspired by the works of Drucker. Since our author

expressed many obvious ideas, it doesn't seem to make sense to defend his intellectual authority.

To these references could be added those of other academic experts in management. For example, in the work by Heinz Weihrich and Koontz (1993), *Management: A Global Vision* there are now fewer than 25 references to Drucker, and he is referred to as "one of the most prolific writers on management."[33] Nonaka and Takenchi cite him in *The Knowledge Creating Company. How Japanese Companies Create the Dynamics of Innovation*; Scheid in *Les Grands Auteurs en organisation*; Huczyuski in *Management Gurus*; Makrisderkis in *Forecasting, Planning and Strategy for the 21st Century*; and Mintzberg in *Power In and Around Organisations*. These are authors of very varied origins who attribute to Peter Drucker a major role in the field of modern management. We believe that this list is useful as a sample.

Let us briefly review Drucker's works on business. We believe that among his works we could highlight half a dozen books (as well as dozens and dozens of articles) specifically focused on the theme of business management, and which make him worthy of the attribute of "prophet," in the sense that he was the first with pioneering ideas and plowed new fields in this discipline. In 1954, he published *The Practice of Management*, where he studied, in an original, practical, straightforward and highly thought-provoking way, management as a constituent institution of new society. It was followed by *Managing for Results* (1964a), where Drucker says he first used the term *business strategy*. Two years later, in 1967a, he published *The Effective Executive*, which deals with efficiency ("to get the right things done") and leadership. In 1973, he wrote a book in which he sought to bring together all he knew on the subject, both in its technical aspects and procedures, and in terms of its social impact. The book was called *Management: Tasks, Responsibilities, Practices*. It includes ground already covered in *The Practice of Management*, which served as a study for this later project. In our view, however, is not one of Drucker's pivotal works because it contains no significant specific contributions. In *Innovation and Entrepreneurship* (1985a), he presents art as a systematic discipline and innovation as an organized and directed activity; both must be part of the daily work of a manager. As seen in the chapter "Recommended Reading," this is an issue that gained notoriety in the late 1970s and early 1980s. Against the idea of innovation as something mysterious, borne of talent, inspiration or genius, Drucker presents innovation and its undertaking as practices geared toward an end. This was how he conceived it from the outset and was, he said, how he explained it in the classes he gave during his years as professor at the Graduate Business School, New York University.

Drucker had always been interested in entrepreneurship, to which he also devoted extensive references in his works of social philosophy. One of his defining features is that he sees opportunities instead of problems as the criteria for resource allocation. The entrepreneur seeks to maximize opportunities, before maximizing profits;

33. Op cit. (p. 69).

he places efficacy over efficiency; he is less interested in how to do things and more in how to identify what needs to be done and apply the resources and initiatives accordingly. Drucker argues that this attitude of initiative and innovation extends beyond the limits of commercial enterprise:

> In 1985, Peter Drucker went back to the roots of Schumpeter with a book, *Innovation and Entrepreneurship*, in which he relates these two concepts in defence of an entrepreneurial society where initiative and innovation penetrate all economic activity. Drucker propounds innovation in all fields, not only in high technology, and highlights two areas to which entrepreneurial society should aim in particular: namely, the solution of unemployment and a reduction in the number of outdated and inefficient public institutions and policies.
>
> (Nueno, 1994)

In 1990a, Drucker published *Managing the Non-Profit Organisation*, where he applied strategy, leadership, and many other management concepts to the sector of nonprofit institutions and other social institutions. Here too we can say that he took advantage of the beginnings of the trend — there was an increasing interest in these topics in both general and publishing circles: Drucker is again most opportune in his timing. This finding would be incomplete if we didn't add that, since the beginning, our author always had in mind the applicability of the principles of management practice to all types of organizations. There are numerous textual references to Boy and Girl Scouts, universities, churches and dioceses, hospitals, museums, foundations, councils, schools, etc. in books such as *The Practice of Management* or *Management: Tasks, Responsibilities, Practices* to name only two.

Managing the Non-Profit Organisation is, in our view, a minor work, where more than half the pages are devoted to interviews with representatives of nonprofit organizations, without any original contributions to Druckerian thought that could be classified as outstanding, or simply that have been made before in other works. The possible exception is the general approach contained in the foreword. In it, Drucker distinguishes nonprofit institutions from commercial enterprises and government.

The contribution of the discipline of management to these institutions is to help them stop being merely decorative and marginal elements of society, and to become effective tools. And "those same institutions know that their need for management is so much greater, because they lack a conventional 'lower limit.'" They know they need to learn to use it as an instrument in order to avoid being overwhelmed by it. They know they need to focus on their mission. In truth, organizations both large and small are currently advised to foster a "management boom."

It may well be said that Peter Drucker has demonstrated this with practical realities at Claremont Graduate School in California. The application of his ideas and his personal support led, many years ago, to the launch of the Graduate Business School, where, in 1987, the management school was named after him. A campaign

was begun in 1988 and raised donations exceeding $52 million (this sum was raised through both his direct involvement and on the back of his fame and prestige).

The latest books devoted specifically to issues of management that we wish to highlight are *Managing for the Future* (1992a) and *Managing in a Time of Great Change* (1995a), which, like *The Changing World of The Executive* (1982a) and *The Frontiers of Management* (1986a) were put together in the manner that Drucker himself explains at the beginning of *Managing in a Time of Great Change*.

That he organized the articles and essays written over a number of years around a shared vision and with a common goal in mind. Each part had to be written separately and be complete in itself, but eventually all form a unity, as in this book. Their prior, separate publication would put them to the test, or rather, would allow them to be judged by executives from around the world. Those writings that would demonstrably contribute the most to the effectiveness of those who read them would be selected for republishing in a book.

The articles are usually structured around core issues such as economics, management, people, or the organization.

If one wished to give a synthetic view of the orientation of these works, and especially the two most recent, one would have to highlight the objectives pursued generically. On the one hand, they try to explain to managers and entrepreneurs (and also to a wider audience), involved in the work of their own company and involved in immediate demands, the changing world in which they work and produce results. On the other hand, they encourage initiative, decision-taking and action, and provide criteria and tools to make such an action effective. As Drucker did not overlook the degree of difficulty that achieving efficiency in action entails (the purpose of management), all his writings are focused on practice, and concepts are often framed in specific and often personal cases.

In *Managing in a Time of Great Change* (1995a), he focuses on three problems that can make life very awkward for a modern manager. First, the above-mentioned business change in recent years has increased its already dizzying speed (think, e.g. of the evolution from vertically integrated organizations to those composed of networks of interests and tasks — ''networked organisations'' — that belong to the knowledge society). Second, the frequency of wrong decisions. Drucker argues that most managers do not truly understand what it means to lead in a time of profound changes, and what they do is spend their time patching up things or making compromises in their companies, instead of reflecting on the context in which those changes are based. Finally, the growing tension between a business and its environment; between the need for companies with perpetual innovation and the social need for stability; and between orientation toward international competitiveness and the social interest in the local common good. A tension that ultimately is anchored in man, between the capacity of his mind and the demands of the changing nature of knowledge.

In fact, knowledge always makes itself obsolete: the knowledge of today is tomorrow's ignorance, to put it in Drucker's words.

Hence, the productivity of knowledge and the knowledge worker are not only competitive factors common to the global economy but also decisive and concrete

factors in most sectors of developed economies. That knowledge must be sought, says Drucker, from the information produced outside the organization and provided by those who are not our customers, by the markets that we do not serve but are served by our competition, and by technologies that we do not use in our own enterprise but the competition does. Without this data, this knowledge, it is very hard for an organization to take sound decisions and effective actions.[34]

From our author's viewpoint, it is exactly in the knowledge and the knowledge workers where developed countries have a comparative advantage. And it is precisely the increasingly dominant role they play that will force managers to make changes to their way of managing and organizing. Drucker said that most of these workers would figure in the future of the organizations for which they currently work, but they would be linked in other ways. This prediction refers not only to the commercial company but also to those located in sectors such as education or health.

In this sense, and echoing the assertion of Charles Handy that hardly anyone in the United States and the United Kingdom would be employed in the twenty-first century, Drucker argues that most of the work will be done through partnerships, joint ventures, minority participations, and informal arrangements. This led him to advise the CEO of a large corporation: "You'd better stop studying the history of science and start studying the history of the tribes, because that's what you're going to be. You will be the elder chieftain of the Cherokees, and they have no authority other than that arising from wisdom, competence and accomplishment" (Drucker, 1997h, p. 14).

Life in the organization can be complicated or simple, depending on how you look at it. Organizational structures built according to the criteria of command-and-control, where authority, power, and position are explicitly identified, will be of no use in an environment defined by knowledge, and will quickly become obsolete. Evolution will favor structures in which a person's position means responsibility, not power. The verb *command* will give way to *persuade*. The climate of this new organization will depend on trust, which will come from a culture of cooperation rather than command-and-control. The manager, now an "orchestral conductor," in creating this climate, will find his greatest task. If he succeeds, he deserves to be called a leader, and will understand the value of not blithely accepting current assumptions (whether about the market, technology or his own strategy), and of keeping them under constant review ("challenge your assumptions!"). This will involve building a structure that systematically allows for "organised abandonment": it is certain that results (a yardstick for assessing a manager) will not wait.

In addition to this review of Drucker's work and our summary of the reasons why we believe that Peter Drucker can justly be called the prophet of modern management, and to the praise mentioned at the beginning of this section as the creator of the discipline of management, should be added that he was a pioneer in the

34. Peter Drucker (September–October, 1997f), The future that has already happened. *Harvard Business Review*, p. 22.

study of such important topics as (a) decentralization and delegation of power to employees (in the words of *Concept of The Corporation*: "creating the self-governing plant community"); (b) management by objectives; (c) the application of management to areas of social life other than pure business (e.g., nonprofit organizations); (d) the emphasis on ethical issues within organizations ("an organisation is a human, social, indeed a moral phenomenon"); and (e) the approach of studying people in the company as a resource rather than a cost.

Victor M. Marciano (1995, pp. 223, 226) holds that it was Drucker who coined the phrase "human resources" in *The Practice of Management*. Unlike other resources, this resource has "the ability to coordinate, integrate, judge and imagine, in addition to self-govern." Consequently, the management of human resources presents more demands to a manager than managing financial resources, for example. Drucker sums it up by saying that the management of work and the worker is not a specialized part of the manager's job, but rather the key to all his work. *People management* (a more pleasant expression than *human resource management*) is the broader and most relevant role of a manager because it sums up what management really is. We do not know whether this recognition of the burden that person carries in his own right within the discipline of management is really sufficient to grant Drucker the label of prophet, but it certainly presents him as a most worthy thinker.

1.6. Literature: An Abiding Passion

I grew up in an atmosphere in which language was taken seriously.

Peter Drucker has many features and facets that make him a unique character and worthy of consideration; not least of which is his refined taste in literature. Throughout his work, he takes obvious pleasure in drawing upon sociology, political philosophy, economics and business management, as well as literary references to Goethe, Balzac, Dickens, his beloved Austen, Tolstoy, Nietzsche, Kierkegaard, Foster, Koestler, Henry James, and many others. It is a trait that seems to recur in other "gurus," "prophets" or simply, teachers and theorists of management.

However, where we most clearly see Drucker's literary vocation and his desire to emulate the great novelists of the nineteenth and early twentieth centuries, but always adding a personal touch, is in three of his later works, written in his 70s. Nevertheless, the wait was worthwhile: the style is swift, the sentences short, and the syntax simple; with a very rich vocabulary that allows colorful and deep descriptions of characters, landscapes, and situations; and a plot artificially fragmented in order to later rebuild it as a "collage," where the reader, almost an active participant, has to give it meaning and life. This is the same intellectual, emotional, and aesthetic involvement that is required, as our author would say, by listening to Dvorak or looking at Klimt. The aim is to develop a whole. It may or may not be bigger or better than the sum of its parts, but it is nevertheless essentially different.

Adventures of a Bystander (1979a), *The Last of All Possible Worlds* (1982b), and *The Temptation to Do Good* (1984a) are a tribute to respect for language:

> For the social ecologist language is not 'communication.' It is not just 'message.'. It is substance. It is the cement that holds humanity together. It creates community and communion. Thus I always thought that the social ecologist has a responsibility to language. Social ecologists need not be 'great' writers; but they have to be respectful writers, caring writers.
>
> (Drucker, 1993h, p. 456)

Frankly, Drucker is worthy of his words.

First in Vienna and then in Germany, he grew up in a spiritual atmosphere influenced by the newborn philosophical and critical approach to language. Ten years before our author's birth, in 1899, Fritz Mautner (1849–1923), precursor of the philosophy of language, published *Zur Kritik der Sprache* (*A Critique of Language*). The extraordinary writer Karl Kraus (1874–1936) was also at his peak during those years. To him is attributed the claim that language is morality, integrity; therefore, to corrupt language is corrupt the individual and society.

From then on Drucker would be faithful to language, either in his native language or in his acquired English: indeed, only a slight accent hinted at his origins in the German-speaking world. Drucker may be said to be an Americanized central-European (what a powerful mixture!), one of whose salient features is the perfect mastery of a language learned and treated with care and refinement. There is a whole intellectual, that is, literary life, that walks a line between the work of Friedrich Julius Stahl, written in Hegelian German in very long sentences, consisting of complex language and multiple relative clauses, which is uniquely suited to the subject matter, and, for example, *The Last of All Possible Worlds* or *Adventures of a Bystander*, both books written 50 years later and generally full of much simpler sentences. There is indeed a common feature running throughout all his work: the quest for accuracy in what is expressed, and the desire that reality is captured by language. In German this is accomplished with descriptive phrases; in English, with a wealth of synonyms, many in the form of gerunds. Once again Drucker is shown to be one of a kind.

We'll now proceed to a brief discussion of each of the three novels. In *Adventures of a Bystander*, subtitled *Autobiographical Essays*, Drucker shows himself as a teller of stories and fables, which are evocative and even magisterial.[35] Very often they are portraits of people who have featured in his life; portraits enriched with his own autobiographical detail that he brings to life as literary vignettes, sometimes humorous, sometimes melancholy, and always sentimental. They are anecdotes,

35. The background can be found in the fascinating business histories of Ford, Wal-Mart, Siemens, IBM, Deutsche Bank, etc., contained in Drucker's books on management. For example Drucker (1954, pp. 109–119 and 251 et seq).

sometimes with a pedagogical aim and sometimes a moral. Oscar Wilde remarked that literary works that expound ideas or theories were like gifts on which the giver had carelessly left the price tag. Drucker, however, has no qualms whatsoever in doing so.

Experiences, perceptions, preferences, critiques, visions, and sentiments are sketched with vivacity, grace, agility, breadth and depth, which allow them to be read with interest and pleasure. The only "but" is his sometimes annoying insistence on demonstrating that he predicted the future, that he had been a successful "prophet" and continued to be. Whether a prophet or not, he certainly entertains.

At the end of the preface to the 1998 edition Drucker says:

> I did not pick the persons whose stories the book tells because the 'signified'; I did not pick them because they were 'great and famous' (only one of them was, Sigmund Freud, and he is the only person in the book whom I did not now and did indeed only once meet in person when I was all of eight year old). I picked the people in this book because they were important to me. But what made important to me was precisely how they refracted and reflected their society.
>
> (Drucker, 1979a, p. 7)

As mentioned earlier in this work, and not for the last time, Drucker is a keen observer, a witness who relates what he has seen, without regard for or fears of making mistakes.

The Last of All Possible Worlds is a pure literary creation, albeit with rhetorical elements that, for anyone familiar with Drucker's life and intellectual formation, have some obscure but unmistakable biographical echoes. The plot develops over a few days of June 1906, in the Edwardian era. In attendance at a dinner are a prince of Polish origin and Austrian Ambassador to the Court of St. James, Prince Sobieski (descendant of Jean Sobieski, who liberated Vienna from the Turkish armies in the sixteenth century), and two bankers, one Scottish, Hinton, and the other an Austrian Jew of Slav origin, Mosenthal. All three are partners in a powerful commercial bank with industrial interests across Europe but especially in the emerging railways of the Austro-Hungarian Empire. All three are about to retire and say, somehow, good-bye to the exciting and passionate life they have led. The end comes in a fourth chapter entitled "An die Musik," which involves dual semantics: on the one hand, the Druckerian conception of the work not as a novel but as a Dvorak quartet where each movement highlights a different instrument; on the other hand, the inexorable passage of time as expressed in the portrait of a beautiful old lady painted by Gustav Klimt and bearing the same title (*An die Musik*).[36]

36. According to the author, this beautiful woman had been portrayed 50 years before by another famous Austrian painter, Ferdinand Waldmüller (1793–1865) in *Portrait of a Young Lover*, a work of exceptional beauty.

It is certainly a novel that exudes sophistication and sensitivity through and through. It demonstrates his vast knowledge of the historical, political, literary, musical, artistic, and religious, and it even surprises the reader with, for example, substantial reflections on higher mathematics in the pages dedicated to Georg Friedrich Bernhard Riemann, described in the last years of his life at Göttingen (Drucker, 1982b, p. 77 ff.), where John Pierpont Morgan studied, and also cited as a friend of Hinton. Not in vain was our author deeply interested by statistics, a subject that he taught between 1950 and 1960.

Into Riemann's mouth Drucker puts the phrase ''Don't define a problem, organise the set''; a maxim for action and not just for meditation. In a literary sense, Drucker seriously attributes the success of big bankers like Georg Siemens, founder of Deutsche Bank and J. P. Morgan to their following this maxim. ''Siemens since its inception always addressed each problem, investment or transaction as part of a configuration, part of a whole, a unit within a whole'' (Drucker, 1982b, p. 78).[37]

There are many texts that serve to illustrate how Drucker expresses his ideas on management, for example, in which he explains the workings of a bank, or investment in railway construction and in the exploitation of gold mines, or the management of large farms and ranches.

The Last of All Possible Worlds (1982b, p. 96) gives us a sentence that we will use as a link to his final novel: ''By the time he found out, Hinton already knew that banking was to him more exciting, more challenging, more satisfying than academic life and the pettiness of the University High Table could possibly have been.''

The Temptation to Do Good is precisely about life at a prestigious Catholic College and the problems of the Rector, Father Heinz Zimmerman. The mood, tone, the narrator's focus, even the topics, are quite different from *The Last of All Possible Worlds*. Nevertheless, it retains the emphasis on the freedom and personal responsibility of the protagonists, the controversial game that constitutes human relationships, and the genuine importance of management in a modern society made up of organizations.

In *The Temptation to Do Good*, Drucker shows his in-depth knowledge of university academic life: the desires, grandeurs, and miseries of the professors; the struggle for power in departments obsessed by the importance and necessity of the subjects taught; the exaltation to near-paroxysm of academic freedom against the ''unwarranted interference'' by the university administration; the governance and problems of a university that grew in 20 years from 2000 to 12,000 students, and from 100 to 1000 professors, and went from being just another college to being counted among the best. To this may also be added the fact that Saint Jerome University is a Catholic religious university, which would suppose additional criteria when evaluating the success of the institution. Additionally, also entering the fray

37. This trait of preferring to see the whole in order to see more clearly comes from the influence of J. C. Smuts and his book *Holism & Evolution*(1926).

when problems arise, are the bishop and the nunciature (the Vatican's diplomatic commission). In short, our author presents a complicated framework.

One example is the failure to renew the contract of a professor, owing to his shortcomings as a teacher, which leads to a revolution in the faculty, and requires the intercession of the bishop, the mayor, and the nunciature.[38]

Professor Holloway, a chemist aged 45, successful in the industry as a technician, decides to change his career path to pursue a doctorate at Saint Jerome. In this he is encouraged by his wife, who is paranoid and whose "imbalances" center on demonstrations of the practice of her faith and how she judges the lives and actions of others … especially if they are Catholic priests.

Three years later, and having read Holloway's thesis, the chemistry department recommends not hiring him, to which Zimmerman agrees, despite this having previously been the usual practice. That elicits a reaction from Mrs. Holloway, who rails against the rector of Saint Jerome. The rector then makes the mistake of feeling some guilt over the delicate situation, and tries to help him find work in a high school — a reaction that Mrs. Holloway sees as an admission of guilt rather than compassion. This leads her to defame Zimmerman and raises one of the central issues of the novel: what criteria should govern a Catholic university that strives for excellence? Should they be purely religious, which would lead them to recruit Holloway, a fervent believer and compassionate with the worst students? Or those purely of a university, which would advise the dismissal of a bad teacher?

The discussions at the special faculty meeting called for the case are as one would expect: every teacher has a reasoned position based on disparate and not always transparent motives, and all, or almost all, attack the university administration. The impression given by Drucker is that they would do so, whatever the decision of Zimmerman.

This raises the interesting idea that Saint Jerome tried to be a great university and how this affected its Catholic nature, measured against other major academic institutions. This is how an outspoken person without prejudice (and that characterizes Drucker) would see the additional difficulties that the religious denomination entails.

At last, Bishop O'Malley, or Mr. Efficiency as he was known in the diocese, intervenes in the solution. O'Malley is an MBA graduate who had economically and organizationally rehabilitated his pastoral territory and is widely recognized as a leader in organization, management and managing people. Pressed by the nunciature and helped by the state governor, who at that time needed a morally solvent and politically neutral candidate for a representative position, bright but without content, O'Malley addresses the problem by promoting Zimmerman. This decision meets all requirements and results in two victims: Zimmerman himself and Holloway, who is not hired by Saint Jerome or any other college. Everybody else is happy: the faculty

38. As Drucker often says a problem that is technical on one level, if it rises to higher levels, runs the risk of becoming a political problem whose consequences are difficult to predict.

because it has preserved its autonomy; the nunciature because what was already a problem in the media has been silenced; the governor because he avoids a political fight; and the bishop because his diocese becomes an archdiocese.

Drucker, again, displays his vast knowledge of literature and theology, as well as university, ecclesiastical, and political life, etc. It's odd, but none of the characters act with upright intentions, and this is shown clearly at the end, when the secretary of the archbishop, having been indispensable throughout the transaction, rejects a new position that would have been very prestigious for one so young, and instead goes to a parish to pursue purely pastoral work. Our author says that "to do the right thing for the wrong reason — is that not what we call Providence?" We doubt that this is the case, but it is the only "but" in an otherwise smooth, fascinating, and evocative work, that illustrates the temptation to *appear* to be good.

Chapter 2

Theory of Society

2.1. Introduction

The major doctrinal contribution of Peter F. Drucker to the science of business management has its roots outside the field of business management. *The End of Economic Man*, subtitled *The Origins of Totalitarianism*, and *The Future of Industrial Man* raise problems of sociological and political philosophy, as essays on a turbulent historical situation (1933–1942).

The End of Economic Man explores the roots of the Fascist, Nazi, and Communist totalitarians, the decline of European liberal and humanist tradition, and the inability to provide a thorough grounding in today's society from economic activity. It does so by focusing mainly on the past. *The Future of Industrial Man* is consistently based on this line of thought: once those definitive weaknesses that weigh down economistic materialism to explain the workings of today's society (as I will try to show in this chapter) are shown, we must rethink this function from other angles (which I will discuss in the next three chapters).

Reflecting on the issues of political philosophy and the theory of society, that is, human nature, freedom and the problems of hierarchy, function and position or status in society, Drucker believes that the society of the early twentieth century was directed toward a society of organizations, where the company, as well as being an economic body, is also a social organizations, a community, and a society.[1] From this stems the interest in the study of management of institutions, corporations, and other non-profit organizations, which would lead him to publish in 1946a *Concept of the Corporation*, his first book on management itself and on the management structure and corporate policies of General Motors. As he says in his autobiography, "since then, in general, I have alternated between books of social and political synthesis and

1. The new emergence of institutions, which the premodern state had actually supported, is based on the increasing complexity of society. If this society is analyzed exclusively in terms of *systems* and *systems theory*, the cure can be worse than the problem, because the systems — and their relationships with the environment — generated complexity, thanks to their integrated *nature* (unlike *systems*, which are monological). Our author explicitly cites the influence of Ferdinand Tönnies's (1855–1936) important work, *Gemeinschaft und Gesellschaft* (1888), in Drucker (1942, p. 10).

books about management.'' This alternation is nothing capricious or counter-productive; quite the contrary, because society at large these days is structured into organizations, among which companies are the most characteristic and, possibly, the most influential. And corporations, in turn, are permeated by the ethos of our time (or, sometimes, the lack of it), in such a way that management cannot be neutral. This mutual feedback is one of the great discoveries and, undoubtedly, one of the ''secrets'' of Drucker's success as an intellectual and management theorist.

These are the reasons that lead me to try to discover the social theory mainly found in these early works, whose influence can be seen in the huge and intellectual later works of our author, although the aforementioned ''alternation'' is never abandoned.

Starting in this way allows me to position the thought of Peter Drucker in a richer perspective, because — as just noted — his horizons are wider than usual in the literature of business management. The challenge is not only to understand businesses and their managers and how they can improve in all aspects, which already has great value in itself, but also to understand contemporary society, in which there is a symbiosis or a transition between the industrial society and the knowledge society, and in it, its protagonist: the man who works in rationally configured organizations. As we will see, the social theory of Drucker — despite its often informal and scarcely academic tone — still matches up to the best exponents of the *Zeitgeist*, a genre that, moreover, has become fashionable at the end of the millennium (as has traditionally always happened at the end of a century). They are the ''hopes and fears'' of the year 2000.

2.2. The Crisis of Economic Man

The last chapter of *The Future of Industrial Man* gives us a very informative summary of the conclusions Peter Drucker reached in his first book, *The End of Economic Man:*

> Western society has given up the belief that man is fundamentally Economic Man, that his basic motives are economic motives, and that his fulfilment lies in economic success and economic rewards. The moral concept of the nature and purpose of man on which the mercantile society was based has ceased to be valid. For we have learned that freedom and justice cannot be realised in and through the economic sphere. We have learned that a functioning society can no longer be organised in and through the market. Economic Man has not only made himself superfluous through his material successes; he has also has failed politically, socially and metaphysically.
>
> (Drucker, 1942, p. 196)

Recourse to economic progress as the ultimate goal does not provide conclusive answers to two fundamental questions: What is man and what is society?

We could also express it as follows: What are the critical features that define the nature of man and explain how he works? What are the critical features that explain social life and, therefore, provide a theoretical basis for the functioning of society?

Economic assets abandon their leading role in the realm of goods or ends and become just one among many. Economism — the "deadly disease" of the twentieth century — was a non-viable reductionism. This was confirmed, years later, with the collapse of the Soviet system (based on most radical Economism of all, Marxism). And this is also supported by the perplexities of the "Western bloc" once it seems to have been left without an enemy. Let us examine the path taken by Drucker to reach these conclusions.

In the same preface, our author presents a fundamental premise of sociological and economic thought, and of his political philosophy, and what we could classify as a cornerstone of anthropology: that the nature of man cannot be reduced to a purely material principle. Any attempt to explain human existence and society from a materialist view is doomed to fail. The Nazi and Fascist Revolutions were doomed to failure because they took man for what he is not.

> In this book I have made an attempt to explain and interpret fascism and Nazism as fundamental revolutions. This analysis confines itself to the social and economic sphere, though I do not believe in the materialistic interpretation of history. I believe that the material, far from being the foundation of human society, is but one pole of human existence. It is of no greater, though of no less, importance than the other pole, the spiritual — corresponding to the man's dual nature as belonging at the same time to the animal kingdom and to the kingdom of heaven. Accordingly human developments and changes show as much in man's spiritual activity and in the arts as in society and business; to analyse a revolution would seem to call for an analysis of the whole.
>
> (Drucker, 1939, p. xxxvi)

While a debate that took into account only the material aspects of man and reality would be clearly insufficient, because man's way of being goes beyond the spheres of his social and economic life, it would also be folly if we tried to offer an adequate explanation for the Fascist and Nazi phenomena by looking at them in only spiritual terms. The intellectual honesty of Peter Drucker is seen throughout his work by how he recognizes the limitations of his analyses.

Fascism was not completely understood by his contemporaries, who did not fully understand what it truly was: a deep social and political revolution that had its roots in historical events and cultural developments in Europe in the previous decades. Not understanding this reality has led to explanations and interpretations which, according to Drucker, are wrong. As he puts it:

> Apart from the assertion that the majority of the people in the fascist countries are secretly hostile to the regime and subdued only by terror, which is such a flagrant perversion of all evidence as to require no

> specific refutation, three explanations of the nature of fascism are generally offered: 1) fascism is a malicious outbreak of primitive barbarism and brutality; or 2) it is a temporarily successful attempt of the capitalists to delay or prevent the final, inevitable victory of socialism; or 3) it is the result of the impact of unscrupulous and technically perfect propaganda upon the gullible masses and their basest instincts.
>
> (Drucker, 1939, p. 6)

Drucker offers three characteristics of these explanations, which also partly explain their origin:

(1) The absence of a positive creed and emphasis on the refutation of everything past. Unlike other revolutions, where some ancient beliefs and social systems are replaced by new ones, in the case of the Fascist Revolution this substitution did not occur. This only brought about the collapse of the previous order. The existing system of ideas is replaced by denials of the same. Thus occurred what Hegel called "the hidden power of the negative," which continues to be experienced in politics even today.
(2) Ignoring the justification and political legitimization of the new social and political order and of the authority under which it is constituted. The absence of a positive creed leads one to believe, strongly and blindly, that within power itself lies power's only justification. This represents a break with all political philosophy developed in the Western world until then, that is, the power does not legitimize itself.

    The rationalization of nature and society, conducted by the "*Atlantic revolutions*," and the modernization process led to what Max Weber called "the world's disenchantment (*Entzauberung*) with science." The disenchantment produces a vacuum of disenchantment, which must be lived through in some way. In a certain sense, fascism is a *reenchantment* of society by superficially symbolic means.
(3) The masses lend their support and confidence to fascism despite, or precisely because of, the lack of a creed.

The old regimes have collapsed and the emergence of a new order cannot come from their ruins. The only alternative is desperate adherence ("the despair of the masses" in the words of Drucker) to whoever promises to make the impossible possible.

It is not the massive and immoral use of propaganda methods, but the stark and utter despair of the masses who have lost their social references, which gives us a key to understanding fascism. It is no wonder that fascism especially entices the middle classes, who were not party to the then — fascination with Marxism and see the power of money, attributed to the capitalists, as unattainable. Fascism is the revenge of the mediocre.

At this point, Drucker offers a unique explanation of the objective sought by the Fascist Revolution: "The abracadabra of fascism is the substitution of the

organisation for creed and order.'' This requires reforming the concepts of freedom and equality. And this reform is, in turn, a hasty mix of traditional ideas and revolutionary topics, of which nothing has remained. Indeed, the far right now has almost nothing to do with fascism, despite what some old-school Marxists might claim.

Drucker believes that capitalism and the creature that is generated inside and lives parasitically on it, namely Marxism, do not provide a sufficient and satisfactory anthropological explanation of human nature and man's role in the economic and social spheres. Failure in this regard leads to a collapse that precisely fosters the rise of fascism: ''Fascism is the result of the collapse of Europe's spiritual and social order. The last, decisive step leading to this collapse was the disintegration of the belief in Marxist socialism, which has been proved unable to overcome capitalism and to establish a new order.''

The failure of Marxism is above all social. It ceased to bring the overthrow of capitalism and became its captive opposition. Marxism emerged as the promise of overcoming the unequal society without freedom of capitalism, and of making a classless society, where equality rules as much as freedom. But once this secular gospel was shown to be a chimera, because it engendered a strongly class-driven society, its only legitimacy became to stand as opposition within capitalism. With this new objective came a more effective role, but limited by its inability to replace capitalism: ''Since criticism is its unique role, socialism as a social force necessarily depends on the existence and values of capitalism. Socialism can weaken faith in capitalism but cannot replace it.'' One might ask now, of course, to what extent the relationship is symmetrical, that is, how far the communist regimes were dependent upon liberal capitalism, and what is the fate of this after the fall of the Soviet bloc.

The dogmatic Marxist claim that capitalism is summarized by an inevitable trend toward ever-increasing production units, based on a social structure where almost everybody is equally proletarian — except a few owners, and expropriating them leads to a society without classes — is false. As production grows, the number of ''privileged'' does not diminish, but rather increases. The generation of wealth affects the whole system, leading to infinity of bourgeois who are not just interested in the ''expropriation of profit,'' but also in retaining that ''social inequality.''

History has shown that the gradual strengthening of capitalism only leads to the steady growth of a middle class that participates, albeit unequally, in the privileges, that is, the profits generated. Corporate concentration in large monopolies has not led ''automatically,'' as prophesied, to a revolutionary change in ownership.

Once Drucker has shown the serious difficulties that prevent Marxism from providing a solid foundation on which to build faith in a new social order, he examines the role of capitalism as an economic system and as a social system that embodies a social philosophy and particular policy.

In general, the claim that capitalism as an economic system deserves a positive rating does not seem to offer many theoretical problems, as it is able to provide the market with increasing amounts of goods at progressively decreasing costs and with ever-increasing productivity in labor hours. It is an effective system that achieves the goals it sets and makes efficient use of available resources. This finding is supported by what industrialization has achieved in, for example, the agricultural sector

and development in many third world countries (not to mention the data that were not available to Drucker in the 1930s and 1940s, concerning booming Southeast Asia).

But if we analyze the social gains attributable to capitalism, we can see that something different has happened. Capitalism as a social system and as a belief is an expression of faith in the role of economic progress as the path to individual freedom and equality in a society that, in turn, is free and equal. Capitalism, unlike Marxism, tries to achieve this free and equal society by establishing private profit as the supreme regulator of social behavior. To take actions motivated by profit is the automatic way of realizing the ideal of a free and equal society. This assumes a context of economic independence or autonomy from any other kind of considerations. And this autonomy, fundamentally considered, is nothing more than an abstraction. Historically, capitalism has never been, and is not, a neutral concept. It implies a certain social structure, certain values and, ultimately, a whole ethos, whose moral and religious implications can be analyzed.

One need do no more than review the history of recent years to discover that economic freedom has not made this desired social equality a reality, and nor have "equal opportunities."

This view, which might have been plausible in the early, "savage" days of capitalism, is not appropriate for the end of the twentieth century; indeed, Drucker himself no longer defends it. Social mobility is now undoubtedly much greater although, in recent decades, increasing complexity has caused feelings of insecurity in expectations that have led to clear phenomena of *rigidity*.

Drucker points out a very interesting aspect of the way that capitalism fails as a social system. It is a fallacy to think that free competition between many small units of production leads to greater efficiency than production integrated on a large scale. The latter is cheaper and more efficient; besides, it may contain all the economic elements of competition, but socially it means complete monopolization. Competition undoubtedly has a high cost. But its operating advantages justify that cost many times over, and it needs to be paid in order to avoid a monolithic situation close to economic totalitarianism.

Capitalism cannot avoid its inability to produce a social system where equality reigns, because it believes strongly that any increase in efficiency will result in further development of equal opportunities and social status. As the disadvantaged social classes perceive this reality, they lose their faith in the capitalist social system. Because, in fact, increased efficiency does not *ipso facto* produce greater equality.

Capitalism shows its inadequacy because it leads to a confrontation between rigidly defined classes. Socialism, in turn, has erred in its attempt to abolish these classes. Both systems and beliefs fail because their conception of the automatic consequences of the exercise of economic freedom of individuals was false. Perhaps it is the very concept of "class" — explicitly or implicitly assumed by owners, managers, and workers — that contributes to the social rigidity that both Marxism and capitalism promised to overcome.

Both capitalism and socialism are grounded in an anthropology that is demonstrably wrong. Drucker summarizes this in the expression "Economic Man."

> This failure has the most direct repercussions on the economic sphere. It makes senseless or at least doubtful every institution in political life. But its most profound effect is on the fundamental concept on which all society is founded: the concept which man has of his own nature and of his function and place in society. The proof that the economic freedom of the individual does not automatically or dialectically lead to equality, has destroyed the very concept of the nature of man on which both capitalism and socialism were based: Economic Man.
>
> (Drucker, 1939, p. 45)

Economic Man is the symbol that capitalism and Marxism have chosen to express the nature of man and his role and place in society. The economic sphere is presented as the critical area of society, its core. According to this belief, man conducts economic activity as a means to achieve his ends. Man works for a position, some privileges and some (ultimately economic) rights. This is a *monologic* anthropology, in which the wide variety of facets and dimensions of man focuses on only one fundamental activity, relative to the order of the means. The order of ends is considered unreachable or obvious. In any case, the happiness or well-being that presumably everybody pursues presents a clearly sensitive and material nature.

The historical background of *Economic Man* is found in writings where Adam Smith and his school speak of *homo economicus*. The birth of economic science is a consequence or result of accepting the concept of Economic Man as a representative of the true nature of man.

2.3. Criticism of Mercantilism

In 1942, Peter F. Drucker published *The Future of Industrial Man*, four years before the *Concept of the Corporation*; nevertheless, it advances the theme of what a corporation is and what it is for. While it does reflect on economic considerations, it focuses mainly on social and political ones. In this chapter, I want to explain the theoretical framework in which, from an economic and sociological viewpoint, Drucker moves.

Our author boasts a wide reading of the classics of sociology, political philosophy, and philosophy of law, which he used to shape their own theories. The style initiated in this work, a consolidation after extensive previous books, is simple, direct, often repetitive and somewhat disordered; perhaps one could say that it not very academically structured. There are few carefully documented citations, but the general references and vague indications of his sources are very lengthy. For the sake of direct discussion of the problems raised, he ignores detailed substantiation of relations with the other authors he draws upon.

If one wishes to discuss the positions of Drucker and follow a thread of argument, one must be willing to pay a price: classic interpretive academic rigor. I think it is well worth trying, because the reward is a fruitful dialogue with someone of broad

perspectives and substantial insights, who tries to speak of reality and the theoretical and practical problems offered by reflection.

2.3.1. Social Status and Function: First Thoughts

In the introduction to the 1995 reissue of *The Future of Industrial Man*, our author offers an interpretation that is very useful for our purpose. "*The Future of Industrial Man* is considered by many friend and critics to be my best book. It certainly is my most ambitious. It is the only book of mine that set out overtly to develop basic social theory. In fact, it attempts to develop not one but two social theories. One, it might be called a general theory of society, presents the requirements for *any* society to be functioning and legitimate. The other, it might be called the special theory of industrial society, then applies these general concepts to the special case of industrial society as it emerged in the twentieth century and became dominant with World War II" (Drucker, 1942, p. 9).

With the perspective of half a century, Drucker wants to distance himself from what he calls the "neo-conservatives," who advocate the primacy of the economic sphere over others and preach that only the free market, in addition to producing the best economic results, is the most reliable mechanism for controlling power. Facing them, he aligns himself with those whom he considers the true conservatives — Edmund Burke, Robert Walpole, Benjamin Disraeli, Abraham Lincoln or George Washington, among others — who argue that society has many dimensions; the aim of the art of politics is to achieve a balance between them: "To be able to do this, a society, however, must be a functioning society. It must supply social status and function to the individual. And its power must be accepted as legitimate."

As already mentioned, one of the theoretical distinctions that give greater weight to Drucker's thinking is that presented by the sociologist Ferdinand Tönnies, who in his *Gemeinschaft und Gesellschaft* (1888) distinguishes the community, characterized by position (to be), from society, characterized by function (to do). Reflecting this conceptual bias is the current debate between communitarians — Sandel (1998), MacIntyre (1984), Taylor (1992) — and liberals, most notably John Rawls (1993).

In *The Future of Industrial Man*, our author argues that the institution of industrial society has to be both things: a community that provides status and a society that carries out a function, and it needs a special institution to do so. This he called, four years later, "organisation." It ends by describing the industrial society as a society of organizations; as well as government and employers, there are also universities, hospitals, unions, churches etc., and it is through these that society organizes its functions. Not that he intends to turn the wider society, the nation-state, into a community, as was intended-verbally, more than anything — by fascism. Rather, he tries to avoid the collision and imbalance between an anonymous state and some isolated individuals *thanks to the proliferation* and vitality of what is traditionally called "intermediate societies" that these days have made an unexpected return. Its current validity is not only confined to the economic and

industrial sector, with the great institutional prestige of the company, but also affects the field of non-profit organizations, also called the "third sector" (NGOs, voluntary work, etc.).

While society has undergone profound changes in the last hundred years, during which it has gone from having a predominantly industrial character to being mainly a knowledge society, the needs of the position and function of the individual find their places in the same institution: organization. Indeed, one could say that is precisely the step toward the "post-industrial society" that has most notably underscored the operation of business institutions.

"What does it mean to say that a society works?" An attempt to answer this question by the Nazi regime (the book was written when the United States, then home to our author, had just entered World War II) forms part of the "gamble" of conquest and slavery.

Set in the early 1940s, Drucker stresses that there is still no functioning industrial society, even though the production machinery and distribution system exist. The reason is that Western society survives with some social beliefs, some values, some institutions, and some economic instruments that, however, are essentially pre-industrial. There has been no effective integration of the industrial reality; the mercantile society of the eighteenth and early nineteenth centuries persists. "The history of the conflict between mercantile assumptions and industrial society, including political Jeffersonian politics and Hamiltonian facts, between the market and the system of industrial production, is very hugely the social history of the hundred years before the First World War (Drucker, 1942, p. 27)." Today, this tension has resulted — at an intellectual level — in the debate between republicanism and liberalism, which has a long historical tradition that was established between communitarianism and liberalism.

There are two conditions that a society must satisfy to be so: to equip the individual with social position and function and to legitimize the social order. Position and function reflect the structure of social life; the purpose and meaning of society. Without them there is senseless fragmentation. Legitimate power results in the foundation of that structure: institutions. Their lack leads to inertia, or slavery.

Politics must link values, beliefs and goals with facts, institutions and organizations. The social status and function of the individual is the equation of the relationship between the group and individual member. "It symbolises the integration of the individual with the group, and that of the group with the individual. It expresses the individual purpose in terms of the society, and the social purpose in terms of the individual" (Drucker, 1942, p. 29).

What is important about the position is not whether it is fixed, flexible, or fluid, but that it be defined, functionally understandable and with rational objective.

Drucker provides an explanation of the problems arising with ethnic and religious minorities (e.g., blacks and Jews) to the extent that they lack social position and function, and a functional relationship between the individual and society.

Social role and position rest on legitimate power. "Indeed, legitimate power can be defined as rulership which finds its justification in the basic ethos of society." When defining more precisely what legitimate power is, Drucker avoided entering

metaphysical or ethical depths, not because he dislikes them, but because he believes that the problem of "legitimacy" has to fit into the framework of a given society that possesses its own political beliefs. "Legitimate power is a socially functioning power; but why it functions and for what purpose is a question entirely outside and before legitimacy." The analysis to which legitimate power is subjected is purely functional and specifically distinguishes itself from an ethical choice. It has, therefore, a sociological nature, rather than a moral or political character.

The profile of legitimate power becomes clearer if we project it onto illegitimate power: "Illegitimate power is a power which does not derive its claim from the basic beliefs of the society. Accordingly, there is no possibility to decide whether the ruler wielding the power is exercising it in conformity with the purpose of power or not; for there is no social purpose. Illegitimate power cannot be controlled; it is by its nature uncontrollable (Drucker, 1942, p. 35)." Unlike the force that is the safeguard of illegitimate power, it is authority ("authority is the rule of right over might"), power, that operates in a society that works. Thus one finds here an echo of the classical distinction between the Latin concepts of *potestas* and *auctoritas*, essentially power and authority.

Once Drucker had configured and confirmed the roles of position, social function, and legitimate power in his own "pure theory of society" — which, although it seems to need multiple further details and justifications, allows him to advance in his analysis clearly and in an ordered manner — he was faced with the question: is it the only thing that matters for a society to function and, further, to do so efficiently? He wanted his position to be somewhere in the middle, between what he called "relativistic" and "absolutist." "I cannot dissociate myself sharply enough from the relativists to whom every society appears equally good, provided it functions. But I am just as opposed to the extremists on the other side who brush aside all questions of function and efficiency, and who refuse to consider anything but basic beliefs and ideas. It seems to me not only that this group — we might call them the absolutists — refuse to see that basic values can only be effective in a functioning society. They also refuse to see that there is only one alternative to a functioning society: the dissolution of society into anarchic masses." The masses, precisely because of their lack of status and social function in society, see society as a threat; on the other hand, their lack of beliefs deprives them of legitimate power. We would be faced with *anomie* (the breakdown of social structure) that, as well as the rejection of rules, is indicative of the disenchanted and cynical mood of those who have lost all faith in the values of tradition from which it comes and in the ethos of the society in which they live. This conversion of absolutism to relativism seems paradoxical.

Contrary to the previous state of affairs, where ownership appeared as an effect of social order — that is, men were entitled to property because they enjoyed a certain social position — in mercantile reality this is reversed: property grants status. "It saw in the exercise of individual property rights the social function of the individual. It made economic rewards the socially significant rewards, economic prestige the socially decisive prestige, economic activity the representative activity of the society."

Mercantile society is organized around economic activity, based on individual property rights, and is manifested or expressed through the market. Ownership goes

from being an object of human action to being a vehicle of social action. Social status was previously determined as a relationship between men; now, however, it is the relationship between property and ownership, that is, it is the contract that fixes the position: *In other words, it is through ownership that the individual is integrated into the group*.

2.3.2. Mercantilism or the Role of the Market

The market takes on a previously unknown social significance as it is the area through which everything can become property: land, labor, and money are the raw materials, commodities. Man as Economic Man is capable of social activity in the market because he owns his own raw material: his labor. The market gives the man, as the owner of his own labor, a position and social function. To consider that labor is not a property would require a context distinct from the market in order to produce social integration.

According to Drucker, the two suppositions of mercantile society are the free-trade theory, or theory of international division of labor, and the monopoly theory. "Trade is the complementary exchange of goods on the basis of a division of labour ordained by God and unchangeable by human hands." There will be no rivalry, aggressive competition, because it is assumed that production capacity is unlimited, and access to raw materials, free (which, evidently, is not true. The discovery that natural resources are limited, and the consequent emergence of environmental thinking, presents an epochal character, which, in the late twentieth century overrides the ideologies of the previous century).

On the other hand, according to monopoly theory, if supply is more or less fixed and, regardless of demand, cannot be increased, then the amount of profit will be greater, as output is reduced and prices are raised.

Quite contrarily in our industrial system, production rarely has quantitative and qualitative limits, as we have often seen. Thus, the free market is essentially defined as fierce competition that gradually deepens the differences between the industrialized and non-industrialized countries. Competition that, professionally, is moving to the area of new technologies requires more intellectual knowledge than material processing capacity.

Also, if the offer may be increased as much as allowed by the technological barrier and demand is not infinitely elastic, the most cost-effective policy is to maximize production and minimize price. Drucker brings up an example dear to him: Henry Ford and his Model T.

> The old-line mercantile theory accordingly finds itself unable to attack the new monopolies. For its one argument was that monopolies must be economically inefficient. It cannot see that that in the modern big business corporation it is not the question of efficiency that matters, but that of political structure and power. For the mercantile society knows no social and political problems outside of the market.

The reduced economic and industrial perspective is not lost, but extends to community organizational factors, and, increasingly clearly, to the relationship between the company and its internal environment (human factor) and its external environment (environment and ethical and aesthetic sensitivity).

2.4. The Industrial System

Drucker's political view of the corporation is unique. First, it distinguishes the two most significant social phenomena that have emerged from the industrial system: the plants for mass production, from assembly lines, and corporations. The first constitutes the representative material environment; the second embodies the representative social institution.

2.4.1. The Corporation

Facing the old corporations, whose authority was a delegation of power from political government, industrial corporations receive their authority from the delegation of individual property rights of individual citizens. These rights are the sources of social position and role and of legitimate power. "The modern corporation is thus a *political* institution; its purpose is the creation of legitimate power in the industrial sphere. […] The political purpose of the corporation is the creation of a legitimate social government on the basis of the original power of the individual property rights of its shareholders. The corporation is the *Social Contract* in its purest form (Drucker, 1942, p. 62)." Obviously, the term "political" has here, as often happens in Western culture, a broader meaning than in Latin cultures where political and public (even the state) concepts almost merge.

The corporation is the incarnation of contract theory. Here Drucker comes up with an interpretation in the light of authors like Locke and Rousseau, with the precedent of Hobbes and the subsequent sequence from Kant to the present neo-contractualism of Rawls. He equates the limited liability of shareholders with the fact that a citizen is only responsible for that which he has transferred to the company. He compares the free sale of shares, by which a shareholder terminates his relationship with the company, with the abandonment of a state when migrating (Rousseau). Also, he identifies the right of revolution against the shareholder's (citizen's) government with the system envisaged in Locke's *Second Treatise on Government*. Citizens and shareholders remain sovereign; that sovereignty is the source of legitimate power: it establishes, limits, and controls power. Effective power is exercised by the government and management. "Management has legitimate power because it is derived from individual property rights. And its power remains legitimate as long as it is based on individual property rights." Also noteworthy here is the analogous use of contractualist terminology, whose homeland is the political arena, and which Drucker applies evocatively to the corporate field.

The power exercised by the directors of large companies far exceeds political authorities' capacity to influence in their own communities. The paradox that exists in modern corporations is that the power of management is not derived from property rights of shareholders, nor is it controlled by them; on the contrary, managers wield power that is only effectively controlled by themselves.[2] It is the emergence of a "new class" that sociologists, such as Daniel Bell, have called "techno-structure."

Drucker is inclined to think that this is an abrogation of the rights of the shareholders themselves, who prefer not to be "disturbed" by the burden of having to exercise ownership: understanding the business, taking decisions, selecting management, etc.

In any case, this abdication of individual property rights as the foundation of social power is the most important institutional change of our time. It makes the argument between capitalism and socialism irrelevant. Both recognize that property is socially constitutive and only differ on who should be the owner.

What is decisive is not the rights of ownership but control. "All that matters is control, which today is divorced from and independent of property rights." This change is certainly seen in Drucker's mode of expression: he no longer stresses the "system of private property," but rather "free enterprise" and "private initiative."

Another consequence is that executive power is an illegitimate power. Power is not controlled by shareholders, nor is it accountable to them. In turn, the principle of individual property rights as the foundation of legitimate power has not been replaced by any other principle. According to Drucker, this has led to, or at least induced, the division between real economy and symbolic economy. The first is the factories, machines, workers, and managers: there lies the social power; the second is the stock market, shares, and other securities ("empty ownership rights"), which confer wealth, but not power.

As mentioned above, according to Drucker this situation has not been created by the managers; hence we now talk about the *service* that the management of companies or corporations provide to the community, as something that legitimizes the power they wield. Moreover, the vast majority of managers are honest and capable.

This is about fully legitimizing effective power in the industrial system. It is not, therefore, about a new type of confrontation between *classes*, but a problem of slippage of power within industrial and commercial institutions.

2.4.2. Mass Production: The Assembly Line

The most relevant facet of the new mode of production is not that there appeared a daunting process of automation or mechanization, but, rather, that the worker has

2. In recent years, the role of shareholders and, more specifically, the board of directors in charge of corporate governance, have been reviewed. cf. Cadbury reports or Olivencia.

been automated: "The great innovation of modern industry is a vision: a vision of the worker as an efficient machine, automatic and standardised" (Drucker, 1942, p. 79).

Where is this process headed? Most likely, to replace workers with machines. In the time needed for this to be completed, the greatest social dysfunction occurs with the unemployed, because our society, when strongly identifying social position and function with position and function in the economic process, has no room for the industrial worker who does not play a role, even though he is able to supply goods in abundance: "Above all, the unemployed disintegrated socially. He lost his skills, he lost his morals, became apathetic and asocial. The unemployed may be bitter at first; resentment is still a form of participation in society, if only in protest. But soon society becomes too irrational, too incomprehensible to the unemployed even for rebellion. He becomes bewildered, frightened, resigned and sinks finally into an apathy which is almost a living social death." A description of a reality that is hard to overstate: the passive and disintegrating side of *anomie*.

So far Drucker is able to show how it is difficult, or rather, impossible for an industrial system to supply status and function to the individual and also fails to establish a legitimate social power. How to solve this problem?

It has been claimed that the solution, or at least a palliative, was the economic security offered by the welfare state system with all its enormous capacity to provide goods and services and distribute them, satisfying basic needs regardless of individual income. However, apart from the problems that this kind of social and economic paternalism implies, that aim is not achieved, as it does not build a foundation for a working society, because that economic security does not give position and social function to any individual member.

Nor is the use of unions sufficient. Although they may be necessary, useful, provide training, and serve as "counterweights" to the management of large industrial enterprises, they do nothing to correct the problems. The individual member of a union experiences the same as the single shareholder in a company; both make the decision to become what they are in order to not take decisions, and to transfer the burden of responsibility. This represents an important limitation to the legitimacy of the power exercised by union leaders. Nor do they help the social integration of the individual, as they struggle to prevent workers from being exploited, politically and socially; not so that the factory becomes a community where the employee and the job are functionally integrated.

The survival of society comes from the integration of individuals within it, offering them status and function. On the other hand, in that same society only legitimately established power can last. Both vectors converge toward an ascending social conception, in which social status is not granted in a paternalistic manner, but actively managed by the people. While the source of legitimate power is the agreed freedom of citizens, as proposed by Edmund Burke, it has little to do with the fact that, in the words of Habermas, *administrative power* is legitimate only if it comes from *communicative power* (Habermas, 1997).

2.4.3. Freedom and Power

How to resolve the problem or the issue of freedom depends largely on the answers we give to the question of what it means to say that a society works, that it fulfills its mission?

When Drucker reflects on the role of freedom he does not intend at any time to develop a psychological, metaphysical, or ethical theory about what human freedom is. His objective is simple and modest: he wants to stress the need for freedom as the organizing principle of social life, prevent the dangers that politically beset the responsible exercise of liberty. For this, he distinguishes two areas close to the exercise of freedom: the social and political.

Industrial society requires freedom as a necessary condition if individual members are to be given status and function, and seeks to offer a legitimate foundation to the exercise of power.

Let us briefly outline what Drucker understands by freedom: "It is a responsible choice. Freedom is not so much a right as a duty. Real freedom is not freedom from something; that would be a licence. It is freedom to choose between doing or not doing something, to act in one way or another, to hold one belief or the opposite. It is never a release and always a responsibility. It is not "fun" but the heaviest burden lay on man: to decide his own individual conduct as well as the conduct of society, and to be responsible for both decisions."

In this book, we describe two of the cornerstones of the simple concept that Drucker outlines on freedom: choice and responsibility. Without these two poles of human action freedom is an illusion. However, according to Drucker, another anthropological feature is necessary in order to discuss human freedom with any sense. He offers us the Christian tradition, to which Drucker often returns, and does so with a freshness of approach that gives immediacy to the treatment of even the most difficult issues.

> The only basis of freedom is the Christian concept of man's nature: imperfect, weak, a sinner, and dust destined into dust; yet made in God's image and responsible for their actions. Only if man is conceived as basically and immutably imperfect and impermanent, is freedom philosophically both natural and necessary. And only if he is seen as basically and inescapably responsible for his acts and decisions, in spite of his imperfection and impermanence, is freedom politically possible as well as required. Any philosophy which claims perfection for human beings denies freedom; and so does a philosophy that renounces ethical responsibility.
>
> *Philosophia perennis* (perennial philosophy) offers, as one definition of freedom, the faculty that man has for good (*bonum*). Because man is imperfect and sinful, he therefore chooses something bad; this is not exactly a full exercise of freedom, although it is a manifestation of

> freedom. Freedom is to choose what is good, even if *good* is never immediately present in an absolute manner, which would then be impossible to deny. Good usually takes the form of goods, often limited, from which one must choose, while always aiming for the fullness of Good. In this sense, the above-mentioned reflection is not completely accurate, but expresses, with remarkable acuity, the theoretical and practical importance that Drucker gives to the consequences of what is, biblically and theologically, Original Sin. The psychological assessment of the imperfection of man, his difficulty in establishing what is good, and being sure of it, promotes the possibility of choice with a degree of uncertainty.

Indeed, in the shadow of the Christian tradition is where Drucker is seeking to develop his theory, that what essentially distinguishes freedom is not perfection or efficiency, which are presupposed to answer Plato's question: what is the best government? Instead it is decision and responsibility. Referring to the Sermon on the Mount, we can answer the question: What is a free society?

Choice and responsibility are given in the social field. Only the social sphere can be constitutively free or not free. Freedom lies not in laws, it is not the result of a legislative decision, it is not born of a constitution however perfect it may be; instead it stands on social beliefs and institutions, on the fertile *humus* from traditions lived and acquired over the years. If freedom does not previously exist in the social sphere, it cannot arise from political institutions, however perfect they may be; for they are mere means to carry out the decisions and objectives of society. Power is a valuable tool that enables decisions to be put into effect, but it is no more than that. "It could not institutionalize freedom in the forum of responsible self-government. But if there is no freedom in the social constitutive sphere the most perfectly free political institutions could not establish a free society. They would have nothing to do and would degenerate for lack of function. […] Similarly power distributes rank and determines relations within society; it is a means of internal organisation. But the end of society is always an ethical purpose" (Drucker, 1942, p. 117).

To achieve that ethical end there must be organized government; so that this government is fully free, there must be the active participation of free citizens who voluntarily assume the weight of self-governance.

Freedom best ensures its survival if we distinguish between those drivers or sources of power that compete, mutually controlling and limiting each other, forming a balance: namely, the political organization and the social organization.

Historically, there has been neither more nor less than a complementary contrast between the Kingdom of God and the temporal government, between common law and the law of King and Parliament of the Stuarts, or between the judgments of the Supreme Court and the Acts of Congress of the United States; all different versions of the more general juxtaposition of the *republican principle* and the *liberal principle*.

This separation makes it effectively possible that a free society can actually exist and work. Indeed, the institutions of mercantile society have contributed to blurring this separation when they have tried to survive, as organizing principles of power,

in the industrial system. The insufficient role played by the market has facilitated the growth of the bureaucratic and centralized state: the great enemy of the fathers of the Constitution of 1776.

Drucker suggests that somehow we must return to the roots of the conservative counter-revolution of 1776 and 1787 to provide the industrial system with the values, beliefs, and abilities that enable a new social integration, a free society that functions at the margins of absolutism and totalitarianism.

Physical reality is completely different today from 1776 to 1787. "And that means different institutions of society, different organs of social power and control, different social, economic and political problems. The organising principles are the same, truly conservative principles. But they will have to be used for a new integration of a new society."

The inadequacy of the principles provided by the mercantile society means that economic success is insufficient as an integral goal of life; economic activity cannot hope to remain the basis of social life; freedom and justice cannot be achieved (performed) within and through the economic sphere. Economic Man has reached the twilight of his life. No wonder that Drucker is the first student of the society that spoke of *postmodernity*.

To overcome the crisis that supposes the survival of the mercantile society in the industrial system requires new concepts, concepts of human nature and of the goals of society. And this is prior to any organized political action and any institutional reform.

The *modus operandi* suggested in its basic lines is as follows: use existing institutions, changing what is appropriate and replace those that prevent the achievement of the desired objective with new institutions; prevent a centralized bureaucratic despotism, by establishing local self-governance in industry. In this sense, the factory has become a self-governing social community, performing a role similar to that played by the populace in a rural society and by the market in a mercantile society.

In Drucker's words:

> Industrial society can function only if the plant gives a social status and function to its members. And only if the power in the plant is based on the responsibility and decision of the members can industrial society be free. The answer today is neither total planning nor the restoration of nineteenth century *laissez-faire*, but the organisation of industry on the basis of local and decentralised self-government. And time to start this now, when workers and management, producers and consumers are united in the one purpose of winning the war.
>
> (Drucker, 1942, p. 208)

Chapter 3

Theory of the Corporation

3.1. Introduction

In his third American book, *Concept of the Corporation*, Drucker shows his skill as an original thinker in applying political analysis to the study of corporations; the social institutions that guide human efforts toward a common goal. He attempts to find ways to describe the human relationships between members of the corporation, and between this and other citizens.

The industrial revolution and the technology that developed from it have given birth to a type of institution that decisively shapes the way society is structured: the great industrial company, large integrated factories using mass production systems. This type of organization determines the financial and technological conditions under which the economy works, and gives rise to responses like, for example, the birth of trade unions and of administrative bureaucracy.

> What we have to describe and analyse is (a) the large technically integrated unit that our technology requires, and (b) the specific legal and financial institution into which the technological unit is arranged and by means of which it manages to become socially and economically efficient.

From the start, Drucker called this *Big Business*; "corporation" in its broadest sense. The Big Business is an undeniable reality of modern industrial society and the social institution that corresponds to it is the corporation.

Concept of the Corporation (1946a) repeatedly refers to the revolutionary effect on the economic production system caused by the World War II and how corporations brought it about to the extent that they were the leaders and set the economic and technological conditions under which production increases took place. Also, the corporations set the standard in labor relations, wage policies, etc., which later influenced the whole country. To a large extent, trade unions and state administered bureaucracy were responses to the phenomenon of the corporation.

Applying political analysis to the study of what Big Businesses are, how they function and thus their social structure, the corporation is distinguished by the following three areas:

(1) The company as an autonomous institution has rules, structure, and its own objectives. In this area, there are three types of issues: those related to policies, to leadership and the objective criteria by which to measure both.

Policy is understood to mean a long-term agenda and certain rules of behavior and operation. Policies must be flexible so that they can adapt to changes and deal with new issues.

With regard to leadership, the point lies in having an adequate number of leaders, in determining how they should be trained and, following this, how they should be evaluated. ''Perhaps the most difficult and pressing of these leadership issues is converting a specialised technician, needed in the daily management of the business, into a well trained executive, capable of judgement, which is required for policy-making positions''.

(2) The second area is that of the company as a social institution that embodies and strengthens the values and beliefs of the society it serves.

The corporation has to make it possible to satisfy the demands that society makes in terms of carrying out its underlying values and beliefs: equal opportunities, fairness in rewarding effort and recognition of the right of each member of society as a citizen and the possibility of him being socially fulfilled.

(3) Finally, we must recognize the company as a social institution that contributes to the stability and survival of society. Or, put another way, can the corporation's own interests and those of society be aligned in the pursuit of benefit and service to society?

The three areas are closely linked and it seems impossible that the corporation can successfully play its role as a social institution if it does not simultaneously do all three. Political action must seek harmony in solving organizational issues and order at each level, starting from the basic principles and policies themselves. The result will be a society that works.

The corporation must be organized in such a way that meets its social obligations through the pursuit of its own interests: ''An industrial society based on corporations can only function if the corporation contributes to social stability and the achievement of social goals, regardless of the goodwill or the social conscience of the individual directors of the corporation.''

Harmonizing the interests of society with those of the corporation does not mean removing society's right to limit the economic freedom of the corporation in order to safeguard other more important matters, nor does it imply hampering the stability and survival of the corporation to supposedly defend social stability.

Drucker understands the concept of ''harmony'' as a rediscovery of what the *laissez-faire* school of the eighteenth century stood for when they tried to overcome political theories based on pure reason and Machiavellianism, by confronting each other within the framework of the free market.

The mistake made by the advocates of *laissez-faire* consists in thinking that harmony can be established naturally and not as a long-awaited result of statesmanship. In turn, this has given rise to the fact that both idealism and pragmatism have extolled only one of the three areas, at the expense of the two remaining ones.

Idealism, on the one hand, highlights the beliefs and goals of society, to the detriment of the autonomy of individuals and their institutions. Pragmatism, on the other hand, stresses force as a legitimate social regulator. Faced with this situation, Drucker supports the idea that the leaders of a free society go back to the concept of harmony and a societal philosophy which is not monolithic or pluralistic, seeing the one and the many, the whole and its parts, as complementary. And this means that both our statesmen and our business leaders must find solutions to the problems of industrial society, which serve at the same time and equally to assist the functional efficiency of the corporation, the functional efficiency of society and our hopes and basic political beliefs.

3.2. The Corporation as a Human Organization

During the nineteenth century, a special emphasis was placed on natural resources and technological inventions in explaining the modern division of labor and the corresponding methods of industrial production, so insufficient attention was paid to the principles of the organization of people, that is, the underlying social organization.

In 1946, Drucker argued that "it is important to realise that even the technical problems of modern industry are not technical in the sense of mechanical inventions, but mainly human organisational issues focused on a technical purpose."

Without this perspective it would be very difficult to explain the amazing technological changes that led to unimaginable increases in military production during the first half of the 1940s, to which U.S. industry became committed within a very short period of time. History tells us that they succeeded because a human organization existed or was created.

> We argued in terms of *existing* raw material supplies and *existing* plant capacity and failed to realise that we are capable of producing new raw materials, of designing new machines for new purposes and of building new plants in practically no time, *provided that human organisation is in existence*. Even today, when we have realised the potentialities of the mass-production principle we usually fail to see that it is a principle of organisation that achieved the production miracle, and not a principle of gadgeteering.
>
> (Drucker, 1946a, p. 22)

There are many texts in which our author insists that the new method of mass production requires a new social order, a principle of human organization different

to that previously prevailing (Drucker, 1950a, pp. 14, 36, 42; 1969a, pp. 175–198, Chap. 8; 1954, pp. 202–205).

It is obvious that an essential aspect of any industrial organization is human organization, but in the case of mass production it is even clearer that the focus lies on the type of relationship that may be established from person to person and from the person to the mechanical process, which itself is not solely an assembly line. This predominant weight acquired by man in modern industry and, as such, its organizational embodiment, the corporation, makes it desirable to develop the social structure of the company.

As mentioned above, for the first time in his writings, Drucker focuses on three pillars of efficient organizational functioning: leadership, basic policies, and the objective criteria of leadership and decision-making. This study throughout will try to show the subsequent evolution that has occurred in this area.

Of the three, Drucker gives priority to leadership. He defends that the ability of an institution to produce leaders is more important than its ability to produce efficiently and cheaply. Efficient and cheap production is always possible where you have an organization and human abilities. But without leadership that is entrepreneurial, responsible, capable, willing, and able to take the initiative, even the most efficient institution will be unable to maintain its efficiency and is even less likely to be able to increase it. He does not believe in a leader being a genius or a "dictator" (one man rule). What conditions must be met in order to facilitate leadership development?

The first requirement is that, for the corporation to survive, a leader must be succeeded by another leader in a legitimate way and pretty much automatically; but it should also be clear who is boss and why, and the selection criteria applied must be understood.

Another group of requirements focuses on the environment of trust and loyalty in the organization, expressed in a certain *esprit de corps*, precursor to the concept of business culture where the objective of the institution comes above the objectives of each of its members. From the trust and loyalty that the leader has instilled among his colleagues and from that he in turn returns to them, an institutional conduct is created, the effect of which is of vital importance: it will increase positive aspects while lowering the impact of defective or less efficient operations, eventually even getting rid of them. In this environment, it is not necessary that the leader be a genius or superhuman, since the organization will make up for him when necessary, it will help him get further than he would be able to on his own. According to Drucker, it is typical for the oldest and most successful institutions to encourage moral and intellectual growth in their members, beyond their original capabilities.

An institution, in addition to strengthening the abilities of its members, must encourage their initiative and development; also it must reward the willingness and efforts to take on responsibility with internal promotion and social and financial recognition.

Members of organizations learn from the messages that management sends. A clear message that is difficult to distort when perceived as an objective is how the achievement of good and desirable goals should be rewarded, and, conversely, how failure to achieve such goals should be penalized.

The system of promotion and pay based on performance and targets will be described and discussed later in this book. It is sufficient for our present purpose to make it clear that Drucker was already thinking of this motivational tool very early in the development of his thesis, which he later considered in detail throughout his works (Drucker, 1974f, Chaps. 16, 32).

The usefulness of this approach in evaluating how an assignment is undertaken is clearly visible when applied to the question of leadership succession. In order to ensure the strong survival of the institution, this successive step should be based on merit, not on an intense power-struggle, favoritism or deception. The successors to leadership must have been amply proven as efficient, in addition to having been trained in the responsibilities involved in taking such a position. Education, which must shape a manager who, above all else, is willing to fight for the good of the institution, should build on the experience that manager has gained throughout his career. This calls for the corporation to have positions that offer the opportunity to progressively develop leadership roles for there to be different levels of management within the corporation.

It is in this context that Drucker introduces the problem of division of power dealt with by every institution, an issue that can be expressed in the comparison between autonomy or decentralization and centralization.

The modern industrial production method, mass production, meant a significant saving in the number of craftsmen, who were replaced by unskilled labor, which, in turn, had to be managed and supervised. This state of affairs emphasized the urgency with which the question of leadership training at various levels of the corporation had to be raised and resolved and, as such, the contrast between autonomy and decentralization, and centralization. It would be increasingly necessary to have a growing number of managerial staff, from the foreman to the leader at the top of the corporation. It would be difficult to find leaders from outside the corporation.[1]

Finally, the training a leader should receive within the corporation has to strike a balance between expert knowledge and a general overview in order to understand the business. For a large company, a corporation is much more than a business; it is necessary to have an encompassing vision that only a person with an overall perception can offer. Interestingly, the training to be expected in a corporate career will place more emphasis on specialization, so that that it may even hinder the vision of the whole company. To this we must add that reward in terms of promotion and salary is often linked to the results achieved through this progressive specialization:

> In the social pattern of mass production, however, the difference between operation and operation, between job and job is so profound,

1. "The most natural opportunities (to gain experience in leadership) available at the moment I believe are in small businesses, in the activity of political parties in the community and, perhaps to a lesser extent, in trade union leadership. These resources are not enough to supply complete leaders. Hence we need to use artificial methods to provide extensive experience as is being tried to some extent in organizations" (see Barnard, 1940).

> the specialization carried so far, that the worker can have no immediate understanding, usually not even a superficial knowledge, of the next job. The relationship to the product is even less clear. The whole and the relationship of the individuals to it is visible only to the few people at the top — the conductors, to use the analogy of the orchestra. They see the pattern, understand the order, and experience the vision. But the great many below do not unaided see anything but chaos, disorder and non-senses; and the further they are away from the top, the less able are they to see sense, order and purpose.
>
> (Drucker, 1950a, p. 25)

As we can see, balance is, at the very least, unstable, and where a company doesn't want people with insufficient overall vision to get to leadership positions, new promotion criteria and appropriate training systems must be thought up.

General Motors sought to resolve this issue by creating the General Motors Institute in Flint, Michigan. It imparted programmes similar to a "liberal education" tailored to the age and maturity of the executives chosen, who would continue working at the same time. Drucker saw this initiative a way to combine the specialist training of engineers with the more generalist training, which was very useful for management positions.

Let us now to review how Drucker, in his younger days, understood the issue of basic policies. The corporation must have a set of policies that overarch decisions and direct the actions of its members toward the achievement of objectives and the survival of the corporation. The process of defining these policies must be clear, so as to engage the will of the people in the organization, who when comparing their actions to these policies, will have little doubt whether or not they are contributing to the general interest of the corporation, expressed in the policies.

Basic policies should be characterized as founded on basic principles, yet, at the same time, be flexible enough to adapt to changes. They must combine the survival of the corporation as an administrative unit and its efficiency as a productive unit. Finally, they have to bring together the long-term goals of the company and its management on a day-to-day basis. As Drucker often emphasizes, there is always a latent conflict between the administrators, who define efficiency in terms of the perpetuation of the administrative machine, and the "doers" who define efficiency in terms of the aims and purposes for which the institution exists. These conflicts are not only inevitable but also necessary, and no institution can function unless these four trends are equally represented and balanced. Therefore, the corporation requires an executive body that makes policy depending on which of these conflicts need to be resolved.

It was not until the publication of *The Practice of Management* in 1954, that Drucker developed a more systematic thesis on the need to have impersonal and objective criteria to assess the performance of a corporation's managers (Drucker, 1954).[2] In 1946, he simply highlighted the problem, suggesting that the criterion of the market share gained by the company may be useful for small companies, but suffers from significant shortcomings when applied to a corporation. In this case,

the focus would be on the picture of a whole corporation, so does not sufficiently distinguish between the corporation's constituent divisions and, therefore, does not supply the information needed to properly assess the executives in those divisions. To this we must add that it also fails to distinguish between those good results that can be attributed to efficiency and competitive strength, and those outcomes that come from a favorable change in the environment that hardly tell us anything about the capacity of the corporation.

I would like to conclude this section with a comprehensive quotation in which our author describes how General Motors Corporation was run, a management style that left an indelible mark on Drucker's basic concepts.

> Through measuring the efficiency and achievement of both policy decision and administration against the objective criteria of cost and efficiency, of return on the invested capital, and of competitive standing in the market, General Motors aims at the elimination of personal and subjective elements in the relationship between the boos and subordinate, central management and divisional management. The questions, how efficient is a man, how successful is he, and how important is he to the company, do not have to be decided on the basis of a subjective preference. In fact, they should not have to be decided at all; they should be answered clearly by the objective yardstick that records efficiency achievement immediately and automatically. The president of the company does not have to tell a divisional manager that he is not satisfied with him; the divisional manager knows it anyhow, by looking at the figures based on his own cost and market analysis. Similarly, the president does not have to justify a promotion to the colleagues of the promoted man; he has the man's record which is known within the company. Also the objective yardstick should limit the personal element in policy decisions. If a man's opinion or suggestion is overruled it should be not because of the higher rank of the boss, but because the facts are against him. That would make it possible for superiors freely to admit mistakes to their subordinates — perhaps the most important thing in human relations. In fine, this objective yardstick should now only make possible informal and friendly personal relations, a spirit of teamwork and a free and frank discussion. It should also — at least, that is what the people in General Motors claim — make the organisation of management as a team on a federal basis natural and almost inevitable by erecting strong barriers of fact against action based on nothing but seniority and rank.
>
> (Drucker, 1946a, pp. 70–71)

2. Chap. 8: Today's decisions for tomorrow's results.

3.3. The Corporation as Social Institution

Addressing the analysis of the corporation from political philosophical and sociological points of view, Drucker makes it clear that his intention is to identify those beliefs and objectives of American society that are rooted in Christianity and consider how the corporation can contribute to their attainment.

According to our author, it can be seen from American history that society came to be an end in itself, avoiding, on the one hand, the deification of the state, nation. or race as an absolute value, and, on the other, and becoming diluted to the point of law becoming devoid of any content or ethical significance. Society is seen as an important means of helping individuals to gain property, ultimately related to their happiness and moral objectives.[3]

Unlike what happened in Europe during the modern age (seventeenth and eighteenth centuries), in America, social philosophy did not cut its ties with Christian tradition, nor did it polarize hermeneutical options of society: a means to achieve ethical objectives as opposed to the deification of politics and its subsequent materialization of society.

The American is a dualist, synthesizing idealistic and materialistic options to the extent that "he understands social institutions and material goods as ethically valuable because they are means to an ethical end" (Drucker, 1946a, p. 132; 1957b, p. 50). Indeed, no institution and, in general, no society can survive without a considerable degree of ethical efficiency. Drucker believes that it is in the social and economic sphere where basic ethical premises and beliefs have to be complied with and fully realized. American political philosophy breaks this down into two statements: a promise of justice or equal opportunities and a promised development of the individual or their status and function. The result is a middle class society that is strong, vibrant, and innovative. Here middle class does not so much refer to an economic and social level as a mindset: everyone has the opportunity to live a useful life that contributes to the community as well as allowing them to gain rank and position as an individual.

The difficulty arises precisely when we try to combine equal opportunities and commitment to the development of individuals, which appear to be at opposite ends of the spectrum. One principle requires that each individual has a status and function, because he is unique as an individual, while the other principle requires that his status and function depend entirely upon his contribution to society. The first leads to the need for each member find his own meaning in society, considering society as existing solely for him. The second leads to a person's social position being

3. With these pages we do not in any way intend to systematically address some difficult issues, but rather to rebuild the thread of Drucker's reasoning and present his social reflections. As can be seen, our author sacrificed a great deal of scientific rigor in order to capture an intuition that he then explains very simply. The value lays in the originality of these intuitive thoughts, the conclusions that flow from them, and their interpretive value. Again: Drucker is not a typical academic.

based on his ability and effectiveness as an individual; that is the individual is judged only in terms of his social contribution.

The art of governance must achieve a synthesizing balance between social anarchy and the hideous hierarchical pyramid of a society in which the weak bear the brunt. According to the thesis repeated by our author, contributing to the development of the form and structure of society that allows this balance to be achieved is also a task of the corporation as an institution representative of industrial society.[4] It should contribute to the satisfaction of society's promises and beliefs, conferring rank, and social status within the community of the industrial organization, safeguarding the fairness of equal opportunities. This task of achieving social objectives, difficult in itself, must not be carried out at the expense of subordinating or weakening productive efficiency or economic goals, nor should the opposite occur, where social goals are considered second to the profits that ensure the survival of the corporation. The pursuit of success in meeting these twin responsibilities should contribute to mutual strengthening, toward social and economic efficiency. Otherwise the ethics of society and the structure of its most representative institution will be in conflict; something that can only lead to the moral decay of society or the functional disintegration of the company.

Achievement of rank and performance of duties is attained through equal opportunities because individuals contribute to the running of the company with their effective and efficient work.[5] In industrial society the individual is made and dignified through work; it is through his contribution that he expresses his unique, entirely irreplaceable character. The fact that the corporation is organized hierarchically does not contradict any of the above, because the position of power has nothing to do with the essence of what is important: equality in so much as all members of the corporation compete for its success.

The industrial corporation consider all its members to be important, not through rhetoric for psychological motivational purposes, but because it actually thinks that they are important and treat them accordingly.[6]

Once this concept of equal opportunities is established along with its translation into a status and role that are socially recognized through working in an industrial corporation, the question that arises is that of reward and promotion or progress.

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4. According to Drucker, "The company is an economic, social and governmental institution and these three characteristics coexist. It is easy enough to find economic, governmental or social solutions to the specific problems of the company. But the company cannot accept any solution unless it satisfies these three aspects at the same time. A solution intended to resolve a conflict in the economic sphere that violates the requirements of the company as a government or social institution is unacceptable, particularly because it does not lead to a practical purpose. It can only aggravate the same difficulty it is trying to solve."

5. Drucker wrote *The Effective Executive* (1967), where he deals with the distinction between effectiveness and efficiency he took from Chester Barnard. We will discuss this in the chapter on the theory of management. As a precursor, we would say that effectiveness is focused on the outcome and efficiency is concerned with the means. Something can be effective without being efficient.

6. As Alejandro Llano said, they are valued not for *what they are* but for *who they are*. See Drucker (1957b, p. 180).

Should these, like opportunities, be equal, or, precisely because no discrimination occurred with respect to the options available, should the reward be evaluated in accordance with certain criteria? And in the latter case, what characteristics should these criteria have?

Intuition leads us to think it obvious that each person's dignity requires him be treated fairly. A specific consequence of that fair treatment in the industrial corporation is to offer each person equal opportunities to advance in the corporation. However, what is not obvious is that equality should be extended to the reward. Rather, it is clear that the automatic response that leads to equality in reward based on equal opportunities is unfair. The argument that should be applied (which we will not develop here) is based on the role played by human freedom, the freedom to put more creative effort in, which often produces better work, better results and, consequently, the gradual assumption of greater responsibilities. Justice, the same reason that led us to believe that the right of equal opportunity is unassailable, leads us to defend the principle that reward has to be proportionate to the performance of the task and the responsibility involved, in such a way that unequal performances and responsibilities must reflect unequal reward.

The issue we face now is how to measure this inequality fairly. What criteria should be used to determine rewards and promotions within the corporation?

The translation of this into specific business policies on the ethical principle at stake is a social function that is included in the most genuine responsibilities of managers in an organization. Moreover, this is not limited to top management, but rather starts there and cascades down.

Drucker offers a number of characteristics that help to set some criteria, which may be useful when making decisions on equal opportunities and fairness in reward and promotion. First, we must avoid the often-widespread view that management should remain distant from the real situation; a situation that results in the criteria applied being surprising, arbitrary, and irrational. The only way to counteract this impression is to show that the opposite is true, with facts that are tangible to the worker. As a consequence, policies that are comprehensive, reasonable, impersonal, basic, and flexible to apply are needed, so that in making a decision on promotion, criteria based on a person's achievement, ability, and character are used. These factors are, without doubt, somewhat elusive and lead toward routine evaluation, however, they provide us with the most complete information.

Secondly, we must avoid placing excessive emphasis on formal education prior to joining the company, to the detriment of ability, for example. It would be easier for the person who has to decide on the promotion to rely degrees and qualifications, rather than make the effort to evaluate the employment of abilities.

Finally, Drucker suggests enhancing general training within the corporation. In a large company, the temptation for employees to specialize too much from the beginning is very strong and leads to a very high risk of not being able to place them in the position best suited to their character and ability, or to exclude or overlook them. A policy that encourages general training through internal rotation will provide objective evidence that leads to fairer decision-making.

3.3.1. Status and Social Function

So far we have seen the way in which the industrial corporation (the company in general), as a representative social institution and influences the configuration of industrial society (society in general), and vice versa, is a milestone in Druckerian reflection.

Societal coordination has an important ally in the corporation: "The enterprise is however both subordinate to, and dominant in, society. It is representative and decisive but an institution of our society. This means that the beliefs, values and promises of society are binding upon the enterprise. It means also that the extent to which the enterprise succeeds or fails in living up to those beliefs, values and promises will decide the success or failure of our society" (Drucker, 1950a, pp. 154–155). Societal cohesion benefits from the extent to which the corporation complies with the beliefs, values, and promises of society. On the other hand, if fulfillment of these is inadequate or insufficient, a lack of confidence in the corporation occurs and members of society would begin to look to other institutions to trust with their loyalty. This would end in a crisis of society.[7]

In the industrial corporation, employees have reached hitherto-unknown levels of economic independence, as the remuneration traditionally offered by small businesses before was much less and was associated with higher risks. However, the perception of independence is not limited to the economic side of things. Man, as Pérez López (1993) has shown, needs to cover irreplaceable motivations in addition to his economic ones in order to feel satisfied and completely fulfilled in his work. Thus, our author speaks of how independence produces social and psychological satisfaction.

In this context, the discussion on the fulfillment of fundamental social promises, values, and beliefs by the industrial corporation becomes increasingly meaningful. As we have seen, Drucker grouped these into two categories, which he calls "status" and "function." Equal opportunities and therefore justice are linked to status, while function relates to participation in citizenship and, consequently, the dignity of man.

In the following text, we are going to focus on the analysis of these concepts as they appear in *Concept of the Corporation* (1946a) and in many pages of *The New Society* (1950a). Later, in *The Practice of Management*, Drucker revisited the same thesis, albeit he refined it further and applied it directly to business management.

When analyzing the concept of work, his entire subsequent output would owe its existence to the conclusions reached in these works on the role that the industrial corporation should play in the provision of social status and function to its employees.

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7. Here Drucker is referring to society that came out of the industrial revolution, based primarily on industrial corporations. However, this conceptual framework could perhaps be used to analyze the mistrust aroused by high, long-term unemployment in the present economic labor system. Think of the social phenomena in France in the autumn of 1997 and winter of 1998, which later gained followers in Spain.

It will be more difficult to avoid social "proleterianization" if the attempt to solve the problem of providing the workforce (the members of the corporation) with status and social function is only made through increasing pay, because the only concern of industrial society is economic progress. If this leads to the identification of progress with promotion, then the "opportunities" will gradually reduce as one ascends through the hierarchical pyramid. Remuneration and promotion are exclusive goods, which are characterized by the fact that the more they are shared, the more they diminish and disappear. This is unlike other compatible goods, such as knowledge or friendship, which are enhanced by being shared with other participants.

The problem is compounded where the reduction in opportunities ("shrinking opportunities") is not directly and exclusively concerned with promotion options, but rather where the promotion opportunity is identified with the opportunity that members of the corporation have to fulfill themselves.[8] If only members who move up through the company and increase their salaries gain social status and function, then industrial society and its most representative institution have a serious shortcoming.

How did this situation come about? Our author believes that was an overreaction of the market philosophy, derived from *laissez-faire* economics, which pitted the industrial corporation against the old regime. This defined the social position of a person solely in terms of a politically determined social status, which was perceived as socially unjust. It was fairer to believe that the social status and function of an individual was solely the result of economic progress.

The unilateral reestablishment of justice denied the vast majority of a full sense of achievement in carrying out their work. Bringing together status and justice, therefore, emerged as a major challenge of the modern industrial corporation as a social institution.

Let's go a little deeper into the explanation of the causes of workers' lack of true satisfaction and personal fulfillment when working for an industrial corporation. Why did the industrial system fail in an aspect as crucial as that of providing greater social status and function? What are the underlying reasons that make *Modern Times* by Charlie Chaplin an example or a prototype of the spiritual environment of the industrial system?

For Drucker, the root of the problem does not lie in the mode of production employed by the industrial corporation on the assembly line. Thinking that rigid subordination of man to the machine, where the lack of creativity and the repetitive monotony of recurrent muscle movements deprives the employee of the satisfaction longed for, only provides us with a partial answer that does not reflect what really happens.

Consider for a moment the argument of monotony. In itself it is not only no abhorrent, but it may even be highly desirable for one to be wrapped up in a certain

8. Again, the merit of these reflections, like many of Drucker's thoughts, also lies in the fact that they were published over 50 years ago.

monotonous rhythm in order to carry out one's work calmly. It is monotony that tends to let us know what is going to happen: one thing after another. The alternative, a break in this succession, will be perceived as insecurity. Only a fool can live with this constant fragmentation, resulting from the absolute dissolution of monotony.

Personal psychological makeup is the guide to know the adequate mix of monotony and insecurity that each person can stand. However, the number of workers willing to leave their secure environment and take the risk of being creative is lower than those capable of taking on responsibilities (really having the ability and capacity to be creative in a sustained way over time, basing action almost exclusively on your own internal resources, is something truly extraordinary).

What is important, therefore, is not the monotony of work or unidirectional physical effort, but the social and psychological consequences of the fact that the worker on an assembly line does not maintain a sufficient relationship with his own work and its result, the product, to find meaning and satisfaction in what he does. Often, the worker doesn't even have a clear idea of what he's doing, or for what purpose; only that he gets paid for it. The worker does not get the satisfaction of the citizenship in his work, because he has no citizenship. In the past it was known that a man who worked only to make a living and not due to the meaning of the work itself, was not, nor ever could be, a citizen.

In classical literature on business management, the experiment conducted in the late 1920s in the Western Electric Company in Hawthorne, IL, is often used as a reference. This experiment sought to study the behavioral reactions of workers in the performance of their tasks as the external conditions worsened. Interestingly, the productivity and satisfaction of the female workers increased in proportion to the attention paid to them by the consultants running the experiment. Here is Drucker's comment from just over a decade later:

> These experiments thus showed clearly that it is not the character of the work which determines satisfaction but the importance attached to the worker. It is not routine and monotony which produce dissatisfaction but the absence of recognition, of meaning, of relation of one's own work to society.

A comparable situation is that experienced during the war economy caused by World War II. Even the most routine workers, the least relevant on the assembly lines, took on a commitment and a personal link with the affected; something hard to achieve with salary as the only resource. The explanation was obvious: workers were enjoying a status and function, where they were socially recognized for their responsible efforts as members of a society at war. It was a way to help defend their country.

For Drucker, the role played by unions was not the right one. Faced with the challenge of integrating industrial workers into the new industrial society as citizens, trade unions chose to take on a role that could best be described as paternalistic.

Unions have been unable to provide this social integration, to help society to find ways of offering the worker the quality of citizenship. They have focused on being effective in the fight for financial objectives: wages, seniority, reduction in working hours, union participation in decision-making on corporate strategy (policies, prices, profits, etc.). The defensive attitude of the unions in terms of protecting the worker against management and companies has also not helped.

3.3.2. Social Status and Function of the Foreman

The book *Concept of the Corporation* (1946a), in addition to being a careful reflection on relevant aspects of industrial society and the functioning of organizations, is also a pioneering study on the global understanding of the management of a large corporation, General Motors. Thanks to this, the reader is confronted with practical applications of previously explained theoretical principles; specific examples that illustrate the theory and, in turn, are fully explained by it.

This is what happens when Drucker applies his analysis on equal opportunities and social status and function to the specific cases of the foreman and the worker at General Motors.

Let us begin with the figure of the foreman as our author saw it in the 1940s (*Concept of the Corporation,* 1946a) and early 1950s (*The New Society*, 1950a). Traditionally, the foreman was considered the top supervisor. He occupied a key place as he was a link between the group of managers and all workers, in such a way that the workers had the opportunity to be appointed foremen and get promoted, reaching the executive group. All this had a social translation:

> On this unique position of the foreman depends to a very large extent American middle-class and social structure in an industrial age. If we want to maintain this middle-class society, we must maintain the traditional position of foreman. That means, as far as the foreman is concerned, that we must maintain the opportunities to rise into management and the middle-class function and status of foremanship.
>
> (Drucker, 1946a, p. 164)

The responsibilities of this "bridging" figure are of two different types. As a supervisor of workers who are experts in a task, who have gained skills over the years, he should know the work well, although he does not necessarily have to know the tools or specific techniques involved, which will come with time and experience. Furthermore, as a first line of supervision, it is desirable that he meets other requirements and qualifications: knowledge of the organization and its processes, and understanding of policies, that is, he has intellectual capabilities beyond the practical skills. While time is needed for the first, for the second a basic education that provides knowledge of the principles is required. What seems more difficult is to

ensure that the learning achieved through years of supervisory experience (in which the foreman has to help his workers with the specific problems they are faced with) does not make the training he needs in order to be a potential manager in the future more difficult.

The evolution that this figure has undergone from a clearly executive position-entailing the management of a department as if it were his own company, running the risks connected with production decisions, enjoying authority, and being responsible for recruitment (not in the commercial and financial fields, reserved for the management) — to a point where the foreman has little authority and influence in the running of the company. It will be difficult for him to develop management skills like this.

Let's see how General Motors tried to resolve this situation. According to a study by our author, the company was aware that it had to devise a package of rational, comprehensive measures that would allow all foremen to be promoted on an equal footing. This would lead to the recognition of the much sought-after and necessary social status and function.

The measures taken fully introduce us for the first time to the world of business management, with its tools and techniques for analyzing situations and methods of use of decision-making criteria.

When asked how to decide which foremen should be promoted, General Motors replies:

(1) By measuring the degree of efficiency with which each foreman managed the annual budget for costs and production that he was responsible for. Efficiency in productivity is measured according to three criteria: production per man-hour or per dollar of salary; production per dollar invested in machinery; and proportion of obsolete stock and defects. The budget prepared by the foreman himself, with the help of experts from the division, and his degree of compliance with this provide general and objective criteria for measuring the efficiency of the foreman in two aspects: as a manager or leader of a group of people and as a technician.
(2) Providing training programs for candidates to enable them to learn more about the technical detail of their current position, and also, more importantly, to give them a vision of work in other departments and the global business of the corporation.

One way to achieve this goal is the policy of rotating people in positions or, for example, making substitutions necessary due to leave or illness.

This policy helps avoid excessive specialization and provides a good basis for an objective opinion on the promotion of people. Apparently it is an unproductive policy, because in the short term is not foreseeable that anyone makes valuable contributions in his new position (e.g., someone from the assembly line who works for a time in the accounts department). However, in reality, the foreman who has rotated has gained a greater understanding of the business and, therefore, his efficiency will increase. The information that the foreman obtains on the company and his own management skills will increase if, during rotation, he has taken on

greater responsibilities than his usual post. Furthermore, management will have improved knowledge of this worker.

Drucker believes that none of these measures is a magical cure; however, they make it clear that the problem of equal opportunities for the industrial middle class can be solved with imagination and organization.

I believe that this example of the promotion of foremen, which affects equal opportunities, illustrates what our author means when he states that the large corporation is the representative institution of our society,[9] as an organization has tremendous potential to solve not only economic problems but also social ones.

As for the social status and function in the industrial middle class is concerned, it is, ironically, inversely proportional to the increase of equal opportunities for promotion. The proliferation of hierarchical levels between the foreman and the chairman of the corporation that took place alongside the development of the industrial economy has resulted in the loss of autonomy and authority (or function) of the foreman, in favor of division managers and all their experts: he is now limited to monitoring compliance with the orders.

This analysis leads our author to state that the social position of the foreman in the modern system of industrial production is marginal. Finding himself somewhere between management and the workers, because that is where the idiosyncrasies of his employment placed him, his social status will depend on how that of the workers evolves and on his relationship with the managers.

> If the working class is proletarised, the foreman will be proletarised too … If the worker too is integrated into the middle class concept of American life — if, in other words, the worker too has status and function in industrial society — the foreman's position in our society will be secure as a middle-class position. Otherwise it will at best be very precarious. In the last analysis the key to the solution of the foreman lies in the solution of the problem of the worker.
>
> (Drucker, 1946a, p. 175)

3.3.3. Social Status and Function of the Worker

In the previous section, we discussed how the fate of the foreman, as a member of the middle class of industrial society, was linked to social evolution undergone in the entire workforce. The question we will try to answer in the following text could be posed as follows: how can the worker in an industrial society acquire citizenship? The starting point makes it difficult to find an answer: in principle there is no managerial content in workers' tasks that can enrich them and act as a springboard for promotion.

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9. It should be remembered that he is talking during the years of World War II.

Finding a solution along the lines of the General Motors study has a clear advantage, since the automotive industry is very representative of industrial society; also in this industry the situation of workers, in terms of equal opportunities to solve their need for social status and function, is far from satisfactory. Below, I discuss several policies adopted by the company in order to balance these opportunities.

(1) Without doubt, the most obvious is offering training to workers, from mechanical engineering courses to courses on managing the simplest instruments of operations control. The General Motors Institute was created with this aim. Candidates who successfully completed all the courses became promotable. Many of the teachers were foremen who, in turn, were previously also students. The number of workers enroled in the program is balanced, to avoid the risk of having too many employees with a higher level of training than needed for the job they carry out.[10]
(2) As rotation is an effective means applied to foremen and, therefore, managers, a learning system within the same level consisting of regularly changing the position of the most capable workers would be very useful. In some cases, they may take on responsibilities that even exceed their own tasks, such as instructing other workers.
(3) The use of psychological skills and aptitude tests. Drucker is openly critical of these tools. He believes that the tests should be used, at most, to complement an expert decision when assigning tasks in the beginning; never as a criterion for promotion. "Such tests never measure the important thing, the integration of specific traits and skills into a personality. While they can say with a fair degree of reliability that a man is unfit for a particular line of work requiring definite qualities of the mind or of the hand, they can never tell what a man is fit for, let alone whether he is fit for a position of leadership. But even if an infallible test could be devised, its use as a basis for promotions would be ill-advised, for it would lack precisely that element of rational comprehensibility which a scheme of promotions must have to fulfil the promise of equal opportunities" (Drucker, 1946a, pp. 181–182).
(4) A set of incentives that seek to increase the worker's interest in the content of his own task: information, rewards for innovative contributions, etc. In addition to providing data on individual skills as criteria for promotion, these incentives are very useful in solving the problem of status and function.

According to Drucker, General Motors gained valuable experience during the years of World War II, particularly in the management of people. Among other things, it learned largely how to solve the issue of providing social and psychological satisfaction to its employees.

10. I find it interesting to note that, already, our author points out the risk posed by the fact that training did not fit the work to be performed, by greatly exceeding the needs of it — a lasting imbalance that only creates dissatisfaction in the individual.

The lack of qualified personnel caused by the war demanded the introduction of new management policies so that workers — many of whom were women — joining industrial plants for the first time, without knowledge or specific skills, quickly achieved satisfactory levels of efficiency. One of the most powerful policies was the implementation of mechanisms that would foster the creativity of the company's most important asset: human imagination and the ability to innovate.

In 1944, General Motors employed 400,000 people who submitted 115,000 written suggestions for improvements; 28,000 of which were considered useful. Three things were learnt from this data: (1) the argument that the worker is only interested in their pay is fallacious, (2) there was plenty of room for improvement, and (3) that the 87,000 useless suggestions indicated that a great majority of workers were keen to improve their activities, but had not yet learned enough about their own work and operation of the plant and, therefore, needed more training.

A reasonable starting point is that the worker wants to know and understand the work he performs and his product, as well as relations with all other activities. The attempts made by management in this area resulted in extraordinary increases in efficiency and productivity, because the achieved positive effects on workers' satisfaction and morale.

Our author also believes that the war created a significant cultural change in the way production was understood, causing the personal satisfaction of the workers to be seen as a benefit. It went from the classic assembly line to a modern concept of mass production. According to the first system, production is organized so that a routine operation carried out by an unskilled worker is linked to another unskilled worker's routine operation. Result: Most employees were limited to carrying out a single elementary operation that never seemed to be linked to a final product. Anthropologically, it is very difficult for assembly line work, understood like this, to be anything other than a source of dissatisfaction.

The war conditions gave rise to a rethinking of the situation and led to considering mass production as something with richer possibilities than a technique. It was conceived as a broad concept based on the combination of three principles: (1) the standardization and interchangeability of components, (2) production as a set of processes, each made up of elementary operations, and (3) the control of materials (coordinated supply of parts needed at a given time). It made the production process more flexible, since skilled tasks could be subdivided into their routine elements and processes as the assembly line went past, with the big difference that now a single worker without training or qualifications performed all routine tasks at a pace he himself fixed. The result was the undertaking of a complex and complete task. The guide for making this change was the workers' analysis of their own work, step by step, considering the whys and keeping the result in sight.

If we add to this the organization of certain services such as cafeterias, crèche, hospitals, etc., by workers themselves, there is a motive for workers to achieve personal satisfaction, management experience, social recognition, status, and function, within the community.

Initiative and responsible participation must be real and not merely psychological instruments, since, as we have seen, industrial paternalism only serves to generate

increased frustration and actually robs us of the intelligence, imagination, and initiative of the vast majority of the company — the workers — at a time of increased competition caused by the war.

Critics would accuse Drucker of contradicting himself here, highlighting that in previous text he unreservedly defended the assembly line. They would be right in that such opinions were put forward by Drucker, but not, however, in saying that our author contradicts himself. What he wanted to emphasize was the need for a "cultural change" in the industrial system and that the war situation was uniquely conducive to this: the corporation is not only an economic instrument, but also, in particular, a social institution that, as such, plays an important role in solving the problems of social organization arising from modern technology.

3.4. Relations among Society and the Corporation

Drucker mentions three points of view when tackling the ways in which society and the corporation are linked: (1) legally, the corporation can be described as a figure created by the State, committed to the common interest of society, with a legally recognized existence based on its rights, (2) politically, the corporation can be considered as an institution belonging to organized society aiming to develop and fulfill basic social tasks, and (3) from a purely economic standpoint, the corporation is an industrial organization with the resources to achieve efficient production. In short, the corporation is both an organization and an instrument of society. It has to perform specific economic functions that are its raison d'être and, at the same time, satisfy its own needs to function and survive.

Although different, the two aims — to be socially and economically efficient and be efficient as a corporation — must be considered jointly in the policies adopted. Drucker explores the coordination of relations between them in three different ways:

(1) What is the preferred objective: the survival of the corporation or social interest? What is the effect of corporate policies on social stability? What is the maximum size of a corporation considered to be socially acceptable? Are monopolies socially acceptable?
(2) What is the relationship between the rate of profit as a way of measuring the efficiency of a corporation, and the rate of maximum production at the lowest cost as social criteria of economic efficiency? Is profit a good reason for action and a good incentive? Is there conflict between "production for profit" and "production for use"? What role should be played by the market?
(3) Can an economic system founded on the pursuit of profit by corporations and almost exclusively regulated by the free market, meet the needs of society in terms of stable and growing employment?

Let's tackle the first issue that raises a possible dichotomy of interests of society and the corporation. Drucker is clear: "whatever it social beliefs, modern industrial society must organize its economy in the large units of Big Business.

Whatever contributes to the stability, survival and efficiency of these units, contributes directly to social stability and efficiency" (Drucker, 1946a, p. 211).

It is obvious, therefore, that society is interested in the major problems facing corporations, such as those that affect the leadership, professional training of managers, and the evaluation of their job performance, as well as planned, orderly succession that is not arbitrary and prevents decay and disintegration. Society wishes to be sufficiently informed about decisions that define the basic corporate policies, such as those affecting prices, the management of people or employment. Society, as much or more than the corporation itself, is interested to know the objective criteria by which the success and failure of business decisions and actions will be judged, because their proper implementation will avoid endangering economic prosperity and employment. Furthermore, the use of such objective measures will provide a solid foundation on which to build remuneration and promotion policies, which generate contentment and stability in the corporation and, by extension, society.

Contrary to what the prevailing mentality in the preindustrial era defended (the natural nature of the market and its economic efficiency, which would make the need to artificially maintain an economic organization redundant), Drucker advocates the stable existence of the corporation as essential to the industrial production system. "Traditional economic knew three factors which must be combined to obtain production: labour, raw materials and capital equipment. But the simplest industrial operation requires a fourth one, managerial organization. This fourth factor has become the most important in modern mass production and the only one for which there are not substitutes. We can replace one raw material by another, substitute manual labour with machines and vice versa. But organization is irreplaceable. Under modern industrial conditions it is the one resource that must be carefully conserved in the interest of society" (Drucker, 1946a, p. 213).

The emphasis our author places on the conservation of industrial organizations for social interest does not contradict the fact that they may become economically and socially unviable if they lack productivity, efficiency, and lasting integration. This will become clearer when we look at profit as a criterion for management.

Regarding the question of whether a monopoly is socially acceptable, the Druckerian response is predictable: monopolies are antisocial, as they seek to satisfy their own interests at the expense of society. However, modern technology has changed the context: the monopolistic behavior of reducing production to artificially maintain price increases is antieconomic and ends up being detrimental to the company. Under the conditions of mass production, the maximum profit (the interest of the corporation) depends on achieving maximum efficiency, that is, the maximum production at minimum cost (the interest of society). To achieve this goal, it is necessary to consider the size.

Apart from economies of scale, a large company also brings social benefits, such as management being able to focus on long-term plans, and, therefore, take into account the relationship between the organization and society. It is more likely that the interests of society are less in conflict with companies' long-term interests than with their short-term interests. The long-term objectives tend to reflect broad strategic aims that take the social environment into consideration as well as the

forces operating on it. They also allow for changes in direction in the policies adopted. The short-term interests, however, aim to improve the company's bottom line on a daily basis and impact on the company's balance sheet. Therefore, the introduction of other considerations is very difficult if they are not already arising from strategic approaches.[11]

Another advantage of size that impacts on society is the possibility the large company offers to management to develop their careers, resulting in the training of future leaders of the corporation. Such decentralization is essential for achieving this objective and also decreases the social risk attached to a large corporation.

We will look at the undercurrent created by the concepts of profit and market from another perspective; the interesting relationship between the corporation and society.

Drucker sees profit as the reward attached to the risk of the future, the source of uncertainty. Without the concept of profit one could not rationally cope with risk, which is the result of our inability to predict the economic future of a product or service. Economic activity that extends into the future (in which, therefore, there can be no operational certainty) would be pointless were it not for the concept of a security margin. To this must be added that in a society, which is undergoing economic expansion, profit, like unconsumed excess production, is the source of new capital to finance new activities necessary for economic progress. Capital is a resource that when used, instead of diminishing, can come to reproduce itself.

Light can be shed on this question of profit by comparing the mercantile economy with that which arose from the Industrial Revolution. According to Drucker, in the first era all costs are in the past and profit is obtained by comparing the current income with the costs incurred in the commercial transactions undertaken. It is about projecting the present into the past. By contrast, in an industrial economy costs are in the present and the future, where they are called risks:

> Nothing shows more clearly how deeply we are still entrapped in pre-industrial thinking than our preoccupation with "profit". The central fact of industrial economics is not "profit" and "loss" — not the expectation of ending up with a surplus, its justification, and the legitimacy of the claims to a share in it; but the inevitable and real risk of ending up with an improvement deficit, and the need, the absolute need, to avoid this loss by providing against the risks.
>
> (Drucker, 1950a, p. 52; 1954, p. 45; 1969a, p. 135)

11. "Hence decentralization is the condition for the conversion of bigness from a social viability into a social asset. Bigness, if centralized — whether for lack of a policy or because the units of production have been allowed to grow too large for effective decentralization — carries with it dangers to the stability and functioning of society, just as it carries dangers to the stability and functioning of the corporation." Drucker (1946a, pp. 228–229).

It makes no sense to say that economic life is possible without profit, just as it is difficult to believe that there may be other criteria for measuring the success or failure of economic action to replace profitability.[12] Indeed, the condition that makes possible any other activity necessary for society, despite or regardless of its economic profitability, is the existence of profitable activities to support it: "Profitability is simply another word for economic rationality."

Historically the pursuit of profitability as the main goal of economic action has been confused with pursuit of profit as the subjective principle of individual motivation. According to Drucker, the utilitarian philosophers and the classical economists mistakenly deduced that profitability was a fallacious psychology of the individual's behavior. Rather than drawing these conclusions from the objective conditions of economic life, they most probably conceived economic activity as in a static equilibrium and not as an expanding process.

Innovation is also, in Schumpeter's famous phrase, "creative destruction." Equipment and capital investments of the past become obsolete. The more an economy progresses the more capital formation it needs. So, what the classical economist or accountant or stockbroker considered "profit" is a genuine cost, the cost of staying in business, the cost of a future in which nothing is predictable except that the profitable business today will become the white elephant tomorrow. Thus, capital formation and productivity are needed to maintain production capacity of the economy and, above all, to keep the jobs of today and create the jobs of the future.

It can even be argued that profitability is a more important criterion than industrial production, with absolute independence from the subjective motives of the businessman, such as his thirst for profit, because profitability is based on the objective need and purpose of the industrial economy. Nevertheless, individual pursuit of profit, regardless of other judgements, is efficient as a principle of the social integration of individual motives and desires in a society that accepts progress and economic objectives as efficient and socially desirable.

Our author allocates to the market the role of controlling arbitrator of economic activity and integrator of individual actions and social efficiency. It governs the system, quickly correcting errors in its operation. The market carries out these functions enthroning price as the organizing principle of economic life.

Price as a value expresses the economic wishes of individuals, who, in turn, set the production criteria of the goods. Ultimately, these desires manage and control the market. The question that now arises is whether the market is an antisocial instrument for ultimately subordinating social life to price; all economic activity to the desires of individuals.

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12. Drucker points out all the necessary nuances; his works are full of references to other kinds of values that should be considered when taking economic actions. He can even regarded as one of the most powerful intellectual precursors of modern ethical anthropological, political, and philosophical reflection on the world of economics and management. For example, you can contrast *The Practice of Management* (1954, pp. 375–387) and *The Frontiers of Management* (1986a, p. 339). However, he always speaks clearly of profit and profitability as the objective criteria for excellence in economic action.

The way our author answers this question clearly reflects his idiosyncrasies. When addressing practical problems, without losing the broad, comprehensive and deep vision he has of them, he has always moved away from the utopian solutions, providing insight and realism. Personally, I am convinced that this is why he is not only often right, but precisely so.

Since economic progress has been accepted as a social good, along with price being the only rational mechanism for regulating a system pursuing balance (with the exception of other extra-economic planning criteria, such as state intervention), giving it priority will offer society increased stability and less friction. Any economic policy must decide how to balance these two opposites, whether to express them in the absoluteness of the market economy or in the planning role of the state. They will have to decide how to balance the individual's desires, ideals, aspirations, and needs. Individuals see organized society as a means to their ends, with society's eagerness to survive and to which its members submit: "Both areas are essential to the nature of man. Indeed, without them there could be no human society, only beehives or asylums."

A society that is in economic expansion can only be free if the economic wishes and decisions of its citizens are socially effective and influence the economy. On the other hand, if those who maintain that individual economic decisions are antisocial and, therefore, should not become a criterion for managing the economy were right, then the conflict between the common good and individual good would be insurmountable. To preserve the common good, government would be obliged to control the economy with political measures.

Having found economic goods among its objectives, the company born of the industrial revolution, whose predominant economic and social creation is the corporation, would have paid the price of its freedom if it were not for the fact (as advocated by our author) that the market, limited and imperfect as it is, provides social effectiveness and efficiency to individual economic interests. Freedom and the market are inseparable concepts throughout any industrial society that has economic aims among its objectives.

For our author, in every society, from the primitive to the capitalist, the social responsibility and function of the company lies in how it carries out its economic function. Society and the company agree that both require the same from economic performance: to avoid losses and make profits to cover future risks. The assurance of the company's survival is of social interest.

The third and final aspect through which the relationship between the corporation and society can be described is framed by the problem of employment. Drucker introduced it with the question of whether full employment is possible. Discussions on monopolies, profitability, size, the market and price were not new in the mid-1940s, since they had arisen with the dawn of the industrial revolution itself. The responses that the economic system came up with would shape its characteristics; nevertheless how it resolved the big question over future employment would doom its future.

We should remember that Drucker makes these reflections against the backdrop of the Great Depression of 1929. That terrible experience led him to clearly see

something that today is unquestioned; that long-term unemployment not only has disastrous economic consequences, but also endangers the cohesion of society itself. The chronically unemployed person is deprived of full citizenship, of their position in the community and their self-esteem. How will a society that allows this to happen be judged? How will society preserve its integrity? If industrial society wants to survive the economic crisis it should work to ensure a reasonable level of employment, a commitment that has to be take on by its institution *par excellence*, the corporation. The question to be answered is, can full employment be achieved in a system of free enterprise with large corporations? Drucker (1946a, p. 265).[13]

Drucker believed that the only way out of a depression is to produce. The employment level will recover by increasing the production of capital goods to the adequate level for a normal economy. The subsidized production of consumer goods will not generate jobs directly, but will facilitate the false impression of prosperity without employment.

This is one of the criticisms of the policies that encourage state intervention in this area, such as the New Deal introduced during the 1930s in the United States. Interestingly, the extension of governmental control and intervention in the economy caused a parallel expansion of the lobby groups in Washington. Meanwhile, the Soviet Union and Nazi Germany partially recovered their economies by investing in war production. Naturally, Druckerian theories do not support this alternative option — on the contrary, they leant more toward the positive, the prudential and the practical.

First, Drucker's theories focus on committing leaders of corporations to making constructive policies on full employment. Second, he suggests making fiscal policies that clearly favor the capitalization of profits as reserves. Thus, expansion can be financed while being shielded from the risk it entails. In the event that the amount of profit retained and not generated exceeds that required to cover losses or invest in productive assets, such profit would become taxable. An even more attractive incentive could be given by cutting tax on the profit obtained through capital investments. It is highly probable that this would make it easier for corporations to implement strategic planning for long-term investments.

Third, Drucker's thinking considers the creative power of human imagination and initiative especially necessary if the economy has entered a cycle of maturity and there is a shortage of raw materials. These resources that come directly from man, and are called upon to replace natural resources, must be cared for, cultivated, motivated, and encouraged. A practical way is to encourage free, individual entrepreneurship, rather than strangling it with control and state planning.

13. Drucker uses the term "full employment" as the opposite of large-scale long-term unemployment; to mean that people who are able to work and want to do so have the chance to support themselves through their own work, bearing in mind the risks and fluctuations inherent in any job market.

I am sure that the following text serves as a prelude to what, in 1987, our author called an information society, knowledge society, or as in 1957, educated society:

> We must also adopt a new policy of conservation towards young and growing businesses. We have become conservation-conscious in respect to the resources supplied by nature. But we are still unbelievably spendthrift with the resources supplied by man, that is, imagination, courage and initiative. In future, these man-made economic assets will become the more important; the more we have to conserve our natural resources.
>
> (Drucker, 1946a, p. 282)

An economy sustained in a free market system that can maintain and grow capital investments, will produce the goods that members of society want and lead to greater total wealth, without state intervention and all the ills that accompany it.

From the foregoing pages on our author's reflections, it can be concluded that the foundations of societal stability and function are not intrinsically opposed to the basics of corporate stability and function. As such, there is no contradiction, which makes their coexistence impossible. Moreover, this can even lead to a beneficial harmony and complementarity between the needs and goals of both, as we have seen when considering the aspects mentioned.

The last two pages of *Concept of the Corporation* offer us a substantial synthesis of the bases supporting the economic policy that should govern a society built on the free market, and its not-too-distant past as an industrial society.

(1) It must be a policy aimed at the highest possible level of stable employment; otherwise it will lead to constant improvization in search of urgent measures.
(2) It must clearly identify the areas that, in the interest of safeguarding the survival of society, should be directly controlled and supervised by the state. In these areas, the state must implement sound, constructive, complementary policies that do not compete with free commerce and the decisions of individuals.
(3) The criteria and limits that must be observed by the rules of the market must be clearly fixed. There are significant areas of economic life that, for reasons of economic efficiency, must be organized according to economic rationality, that is, according to market prices, but this must be combined with the primacy of justice and social stability.

    When and to what extent political intervention should be permitted, is a matter that must be decided pragmatically in each case.
(4) Monopolies and monopolistic practices must be prevented. However, these should both be distinguished from large corporations which, by means of decentralization, contribute to social stability. Policies aiming to have a long-term influence on prices, sales, and employment, ultimately benefit society.
(5) The creation of two types of assets should be encouraged: those resulting from the accumulation of capital resources for future investments, and those that are built from human initiative, innovation, and intelligence.

The harmony that these pillars uphold depends on our society's belief that economic progress is an asset and the survival of society does not require complete state control. In other words, if the system underlying our society is not able to overcome economic downturns, society will prefer security to economic progress and freedom will cease to have any meaning, in that there will be no risk involved in economic activity.

Chapter 4

Management Theory

4.1. The Personal Historical Perspective of Frederick W. Taylor and Mary Parker Follett

Being the cultured man that he was, Drucker pointed out the appropriate and enriching parts of historical reflections on the issues and problems he studied. This approach of reviewing records and extracting substantial lessons from them for the present and the future is something he highly valued and used extensively. He is not a professional historian and it shows in how he uses history without the rigor of one who cites sources with care and accuracy. However, his historical vision is illuminating, thought provoking, and often appears to be very appropriate.

Almost every book he has written on management and related subjects, as well as many of his articles, includes paths in search of the historical roots of the approaches and concepts.

We should also add that he always used stories of companies and business people, from when they were set up or started work. In this way, he illustrates the success or failure of a concept or theory and their practical application with a story about, for example, Sears, Ford, IBM, General Motors, Wal-Mart, General Electric, and Deutsche Bank.

We believe the best way to gain an introductory understanding of the most relevant concepts on which Peter Drucker based his theory — which perhaps we should say are fully consistent with his thinking, and his management practice — is to let his writings lead us through his personal and, therefore, unique historical view of the business administration.

For our author, the management boom occurred in the years between the end of the World War II and the oil crisis in 1973. Before 1945, although there were managers of large companies who had theoretically been interested in these issues, it had been no more than a mere hobby for the majority. Only exceptionally had management issues been treated scientifically, along with those issues related to production engineering or human relations particularly from a psychological point of view: "While Harvard had already begun teaching business, most other business schools of the time, American as well as European, were still either schools of commerce or, as in the case of the more progressive and sophisticated (e.g., New York University), schools of accounting, banking and finance. They were

schools of business skills. Management was either not taught at all or taught only in the form of production engineering or personnel.''

It was shortly after the war and at the heart of the manufacturing industry that interest in management as a science and a practice emerged.

In conceiving management as a social function, Drucker wished to integrate it into culture, society, and politics; that is, into the tradition with which it shares values, customs, and beliefs. Management[1] also refers to the managers who shape culture and society, and not least the tasks that need to be carried out in order to achieve objectives, organizing the available resources, decision-making in times of uncertainty, communicating, and planning. It is mainly a practice that is based both on knowledge and responsibility. With this perspective, it is easy to understand the judgment he makes of economists like Adam Smith (1723–1790), David Ricardo (1772–1823), John Stuart Mill (1806–1873), and Karl Marx (1818–1883), who (although it applies to many others) he says, knew nothing of management, and, using Kenneth Boulding's phrase, he says of the science they studied ''Economics is about the behaviour of raw materials, rather than the behaviour of men.''

We have to look at the French economist J. B. Say (1767–1832) to see the entrepreneur emerge as someone who decides on the allocation of resources based on expected productivity. Other early precedents Drucker recognized were the Count of Saint-Simon (1760–1825), François Furier (1772–1804), Alexander Hamilton (1757–1804), and Robert Owen (1771–1858). He highlights the latter for his thoughts on productivity, motivation, the relationship of the worker to the work, to the company, and to the management.

It would take several years for large-scale organizations to emerge and with them theoretical concerns about determining the relationship between the tasks performed and the work of the management itself. In this context, he quotes Henry Towne (1844–1924), Georg Siemens (1839–1901), and Eichi Shibusawa (1840–1931), and years later Pierre S. Du Pont (1870–1954), Alfred P. Sloan Jr. (1875–1966), and others.

On a purely scientific level, the list would include Frederick Taylor (1856–1915), Henri Fayol (1841–1925), Walter Rathenau (1867–1922), Frank and Lillian Gilbreth (1868–1924, 1878–1972), Henry Gantt (1861–1919), Mary Parker Follett (1868–1933), Chester Barnard (1886–1961), and Elton Mayo (1880–1949), to cite only the most important and on whom Drucker focussed during his early years as a university professor in the United States.

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1. Drucker says this about management: ''The word 'management' is a singularly difficult one. It is, in the first place, specifically American and can hardly be translated into any other language, not even into British English. It denotes a function but also the people who discharge it. It denotes a social position and rank but also a discipline and field of study. But even within the American usage, management is not adequate as a term, for institutions other than business do not speak of management or managers, as a rule. Universities or government agencies have administrators, as have hospitals. The armed services have commanders. Other institutions speak of executives, and so on. Yet all these institutions have in common the management function, the management task, and the management work.'' (Drucker, 1974f, p. 5).

A large percentage of the management histories we have consulted[2] seem to agree on highlighting these authors as precursors to thinking on management.[3]

Let's pick out two authors from among the others, because we believe that they had an unparalleled affect on Drucker and have also genuinely played a role in shaping his thinking on management. One is the father of scientific management, Frederick W. Taylor, and the other is Mary Parker Follett, whom our author said was a management prophet.

How does Drucker contemplate the figure of Taylor and his intellectual legacy? Indeed, he is widely regarded in the United States as a historical figure with traits of pure brilliance:

> However central work has been to man all along, organised study of work did not begin until the closing decades of the nineteenth century. Frederick W. Taylor was the first man in recorded history who deemed work deserving of systematic observation and study. On Taylor's 'scientific management' rest, above all, the tremendous surge of affluence in the last seventy-five years which has lifted the working masses in the developed countries well above any level recorded before, even for the well-to-do. Taylor, thought the Isaac Newton (or perhaps the Archimedes) of the science of work, laid only first foundations, however. Not much has been added to them since — even though he has been dead all of sixty years.
>
> (Drucker, 1974f, p. 124)

Even in 1911, a figure like Frank Gilbreth said in his important book, *Motion Study*:

> Much toward standardising the trades has already been done. In this, as in almost countless other lines of activity, the investigator turns oftenest with admiration of the work of Frederick W. Taylor. It is the never-ceasing marvel concerning this man that age cannot wither nor custom stale his work. After many a weary day's study the investigator awakes from a dream of greatness to find that he has only worked out a new proof for a problem that Taylor has already solved.

2. Among them, Wren (1994), Chandler (1962), George (1972), and Wren and Greenwood (1998). In this context, we would like to emphasize the discovery made by Antonio Ivars Moreno in the Spanish language arena, of the figure of Peter Drucker as a precursor to management. See Antonio Ivars Moreno, *Manual para gerentes de empresa* (*Manual for company managers*), Rialp, Madrid, 1963.

3. Drucker also repeatedly cites other contemporaries such as Abraham Maslow, Frederick Herzberg, Douglas McGregor, Edwards Deming, etc. This would not be noteworthy were it not for the fact that they join a long list of philosophers, lawyers, writers, sociologists, etc. who have nurtured his vast mind. At another point, he would mention Joseph Schumpeter, an economist who was so greatly appreciated by Drucker that he conceived him as the alternative to John Maynard Keynes. See Schumpeter and Keynes (*The Ecological Vision*, pp. 107–119).

> Time study, the instruction card, functional foremanship, the differential rate piece method of compensation, and numerous other scientifically derived methods of decreasing cost and increasing output and wages — these are by no means his only contributions towards standardising the trades whose value it would be difficult to overestimate; they are but a few of the means toward attaining standards which have been placed by Taylor, their discoverer, within the hands of any man willing to use them.
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> (Gilbreth, 1911, p. 94)

The label given by our author on those people who really manage to create, to accomplish something, "monomaniac with a mission," could also be attributed to Taylor. One of Taylor's major concerns, on which he agrees with Mary Parker Follett and which is fully taken up by Drucker, was to develop a philosophy of management that responds to the need for a cooperative relationship of mutual respect between the workers and the management — this was in the early twentieth century! — which would bring key advantages to both: "The fundamental interests of employees and those of employers are necessarily antagonistic. Scientific management, by contrast, is founded on the firm conviction that the true interests of the two are one and the same" (Taylor, 1911, p. 10).

To achieve this in a scientific, systematic way we do not need incredible inventions but rather we must consider the existing facts and view them in the light of all old knowledge, organized, analyzed, and classified by the rules and laws that shape science. According to Taylor, the true obstacles to the individual worker's achievement of productive performance were organizational factors: poor planning, imbalance in the flow of supplies and jobs, arbitrary speeds and downtime of these flows, and so on. For this, it was necessary to act on the production unit taken as a whole, streamline the management system and thus, increase productivity of manual labor. To achieve this, the industrial organization must follow particular patterns of behavior and rules that are repeated regularly and can be discovered by observation and analysis. Once they are known and applied to specific work situations, in order to regulate the activities and productive functions, they ensure a substantial increase in productivity.

This task of analysis and synthesis is one of the primary functions of management. Although a strong advocate of scientific management, Drucker discovers that it has what he called two blind spots. The first is "the belief that because we must analyse work into its simplest constituent movements we must also organise it into a series of individual motions, each if possible to be carried out by an individual worker. This is false logic … Scientific Management purports to organise human work. But it assumes — without any attempt to test or verify the assumption — that the human being is a machine tool (although a poorly designed one) … The human being does individual motions poorly; viewed as a machine tool, he is badly designed" (Drucker, 1954, Chap. 22).

Following this clear and direct criticism, Drucker considers that attacks from behavioral and other psychologists, accusing him of dehumanization, are patently unfair.

The second "blind spot" of the philosophy of scientific management is the separation it makes between planning and action. According to Drucker, Taylor's merit was his discovery that planning and action were different, but the theoretical weakness of this approach appears when it is concluded that these two are two different tasks that should be performed by different people. "But it does not follow from the separation of planning in the analysis of work that the planner and the doer should be two different people. It does not follow that the industrial world should be divided into two classes of people: a few who decide what is to be done, design the job, set the pace, rhythm and motions, and order others about; and the many who do what and as they are being told. Planning and doing are separate parts of the same job; they are not separate jobs. There is no work that can be performed effectively unless it contains elements of both" (Drucker, 1954, p. 278).

In general, Drucker acknowledged that Taylor was concerned with the truly human progress of the workers, but rejected as false the one-dimensional view of the man who is credited with being one of the first to emphasize the importance of wages in motivation. In fact, Drucker considered Taylor as the champion of type of management thinking that can be successfully be put into practice, due to its results, and in theory, since it is a much richer conception of man than the Marxist philosophy of work. This is how he masterfully expresses it in the chapter of *The New Realities* entitled "The Two Counter-Cultures":

> Frederick W. Taylor did what no one had even thought of before: he treated manual work as something deserving study and analysis. Taylor showed that the real potential for increased output was to 'work smarter'. It was Taylor who defeated Marx and Marxism. Taylor's *Principles of Scientific Management* not only tremendously increased output. It made possible increasing workers' wages while at the same time cutting the products' prices and thereby increasing demand … Without Taylor, the number of industrial workers would have still grown fast, but they would have been Marx's exploited proletarians. Instead, the larger the number of blue collar workers who went into the plants, the more they became 'middle class' and 'bourgeois' in their incomes and their standard of living. And the more they turned conservative in their lifestyles and their values, rather than becoming Marx's revolutionaries.
>
> (Drucker, 1989a, pp. 188–189)

Concurring with Greenwood, we think that the stamp Taylor clearly left on Druckerian thinking is probably not so much the general approach of the philosophy of scientific management, but the fact that Taylor helped Drucker to deepen his own fundamental approach to management and labor.

"The need today is neither to bury Taylor nor to praise him. It is to learn from him. The need is to do for knowledge work and knowledge worker what Taylor, beginning almost a century ago, did for manual work and manual worker" (Drucker, 1976d, p. 27).

Let us now consider the other personality, hardly known even to the educated readers of management issues: Mary Parker Follett.[4]

Born near Boston in 1868, she studied economics, politics, law, and philosophy at Radcliffe College (Harvard), from where she graduated in 1898 with very high grades, after having been at Newham College, Cambridge, England. She undertook postgraduate studies in Paris. This excellent academic background, at the time extraordinary for a woman, and her meticulous and orderly nature allowed her, from the start of her career, to develop her own methodology for addressing issues of work: combining the careful and systematic study of existing research with personal contact with those involved, aiming to personally get to know their thoughts, feelings, and actions.

Her first book, *The Speaker of the House of Representatives*, studies the work of the most effective spokesmen of the American Congress, how they carried out the legislative process and exercised power and influence. It immediately became a work of reference.

After returning from Paris, she spent a year working on the organization of the Boston public school system. She never gave up the social work that she undertook as consultant to four public and business organizations, and continued with this alongside her academic work. In 1918, she published *The New State: Group Organisation the Solution of Popular Government*, which advocates replacing bureaucratic institutions with a set of groups of networks, formed by the people themselves, who would analyze their problems in a group, creating and implementing solutions; a truly participatory democracy. This book opened up the business world up to her: she was called to serve on arbitration and minimum wage fixing committees, through which she accumulated rich experiences of industrial relations. The fruit of this was *Creative Experience* (1924), showing her fascination for the world of business activities. Thereafter, she was much sought after by many different forums, such as the Bureau of Personnel Administration in New York and the London School of Economics, and by executives and institutions whom she advized until her death in late 1933.[5]

Why do we think Parker Follett is relevant in shaping the thinking of Drucker? Because Drucker himself says so repeatedly throughout his work. This in itself is noteworthy because he does not usually profusely cite the sources he has used, but rather prefers to address issues by finding the truth behind them, not bothering with who else upheld such truths. Thus, he says of her: "All her comments are fresh,

4. A book that seeks to bring this figure back is *Mary Parker Follet: Prophet of Management* (1995d).
5. Her major work, bringing many of her papers together, is *Dynamic Administration. The Collected Papers of Mary Parker Follett* (1973).

significant and full of insight, but her real importance lies in her vision. She saw the organisational society and management as a generic function and specific body of such society, long before either of them really existed. She did not try to be a 'systematic philosopher'. I suspect she would have considered it intellectual arrogance. She was something much more important. She was the prophet of management'' (Graham, 1995, pp. 8–9).[6]

Furthermore, we believe that she is one of the most genuine influences and believe we can prove so by analyzing some texts of both of them. Before looking at Follett, Drucker, influenced by Stahl, believed in the creative synthesis of opposites, as shown in his early writings. That certainly helped him to naturally commune with Follett's approach on the conflict: ''The core of the social process is not similarity, but harmonisation of differences through interpretation.'' ''We do not want a fix, but the added value of conflict.'' As Pauline Graham says, in order to turn conflict into an opportunity for change and progress we must avoid domination, manipulation, or compromise. Drucker's agreement with the Follett's points of view gave him the opportunity to apply this idea to management. Another shared perspective, which we think was also propelled by Follett's knowledge, was in the shared focus on political and management issues. A clear sign is *Concept of the Corporation* (1946a) and the theory of responsibility and power expressed in *The Practice of Management* (1954) or in *Management: Tasks, Responsibilities, Practices* (1974a). Both support the essential involvement of businesses and their protagonism in the development of the whole social fabric. Another coincidence is the holistic view of tackling management problems; in the case of Parker Follett this was taken from the Psychology of form (''Gestalt Psychologie'') and in the case of Drucker, from the South African General, Jan Christian Smuts.

He values Mary Parker Follett's ability to frame the issues addressed with true scope, which helps the approaches gain richness and depth:

> We cannot departmentalise our thinking … We cannot think of economic principles and ethical principles … Underneath all our thinking, there are certain fundamental principles that apply to all our problems.
>
> I do not think we have psychological, ethical and economic problems. We have human problems with psychological, ethical and economic aspects, and as many more as you like, legal often […]

6. He also says of her ''she was the most quoted (four years ago) but probably least headed of all students of organisation'' (Drucker, 1993, p. 324). Some of the other places where he explicitly cites her are: ''What results should you expect,'' *Public Administration Review* (1976g), collected in *Toward the Next Economics and Other Essays*; ''Behind Japan's success — Defining rules for managing in a pluralist society,'' *Harvard Business Review* (1981g) and various parts of *Management: Tasks, Responsibilities, Practices* (Drucker, 1974f, pp. 26, 474 (note), and 485).

> We have to study a whole as such, not only through an analysis of its constituents.
>
> (Fox & Urwick, 1973, pp. 148–149)

In the introduction that our author wrote for the book *Mary Parker Follett: Prophet of Management*, he outlined four reasons why the Bostonian author had almost become a nonperson, unknown, and barely mentioned; indeed, he himself only discovered her in 1950, while he was undertaking a further study of management in the Harry Hopf Library that, over the years, would become the core of General Electric Advanced Management Institute. These reasons, which he called the postulates of Parker Follett, can be interpreted as the points that Drucker most valued.

Her first postulate is the theory of conflict, which we have already partly discussed: we must not abandon conflict but use it. To do so, we do not need to ask who is right, nor what is right, but rather assume that both sides are right, because they are most likely to be giving correct responses to different problems: "The right use of conflict is therefore to ask: what should these people who differ with me and oppose me see as the right question if their position is a rational one and, indeed, a correct one? Then, the second step to make conflict — difference — 'work for us,' is to use the mutual understanding of each other's question to integrate both positions into a new and different answer that satisfies what each side considers right. The end result of conflict is not 'victory' or 'compromise'. It is integration of interests"' (Graham 1995d, p. 4).

In *Management: Tasks, Responsibilities, Practices*, Drucker applied this theory to business communication and particularly communication as perception and its determining factors. For there to be real communication, one must take into account what the receiver *can see and why*.

The second postulate is that management is not exclusive to commercial companies but is a social institution. Throughout all the Druckerian work on management, this is one of the most genuinely defined theories that best expresses the function of management as a bridge between society and its organizations, be they commercial, political, cultural, academic, health, recreational, military, religious, etc. All organizations need management (of course, to maintain this point in the 1920s and 1930s was almost premature. Many years later, our author did so and almost caused a revolution in the understanding of management).

Parker Follett's third postulate was the consideration of management as a function rather than a tool box in which to look for methods, techniques, procedures, etc. It should be added that Parker Follett and Drucker were both people focused on practice, oriented toward action and results.

The fourth postulate, close to Druckerian social philosophy, is the recovery of the concept of citizenship (there is no doubt that from 1930 to 1940 this was not considered a *leitmotiv*). This idea fits in with the notion of the status and function that a well-structured society must provide to its members: a central theme for Drucker.

We will briefly come back to Parker Follett when we discuss her influence on the Druckerian theory of management by objectives, which merit special treatment.

4.2. Definition and Management Tasks

At the beginning of *The Practice of Management*, Drucker's most celebrated, original, profound, and systematic work in which he focused on the study of management from an eminently practical approach[7], he says:

> Management will remain a basic and dominant institution perhaps as long as Western civilisation itself survives. For management is not only grounded in the nature of the modern industrial system and in the needs of the modern business enterprise to which an industrial system must entrust its productive resources — both human and material. Management also expresses basic beliefs of modern Western society. It expresses the belief in the possibility of controlling man's livelihood through systematic organisation of economic resources. It expresses the belief that economic change can be made into the most powerful engine for human betterment and social justice.

So how to address management, this basic and dominant institution of Western civilization, so that we reach a clear understanding of what is and what it hopes to gain? According to Drucker, by first focusing on its functions; a description of the actions involved in management with a view to achieving some purposes will provide us with some valuable elements for attempting a definition of the body that supports the functions.

Both *The New Society* (1950a) and *The Practice of Management* (1954) address the question in a similar and complementary manner. In the former, this is by requiring a managerial attitude when managing the company's human resources:

> No part of the productive resources of industry operates at a lower efficiency than the human resources. The few enterprises that have been able to tap this unused reservoir of human ability and attitude have achieved spectacular increases in productivity in the great majority of enterprises — so that the management of men should be the first and foremost concern of operating managements, rather than

7. One of the best experts on our author, Ronald G. Greenwood, says: "Drucker's *The Practice of Management* was the book that set him on the top rank. It is a classic book and the very best in management literature. Books by Frederick Taylor and the Gilbreths were read by practitioners in the earliest years of this century, and Drucker has served modern practitioners in the same way" (Wren & Greenwood, 1998, p. 229). Another expert on the work of Drucker, Ronald S. Ritchie, in a study of the same book, *An Evaluation of The Practice of Management*, says: "Had Drucker written nothing but *The Practice of Management*, his major contribution to the understanding of the management task and its inherent requirements would have been largely complete" (Bonaparte, 1970, p. 93).

> the management of things and techniques on which attention has been focused so far.
>
> We also know what makes for efficiency and productivity of the human resources of production. It is not primarily skill or pay; it is first and foremost an attitude — the one we call "managerial attitude". By this we mean an attitude which makes the individual see his job, his work and his product the way the manager sees them, that is, in relation to the work of the group and the product of the whole.
>
> (Drucker, 1950a)

This attitude is extensible, therefore, to all members of the company, including the worker in the lowest position. While in the preindustrial economy the integration of the worker with the work he carried out and the need to give meaning to that work was unnecessary, this completely changed with the level of specialization that industrialization required. Only if you implement the "innovation" of demanding and providing the individual worker with a management attitude, will it be possible to integrate his individual operation (real for him but devoid of meaning) into a unified whole (effectively unreal to him, but full of meaning in itself).

Furthermore, *The Practice of Management* emphasizes management's role as an energizer in the business as it is one of the most important factors and precisely the one focused on increasing the productivity of the other resources:

> The manager is the dynamic, life-giving element in any business. Without his leadership the "resources of production" remain resources and never become production. In a competitive economy, above all, the quality and performance of the managers determine the success of a business; indeed they determine its survival. For the quality and performance of is managers are the only effective advantages an enterprise in a competitive economy can have.

Successfully putting this into practice immediately gained Drucker a reputation in the field of management theory.

A third viewpoint (and one very dear to our author) should be added: management as the specific organ of commercial companies. As these are the suppliers of goods and services to society as a whole, they exert a high degree of influence on the shaping and running of that society. Managers are thus faced with an inescapable responsibility to meet the ethical standards of thorough professionals and, therefore, they are attributed with a significant public role as carriers and reflectors of the basic values and beliefs of society. This public managerial accountability can be articulated so that it becomes an interest of the company itself, conceiving such accountability as a genuine part of the common good.

From any of these points of view — that are intended to be a good synthesis of the many and various Druckerian approaches to the subject — it makes sense to go deeper into the functions of management, which will lead us toward its definition.[8]

The first function of management is economic performance: the essence of the corporation, the vital principle that determines its nature, is economic performance. In every decision and every action, management must always put economic performance first. It is precisely this function that differentiates management of a commercial company from the management of any other institution, whether it is a hospital, an army, a university, a municipality, a state, etc. They may be similar in many organizational and managerial aspects; in these way universities or hospitals are talked about as if they were also companies. However, in such institutions not all analyses, opinions, or decisions are made based on economic criteria.[9]

Business management cannot be transferred in a mimetic way to nonbusiness, nonprofit institutions. Rather, what these institutions have to learn from business management is that management actually starts with the setting of goals and the use of criteria to measure the extent to which such objectives have been achieved. In addition, they need to bear in mind that resource management and the strategy to be followed have to be focused on those objectives. From this perspective, business management can be conceived as a prototype to inspire.

For Drucker, the predominance of economic criteria is such that the interests of society depend on it, or rather, it encompasses such interests. "Always bearing in mind the impact of its decisions on society, management, both inside and outside of the company, must always put economic performance first."

Our author really thinks that, by partially defining management by this economic performance, rather than being "economistic" and excluding or passing over other higher social values, this actually serves to preserve the general welfare of society. This could be tested under the assumption that a failure to achieve this goal would leave society in a sorry state.

From this first function follows one of the main tasks of managers, which Drucker calls managing a business. Management is not the product of an exact science, nor the fruit of a profession expressed as a simple set of instructions. It is a practice that contains both scientific and intuitive elements:

> This book argues that the manager can improve his performance in all areas of management, including the managing of a business, through the systematic study of principles, the acquisition of organised

8. In addition to *The Practice of Management*, from the vast amount of Druckerian literature we have chosen to support the description, with the texts of *Management: Tasks, Responsibilities, Practices* (1974a) and a conference given in Tokyo in November 1969 titled "Management's New Role" published in 1970 in *Technology, Management and Society*.

9. Bear in mind here what Drucker said about the benefits and profitability when he presented the "Theory of the Corporation."

> knowledge and the systematic analysis of his own performance in all areas of his work and job and on all levels of management.

Drucker clearly supports the type of creative action that takes on risks, uncertainties and "unsettling problems" against the antiscientific positions that seek to suppress it. In contrast to the traditional attitude of the commercial businessperson, who feels satisfied in reacting solely to the economic events surrounding him, creative action management takes the opposite position: trying to shape the economic environment, planning and implementing actions that influence its course and seeking ways to overcome the limitations imposed by the circumstances:

> What is possible — the economist's 'economic conditions' — is therefore only one pole in managing a business. What is desirable in the interest of the enterprise is the other. And while the man can never really 'master' his environment, while he is always held within a tight vice of possibilities, it is management's specific job to make what is desirable first possible and then actual. Management is not just a creature of the economy: it is a creator as well. And only to the extent to which it masters the economic circumstances, and alters them by conscious, directed action, does it really manage. To manage a business means, therefore, to manage by objectives. Throughout this book this will be a keystone.
>
> (Drucker, 1954, p. 11)

The second function of management is to manage managers with the aim that everything, economic performance being an important part of this, exceeds the sum of the parts, the individual resources used. Neither capital nor work achieves this transformation: only management. Among the resources, it is only people's work that is really susceptible to a true increase.

Managing is about getting the human resources, people, to become the main part of the company and the best way to motivate them, get them involved and make them more productive is for each to manage at their own level.

The third function is a direct consequence of the above: manage the worker and the work. Drucker puts it so sharply yet simply in a text that suggest a concept of anthropology, not made explicit although it is latent in his conception of management:

> The final function of management is to manage workers and work. Work has to be performed; and the resource to perform it with is workers — ranging from totally unskilled to artists, from wheelbarrow pushers to executive vice-presidents. This implies organisation of the work so as to make it most suitable for human beings, and organisation of people so as to make them work most productively and effectively. It implies consideration of the human being as a resource — that is, as something having peculiar physiological

> properties, abilities and limitations that require the same amount of engineering attention as the properties of any other resource, e.g., copper. It implies also consideration of the human resource as human beings having, unlike any other resource, personality, citizenship, control over whether they work, how much and how well, and thus requiring motivation, participation, satisfactions, incentives and rewards, leadership, status and function. And it's management, and management alone, that can satisfy these requirements.

A unique element must be added to the three functions: time. Both the management of the business, whose aim is the creation of clients, and the management of work and those who carry it out, is undertaken within the confines of time and its passing. This imposes some constraints that have to be managed; doing so is none other than what we might call time management.

Time and its management is not the fourth function of management, but is a dimension in which all management activity moves. The decisions that the manager makes are related to the present and the future, and one must know how to combine both so that the economic results achieved in the present do not jeopardize future results, that is, taking decisions and courses of action that impair the ability of the company to generate profits in a sustained way over time. Or, put another way, decisions that are detrimental to the future competitiveness of the company. Ultimately, it comes to managing, considering the short and long term, and defining both as widely as desired.

The manager lives in the present (analyzing, deciding, and acting today) and is also future-oriented (the results of action will be seen tomorrow). Although he does not really live simultaneously in both, the manager does operate in the present: determining the present and to a large extent the future; for example, investment decisions that will generate future results influence present results.

To consider the future, the long term, when making decisions is not, according to Drucker, to try and predict what will happen, because that is impossible and that would be a waste of time: ''Long-term planning is necessary precisely because we cannot predict what will happen.'' Nor does it have to do with future decisions, but rather with the futurity (the quality of future) that current decisions have: ''Decisions exist only in the present. The question that faces the long-range planner is not what we should do tomorrow. It is: what do we have to do today to be ready for an uncertain tomorrow? The question is not what will happen in the future. It is what futurity do we have to factor into our present thinking and doing? What time frame should we consider? How can we make these come together in a simultaneous decision in the present?''

> Decision making is essentially a time machine which synchronizes into one present a great number of divergent time-spans.

Decisions have the curious feature that we can only take them in the present, but it is impossible for us to make them only *for* the present; even the most circumstantial

or opportunistic decision, such as failing to decide, commits us in some way for the future, sometimes irrevocably.

Finally, consideration of the future when making a decision is not an attempt to eliminate risk, nor even to minimize it (risk-taking is part and parcel of economic activity). However, what is essential is that the risks are correct and appropriate. The result of good long-term planning is precisely that which increases the company's ability to take on greater risks, which goes alongside an improvement of its performance. Management has to provide the knowledge and skills so that consideration of the future and of long-term planning is possible and effective.

In the light of this highly relevant temporal dimension, the triple function that management is expected to carry out (managing the business, the managers, the workers, and their work) could be summarized by saying that, theoretically, the three functions can be analyzed, studied, and evaluated separately, but in practice decisions are synthesized simultaneously and as required, in such a way that in fact none predominates. With no commercial undertaking and no business, there is no company. Similarly, without a business that works (where managers and workers perform a fair job because they are well managed), economic performance becomes a mirage:

> Managing a business has primacy because the enterprise is an economic institution; but managing managers and managing workers and work have primacy precisely because society is not an economic institution and is therefore vitally interested in these two areas of management in which basic social beliefs and aims are being realised.

How does Drucker think that a manager should act to achieve a balance and harmonize the three functions simultaneously, taking into account the temporal curtain constantly woven by the requirements of present and future? Or in other words, what is management in Druckerian thought?

Loyal to one of his favorite authors, J. C. Smuts, and greatly influenced by reading his work *Holism & Evolution*, Drucker gives the following in answer: "to create a whole that is greater than the sum of its parts." Also, he believed that the manager should act as the conductor of an orchestra who is also the composer of the work; making the best of the resources available, especially the people, avoiding or neutralizing the weaknesses they have, and living and acting in two dimensions of time (present and future), among many others.

The next question is how this can be accomplished. In a concise, elegant and accurate way, Drucker proposed five basic, and yet crucial, operations that summarize the work of a manager:

(1) setting objectives,
(2) organizing,
(3) communicating and motivating,
(4) measuring and evaluating and
(5) developing and training individuals.

> A manager, in the first place, sets objectives. He determines what the objectives should be. He determines what the goals in each area of objectives should be. He decides what has to be done to reach these objectives. He makes the objectives effective by communicating them to the people whose performance is needed to achieve them.
>
> Second, a manager organises. He analyses the activities, decisions and relations needed. He classifies the work. He divides it into manageable activities. He further divides the activities into manageable jobs. He groups these units and jobs into an organisation structure. He selects people for the management of these units and for the jobs to be done.
>
> Next a manager motivates and communicates. He makes a team out of the people that are responsible for various jobs. He does that through the practices with which he manages. He does it in his own relation to the men he manages. He does it through incentives and rewards for successful work. He does it through his promotion policy. And he does it through constant communication, both from the manager to his subordinate, and from the subordinate to the manager.
>
> The fourth basic element in the work of the manager is the job of measurement. The manager establishes measuring yardsticks — and there are few factors as important to the performance of the organisation and of every man in it. He sees to it that each man in the organisation has measurements available to him which are focused on the performance of the whole organisation and which at the same time focus on the work of the individual and help him do it. He analyses performance, appraises it and interprets it. And again, as in every other area of his work, he communicates both the meaning of the measurements and their findings to his subordinates as well as to his superiors.
>
> Finally, a manager develops people. Through the way he manages he makes it easy or difficult for them to develop themselves. He directs people or misdirects them. He brings out what is in them or he stifles them. He strengthens their integrity or he corrupts them. He trains them to stand upright and strong or he deforms them.
>
> (Drucker, 1954)

For Drucker, every manager, consciously or unconsciously, carries out these operations when managing. Without doubt, this is a job of multiple facets. Its diversity leads to a complexity that requires a genuine combination of psychological characteristics in order to carry it out.

As we shall see further in Section 4.3, setting goals is a constant exercise of calmness, vision and decision-making, that seeks a balance between the short and

long terms, desirable ends, and the means available, between getting results and the principles contained in the mission. Setting goals is the result of correctly exercising the ability to analyze and synthesize.

Analyzing and synthesizing are two ways in which human understanding can advance in our knowledge of the truth. Being proficient in them is essential in order to be a good manager, in addition to many other things of greater importance.

Analyzing and synthesizing are often spoken of in a superficial, if not incorrect, way in the language of management. Because of the importance posed by these notions, let us dwell briefly on them and give the floor to the person who, we believe, has explained them with the most wisdom and beauty in the Spanish language, the philosopher Leopoldo Eulogio Palacios:

> Analysis is the transformation of the obvious to the hidden, synthesis is the transformation of the hidden to the obvious. There would be no analysis if we did not know by divining that the best of things is hidden from our eyes, beyond the reach of our hands, and should be discovered through strenuous mental effort. If everything in reality was as its appearance suggests, why bother to analyse things? Nor would there be any synthesis if, from the obscure place where analysis has left us, we could not shine a light on this world of appearances, recreating it and explaining it from the deepest reality of its elements.
>
> (Palacios, 1974, pp. 117–118)

To go from the obvious to the hidden and shed light on it is the way to deal with realities and distinguish them from appearances. And, although at times in life appearances count for more than reality, treating them as the same thing is not recommended, especially in the business world. This is no more important than at the moment of efficiently organizing resources and people, who must be participants in what the manager has seen (communication) and what he wants to achieve (motivation). Drucker, who has always been known for getting down to the fundamental issues, would say that the wish to be efficient and effective should be added to the ability to analyze and synthesize (whether in trade, finance, production or personnel management) the ability to convey one's own thinking and discover the desires of others, that can be summed up as faculties in themselves; faculties as unsophisticated and mundane as they are absolutely essential: to speak, listen, read, and write.

> Of all the skills he needs, today's manager possesses least those of reading, writing, speaking and figuring. One look at what is known as "policy language" in large companies shows how illiterate we are. Improvement is not a matter of learning faster reading or public speaking. Managers have to learn to know language, to understand what words are and what they mean. Perhaps more important, they have to acquire respect for the language as man's most precious gift and heritage. The manager must understand the meaning of the old

> definition of rhetoric as 'the art which draws men's hearts to the love of true knowledge'. Without ability to motivate by means of the written or spoken word or the telling number, a manager cannot be successful.
>
> (Drucker, 1954, p. 340)

We will look at measurement and evaluation when we discuss management by objectives and self-control in the next chapter. However, we stress here that, for our author, this is perhaps one of the weakest and most poorly used of the five tasks a manager has to perform. Instead of using it as an element to provide information for effective improvement of the evaluated subject, and, concretely, self-control, its use is often limited to mere control of the provision of information, such that its astute use can give a manager power and influence over others. This inevitably creates an atmosphere of mistrust.

To this, we must add the existence of real intangibles. Things that can be accurately measured are in the past, have already happened and, moreover, they tend to be internal actions or events of the company, rather than external ones, which are focused on the efficiency of operations rather than the aims and purposes of the company, by virtue of which it exists.

Therefore, a good manager must learn to balance what is measurable and what is intangible and therefore cannot be directly quantified. To fall into the temptation of prioritizing the quantifiable, because it is easier to control effectively, may be to allow oneself to be guided by an illusion involving less control, or even loss of control, of the company.

The training and development of personnel could — in itself — be the subject of research. For Drucker, it is not about taking courses, which are nothing more than tools. In order to become knowledge, information must be incorporated and put into practice. It is also about finding personnel with "potential," and developing careers for them. What counts is performance. The aim of training and development is to confer effectiveness and efficiency. This enables a person to use their strengths to the full, while remaining true to their own nature and not being forced to act only as a third party thinks they should. The question is, what jobs are best suited to developing a person's qualities in the quickest and best way?

> Development is always self-development. For the enterprise to assume responsibility for the development of a man is an idle boast. The responsibility rests with the individual, his abilities, and his efforts. No business enterprise is competent, let alone obligated, to substitute its efforts for the self-development efforts of the individual. To do this would not only be unwarranted paternalism, it would be foolish pretension.
>
> (Drucker, 1974f, p. 427)

This requires some work by the person concerned: self-assessment; and a management role, leadership, to be taken on by his superior, the manager. It is precisely by developing others that the manager develops himself, because this

involves demanding more. We could call this, as Drucker did, individual commitment to excellence: "the best performers in any profession always include men who have taught and developed others and treated this as the most important legacy that they could have left behind."

One might get the impression, at this point, that being a manager is a gargantuan task. However, Druckerian thought does not see it this way. As he says in one of his more recent articles: To be a manager is to be a leader.

> "All the effective leaders I have encountered knew four simple things:
>
> (1) The only definition of a leader is someone who has followers. Some people are thinkers. Some are prophets. Both roles are important and badly needed. But without followers, there can be no leaders.
> (2) An effective leader is not someone who is loved or admired. He or she is someone whose followers do the things right. Popularity is not leadership. Results are.
> (3) Leaders are highly visible. Therefore they set examples.
> (4) Leadership is not rank, privileges, titles or money. It is responsibility."

Forty years earlier he had said much the same thing in different words. To be a manager one doesn't have to be a genius or an artist with intuition. What is necessary is to have character: those sets of qualities that set that person apart from others, through their personality and consequently their way of working. As we have seen, the educational quality of managers is emphasized along with their ability to convey their vision to others and their moral responsibility as expressed in their commitment to performance.

This commitment binds them in three ways. Their performance depends on their relationships with their bosses, their peers, and those they are responsible for. The manager's gaze is focused in three directions: upward, forward, and downward, and this is the subject of the next section.

4.3. Management by Objectives and Self-Control

Our author is credited as the creator and popularizer of the term "management by objectives." George D. Odiorne, a student of Drucker, says in one of his first papers on the subject: "The term management by objectives first used in Peter Drucker's book *The Practice of Management* (1954), became widely accepted thereafter" (Odiorne, 1965, p. 9, 1978, p. 21; Koontz, 1971, pp. 45–46). Daniel A. Wren states: "Despite the fact that many had written about the need for organisational objectives, Drucker was the first to publish the concept and coin

the term 'management by objectives'" (Wren, 1994, p. 365). More recently John Micklethwait and Adrian Wooldridge stressed that "Drucker invented one of the most successful products of the rational school of management, 'management by objectives', a proposition that dominated post-war strategic thinking " (Micklethwait & Wooldridge, 1996, p. 152; Wren & Greenwood, 1998, p. 230; see also Ritchie, 1970, p. 86).

According to Greenwood (1981), management by objectives as such was conceptualized by Drucker and implemented by Harold Smiddy (1900–1978), a vice-president for many years at General Electric and a personal friend of our author, whom Drucker credited as the mentor of his work, *The Practice of Management*.

Smiddy met Drucker in 1946, when he was the office manager at the consulting firm Booz, Allen & Hamilton in New York, and Drucker was teaching at Bennington College in Vermont. At that time they talked often of management. In 1948, Drucker was hired as a consultant by Chesapeake Railways in Ohio to work on the long-term planning and objectives of the company. He tried to involve Smiddy in this project, but Smiddy declined the offer because he had already decided to join General Electric.

It was precisely during this period when Drucker came up with the concept of management by objectives and self-control:

> A manager's job should be based on a task to be performed in order to attain the company's objectives. It should always be a real job — one that makes a visible and, if possible, clearly measurable contribution to the success of the enterprise. It should have the broadest rather than the narrowest scope and authority; everything not expressly excluded should be deemed to be within manager's authority. Finally, the manager should be directed and controlled by the objectives of performance rather than by his boss.
>
> (Drucker, 1954, p. 135)

Management by objectives would come to replace what our author calls the deficient "management by drive," because the former allows, facilitates and, some would say, almost requires as a condition the full development of the individual. This person has to participate with full responsibility in the shared vision of what the company is and what it has to do, and, therefore, engage with others in the work to be carried out. In fixing the objectives of his unit the subject himself, in dialogue with his manager and colleagues, cannot escape controlling the performance of his job himself, as opposed to the previous "remote" control "from above":

According to Drucker, the only principle that can do this is management by objectives and self-control. It makes common prosperity the goal of every manager. It replaces external control with the stricter, more demanding, and more effective internal control. It makes a manager act not because someone tells him to do something or convinces him that he has to, but because the needs

of his task's goals require it. He works not because someone wants him to do, but because he decides for himself that he has to do it; he acts, in other words, as a free man.

In *The Practice of Management*, Drucker offers some extremely sharp reflections, interspersed with case studies from his consulting experience, but he does not provide a rigorous definition of management by objectives. For this reason, it is perhaps desirable to consider the thoughts of Drucker's follower, Odiorne, who defines management by objectives as a process by which an organization's senior managers and subordinates jointly identify its common goals, define the main areas of responsibility of each individual in terms of expected results and use these measures as guides to make the unit work and assess the contribution of each of its members (Greenwood, 1981, pp. 55–56).

It is when dealing with the issue of objectives that Drucker moves away from his predecessors such as Parker Follett, Barnard, and Fayol, since he does not assume that the objectives are known by the interested parties. Rather, there are many reasons and occasions for mistakes and misunderstandings to arise, which, rather than amalgamate efforts, tend to generate grievances, duplication of tasks, unnecessary work, and, ultimately, running the company badly. If the manager is to be measured in terms of how he contributes to the overall goals of the company by achieving his objectives, he must have a clear view of those objectives and those of the company, together with how they fit together. His superior should know what that manager is expected to contribute and therefore what he is going to require of him with a view to later assessment. Meeting these requirements demands effort and a method, since, due to inertia, no company automatically propel itself toward any objective; rather than providing direction, this same inertia, being in the very nature of the company, can become a source of confusion. Drucker identifies three possible factors of disorientation when setting objectives: the specialization of the work of managers, the hierarchical structure of management and the isolation of the various levels of management as a result of differences with regards to vision and to work.

The first factor poses the question of whether it is better for a manager to be a generalist or a specialist. For our author, the answer is that the number of generalist managers must be as large as possible. However, he understands that the vast majority of managers are functional, especially the young ones, and that's how they acquire the vision and values to which he attaches great importance. Let's consider a comprehensive yet simple text:

> It is essential that the functional specialist develop high standards of workmanship that he strives to be 'the best stonemason in the county'. For work without high standards is dishonest. It corrupts the man himself. It corrupts those under him. Emphasis on and drive from workmanship produce innovations and advances in every area of management. That managers strive to do 'professional personnel management', to run 'the most up-to-date plant', to do 'truly scientific

> market research', to 'put in the most modern accounting system' or to do 'perfect engineering' must be encouraged.
>
> (Drucker, 1954, p. 120)[10]

The danger is that efficiency, defined by the manager in his own way, becomes the yardstick by which to measure the contribution to the general objective and becomes an end in itself. If not balanced, Drucker believed it would become a centrifugal force that will dismember the organization into sets of functional empires struggling to extend their dominance.

Hierarchical structure can be a distorting element when working on objectives, if it provides the foundation and legitimacy to the superior's bad management. It is with his habits, ways of doing things, and preferences that the superior really fixes what matters to him, not with his statements. "The solution to this problem requires a management structure that focuses the gaze of the manager and his superior on the job requirements themselves and not on the demands of the boss" (Drucker, 1954, p. 122).

Finally, if the various levels of management do not really share the vision of the company and its business, it is very likely that serious problems will arise when assessing the achievement of the objectives. It may seem that the objectives are formally shared, when really the different levels of management may have pursued different goals; if this is the case, they will have implemented erroneous policies and put procedures and criteria in place to make up for what, when seen as a whole, perhaps should have been avoided or deterred.

In preserving the particular vision that must be shared at each level, in order to perform the task assigned, it is imperative that the differences between partial views do not unleash a corporate tower of Babel.

Objectives are not obvious, known, or given as a basis for all planning; they are the result of a decision that involves a risk. Once this decision has been made, and keeping it always in mind, things are then organized, planned, and evaluated; in short, they are managed.

> An effective management must direct the vision and efforts of all managers towards a common goal. It must ensure that the individual manager understands what results are demanded of him. It must

10. Forty years earlier, in the Spring of 1915, the Catalan philosopher Eugenio D'Ors gave a lecture at the Residencia de Estudiantes in Madrid, in which he said some words that may well serve as to clarify the Druckerian vision of honest work: "I will talk of heroism in any trade and the heroism in any form of learning. The man who came to see me this morning — you know, the one with the jacket the colour of earth — is not an honest man. He would be hard to beat at being sweet, trusting, a hard worker, and a good father. But this man is a professional cartoonist in an illustrated newspaper. This is how he earns his living, this is how he spends the hours of his day. And yet, he always speaks with disgust of his office, and says: 'If only I could be a painter! But I have to draw this nonsense to eat. Don't look at the cartoons, don't look! It's purely business … " He means that he only complies for profit. And that he has let his spirit go far away from the work that occupies his hands, instead of bringing his spirit to that work that occupies his hands." (D'Ors, 1973, p. 19).

> ensure that the superior understands what to expect of each of his subordinate managers. It must motivate each manager to maximum efforts in the right direction. And while encouraging high standards of workmanship, it must make them the means to the end of business performance rather ends in themselves.
>
> (Drucker, 1954, p. 124)

Having considered the subject of objectives, we will now go on to look at the genesis of the concept in question.

Once Harold Smiddy began to lead the Management Consultation Services Division of General Electric in Manhattan, he hired Drucker as a consultant from 1950 to 1954 (it was also in 1950 that Drucker began to teach at New York University). The daily devotion of our author to this task allowed him to work on key issues of concern to the giant General Electric at the time: decentralization, operative research, management development, design of the Crotonville Training Center, etc. Issues that, with the appropriate discretion, were rethought and presented in the evening classes and, together with extensive readings that we have already mentioned, were a rich source for *The Practice of Management*.

One of Smiddy and Drucker's most popular topics was the so-called "manager's letter"; published on a monthly basis, it " … set goals, activities and standards for each month and reported the results against the previous month's objectives. In this way, nothing was ever swept under the carpet. Targets were set, progress reported, and objectives with a specific timetable were often reset, with explanation. If the objectives spelled out in the monthly letter required another work relationship, then a copy of that letter was sent to the respective manager(s) to complete the full cycle and to allow others involved to incorporate the necessary agreed-on responsibility as part of their own monthly objectives. Once an objective was defined and scheduled in a monthly letter, it was never removed from future monthly letters until it was accomplished."[11]

According to Greenwood, Drucker circulated a first draft of *The Practice of Management* (especially the part concerning the manager's work and objectives) to Smiddy and other General Electric managers, during 1951 and 1952. As a source, some of the company's internal documents attributed to Drucker were used to discuss the setting of objectives by managers themselves and the efficacious self-control that this would bring.

In those years, the General Electric Company published a collection entitled *Professional Management in General Electric*, the third volume of which, *The Work of a Professional Manager*,[12] was written by our author. The collaboration ended because Drucker's philosophy emphasized the conceptual structure as being above

11. Greenwood, 1998, p. 227.
12. General Electric (1954).

the functional and focused on process versus purpose, which clashed with the prevailing mentality, indebted to the scientific school, which started with Fayol.

Drucker himself acknowledges that great leaders such as Du Pont and Sloan would have led their companies by bearing in mind what he called management by objectives but, as argued by Greenwood, it was our author who structured and substantiated this with a "philosophy"; he explained it and made it accessible to others.

4.4. Federalism, Decentralization, and Delegation of Power

4.4.1. The Federalist Papers and General Motors

It is fascinating to trace the genesis of this triad of concepts, so intimately linked with a management style that aspired to make organizations powerful, profound, and effective (and, therefore, also used the extraordinary tool that is management by objectives and self-control).

The first trace of these is found in *The Future of Industrial Man*, published in 1942 under the influence of the "American lectures" (Hamilton, Jefferson, Madison, Franklin, The Federalist Papers, Tocqueville and Calhoun among others) and opened Drucker's mind to the philosophical principles on which the political configuration of the United States is based: federal decentralization and the supremacy of liberty.

Drucker continues to expressly reflect his study of The Federalist Papers and Tocqueville's comments in *De la Démocratie en Amérique* (1835–1840) four years later in his first management book, *Concept of the Corporation* (1946a),[13] then in *The New Society* (1950a, p. 272) and *The Practice of Management* (1954).[14] Thereafter, he makes multiple references to this in articles: from 1968 in *The Economic Basis of American Politics*[15] until 1995, in *Reinventing Government*[16] and in books such as *Management: Tasks, Responsibilities, Practices* (1974a)[17] and *Landmarks of Tomorrow* (1957b)[18] (both of which saw federalism as one of the theoretical foundations of the new social pluralism).

We believe it may be interesting to bring up a couple of paragraphs from Tocqueville's *De la Démocratie en Amérique* in which he expresses the vision of a Europe based on the discussion that arises from having to choose between a centralized power (the prevailing system in Europe) and a decentralized one as was being tried out in "The Thirteen Colonies."

13. cf. Chap. II: Decentralization, pp. 132–133.
14. Cf. Chap. 17: Building the structure.
15. *Ecological Vision*, pp. 79–93. Originally published in *The Public Interest*.
16. Chap. 24, Managing in a time of great change.
17. Chap. 46, *Results-Focused Design: Federal and Simulated-Decentralization*.
18. cf. pp. 227–228.

> The partisans of centralization in Europe are wont to maintain that the Government directs the affairs of each locality better than the citizens could do it for themselves; this may be true when the central power is enlightened, and when the local districts are ignorant; when it is as alert as the are slow; when it is accustomed to act, and they to obey. Indeed, it is evident that this double tendency must augment with the increase of centralization, and that the readiness of the one and the incapacity of the others must become more and more prominent.

If these ideas were applied to business practice, the most immediate conclusion would be that centralization is not the best system to encourage the training of managers and the ability to take on increasing responsibility.

> According to Tocqueville: but whenever a central administration affects to supersede the persons most interested, I am inclined to suppose that it is either misled or desirous to mislead. However enlightened and however skilful a central power may be, it cannot of itself embrace all the details of the existence of a great nation. Such vigilance exceeds the powers of man. And when it attempts to create and set in motion so many complicated springs, it must submit to a very imperfect result, or consume itself in bootless efforts.
>
> Centralization succeeds more easily, indeed, in subjecting the external actions of men to a certain uniformity, which at least commands our regard, independently of the objects to which it is applied, like those devotees who worship the statue and forget the deity it represent. Centralization imparts without difficulty an admirable regularity to the routine of business; provides for the details of the social police with sagacity; represses the smallest disorder and the most petty misdemeanours; maintains society in a status quo alike secure from improvement and decline; and perpetuates a drowsy precision in the conduct of affairs, which is hailed by the heads of the administration as a sign of perfect order and public tranquillity: in short, it excels more in prevention than in action. Its force deserts if when society is to be disturbed or accelerated in its course; and if once the co-operation of private citizens is necessary to the furtherance of its measures, the secret of its impotence is disclosed.

In business terms, what can be done at more operational levels of the organization should not to be raised to higher levels, as these will become less effective and costs will increase? Decentralization enables top management to focus on their own work.

> What I admire most in America," says Tocqueville, "is not the administrative effect of the local system that I most admire in America. In the United States the interest of the country are everywhere kept in

> view; they are an object of solicitude to the people of the whole Union, and every citizen is as warmly attached to them as if they were his own. He takes pride in the glory of his nation; he boasts of its success, to which he conceives himself to have contributed, and he rejoices in the general prosperity by which he profits. The feeling he entertains towards the State is analogous to that which unites him to his family, and it is by a kind of egotism that the he interest himself in the welfare of his country.

As Drucker would say: the common citizenship (unit) of an organization is not the result of uniformity in actions, but rather participation in the principles of the organization's mission. Without unity the federal principle cannot be applied because there is no organization.

Finally, in the United States, Tocqueville argues:

> When a private individual meditates an undertaking, however directly connected it may be with the welfare of society, he never thinks of soliciting the co-operation of the Government but he publishes his plan, offers to execute it himself, courts the assistance of other individuals, and struggles manfully against all obstacles. Undoubtedly he is often less successful than the State might have been in his position; but in the end the sum of these private undertakings far exceeds all that the Government could have done.

Decentralization encourages initiative within the organization (entrepreneurship — "intrapreneurship") and when it its well governed this increases the business's effectiveness in long term.

We believe that Druckerian thinking on federal decentralization and its most immediate consequence, empowerment in the field of business administration, is a paradigmatic example of the way our author proceeds intellectually: such a sharp and widely trained intelligence, applied to totally practical problems (albeit with a theoretical background and taste) that necessitate solutions measured by results and effectiveness.

Now this framework is set, we will continue with the description of General Motors presented in *Concept of the Corporation*. Then we will proceed to extract what might be called the Druckerian theory itself, frankly assessed in *The Practice of Management*.

In *Concept of the Corporation*, the amazing change in General Motors' industrial production model is attributed to America's entry into World War II. Drucker states that this change was the result of a decentralizing philosophy of business management. With this new philosophy a general standard of conduct and the foundations for effective solutions to specific problems of economic life were sought.

After studying the auto giant, Drucker understood decentralization as more than a powerful tool in the hands of a corporation's top management: it is an organizing principle of industrial society that provides answers to several important institutional

issues such as the discovery and development of managers and leaders and orderly succession at the top of organizations. It is an instrument that also facilitates the formulation of management policies, steady enough to be a coherent guide for decision-making and flexible enough to adapt to the circumstances of specific situations. In addition, it favors the development of objective and impersonal evaluation criteria, in line with the policies discussed.

"Therefore, General Motors has become a test of federalism-overall, an extraordinary success. It tries to combine the greatest corporate unity with greatest divisional autonomy and accountability and, as in any true federation; it seeks to achieve unity through local self-government and vice versa. This is the objective of General Motors' decentralisation policy" (Drucker, 1946, p. 46). Sloan extended the decentralizing spirit not only to central and divisional managers, but also throughout the entire organization, as a philosophy of industrial management within a system of local self-government, which he called "decentralisation with coordinated control":

> It's not easy to say why one management is successful and another is not. The causes of success or failure are deep and complex, and chance plays a part. Experience has convinced me, however, that for those who are responsible for a business, two important factors are motivation and opportunity. The former is supplied in good part by incentive compensation, the latter by decentralization.
>
> But the matter does not end here. It has been a thesis of this book that good management rests on a reconciliation of centralization and decentralization, or decentralization with co-ordinated control.
>
> Each of the conflicting elements brought together in this concept has its unique results in the operation of a business. From decentralization we get initiative, responsibility, development of personnel, decisions close to the facts, flexibility — in short, all the qualities necessary for an organisation to adapt to new conditions. From co-ordination we get efficiencies and economies. It must be apparent that co-ordinated decentralization is not an easy concept to apply. There is no hard and fast rule for sorting out the various responsibilities and the best way to assign them. The balance which is struck between corporate and divisional responsibility varies according to what is being decided, the circumstances of time, past experience and the temperament and skills of the executives involved.
>
> (Sloan, 1963)[19]

19. One of the most interesting and profound books on business management written by a practitioner.

This is the conclusion of a thick book, written almost 20 years after our author's study of the same company. We feel it is worth discussing how Drucker came to the same idea.

In *Concept of the Corporation*, he sought to bridge the apparent contradiction of what he proposed as the role of central management, the dual function it was responsible for: first, to assist divisional managers to manage effectively and efficiently, and second, effectively lead that large corporation.

From his experience, Drucker drew the following lines of action:

(1) Central management sets the objectives for the entire corporation and assigns a share to each division, after a joint analysis with divisional managers (management by objectives), and thinking about the future.
(2) Central management limits the power of division managers and establishes the sphere of decentralization and the basic rules to be followed. Here we must stress that both levels of management carry out strategic and operational work, which can even be applied to the level of foreman. Each one manages at their level.
(3) Central management evaluates the divisions' progress and problems, without usually having to explicitly exercise authority over the subordinate.[20] It is the result of a fluid dialogue in which all relevant decisions are extensively discussed. In connection with the problems arising, central management has to take on and resolve those which, by their nature, are not strictly related to the activity of the division itself (the practical application of this depends on the situation).
(4) Central management contributes to the divisions in the following ways: specific advice, serving as a bridge between the divisions, providing information on new products, provision of tools for management and processes in order to make savings and increase efficiency, etc. Based on information derived from the relationship with the divisions, the management staff develops new policy recommendations for central management.

These guidelines make it easier for the divisional managers to assume the dual responsibility of leading their division and contributing to the global, united progress of the company (''division of powers and of functions, unity in action''). Moreover, these guidelines prevent decentralization becoming a theoretical plan, more concerned and committed to being consistent with its principles than with facilitating management action (the first requirement of any system of government), not infrequently influenced by exception.

Now we have considered what we could call the historical preliminaries of the Druckerian vision of decentralization, it is time to look at the vision itself.

20. True and effective authority is granted from below, is not imposed, it is something that is gained from whoever is in charge (similar to what happens with trust: it is not requested, it is inspired). ''The decision as to whether an order (communication) has authority or not lies with the persons to whom it is addressed'' (Barnard, 1938, pp. 163–164).

4.4.2. Federal Decentralization

In *The Practice of Management* (1954)[21] a set of reflections are presented that could be considered the result of mature Druckerian thinking on organizations and their structure. As we have seen, the topic came up as an object of study when Drucker was working on General Motors, and occupied a significant number of pages in *Concept of the Corporation* (1954). It was dealt with again in *The New Society* (1950a) with the changes outlined and was also discussed in other works. With the exception of organizations in the knowledge society, we believe that in general one can say that, as in the chapter on management by objectives, the best of Drucker on decentralization, and in particular what he called federal decentralization, is to be found in his 1954 work.

The idea is introduced by contrasting the differing viewpoints of a manager and an academician when discussing the structure of organizations. For the former, it is vital to know what kind of structure is needed, while the latter is focused on the issue of how to build this structure. Our author believes that it is important to know how to answer both of these if you wish to build an effective and long-lasting structure, always bearing in mind that the organization is not an end in itself but a means to an end, and the decision on the appropriate structure must be based on a thorough analysis of the business. There are three paths available to carry out this important analysis: the analysis of activities, the analysis of decisions, and the analysis of relationships.

The analysis of those activities to be undertaken in a business may seem superfluous, since you can say that they are well-known: purchasing, R&D, production, marketing, accounting and finance, personnel, etc. However, the reflection will only be truly successful if, despite everything, the pertinent question is asked: what activities are needed to achieve the proposed objectives?[22] In this way, what is appropriate rather than what is prejudged would be discovered: what tasks must be carried out; which of these should go together, which are critical and which are not. This would be done in such a way that the structure adapts, enhances what appears to be a competitive factor or a source of strength and remedies weaknesses. This type of analysis is particularly relevant in a mature business. It is in this type of business, rather than in start-ups, that incorporation and success may have easily led to errors being made in the organization of activities:

> An analysis of activities is needed most in the business that has been going for some time, and especially in the business that has been going well. In such a business the analysis will invariably reveal that important activities are either not provided or are left hanging in mid-air to be performed in a haphazard fashion. It will almost invariably

21. Chaps. 16 and 17.

22. Once again we should remember that in part the merit of this practical, direct, fresh, and deep vision of management lies in *when* it was conceived and presented. It is the forerunner to Michael Porter's value chain analysis.

> bring out activities that, once important, have lost most of their meaning, but continue to be organised as major activities. It will demonstrate historically meaningful groupings no longer make sense but have, instead, become obstacles to proper performance. And it will certainly lead to the discovery of unnecessary activities that should be eliminated.

The next question is what kinds of decisions should be taken to obtain the expected results, who should participate, at what level should they be adopted, which activities should be affected, and how should the information be managed. Drucker proposes four criteria to organize the complex panorama of decisions that replace the simplified dichotomy of government decisions as opposed to management decisions, or decisions on policy and strategy versus operational decisions.

First is the degree of commitment that is gained for the future and the speed with which a decision may be altered. For example, decisions that must be taken very quickly have to be pushed toward the more operational levels.

Second is the effect of the decision. Depending on the consequences it has on one or more of the company's functions, the decision-making capacity should reside at a higher or lower organizational level. This would prevent the optimization of some areas at the expense of others.

Third, there is the consideration of qualitative factors: people (''the most important as well as the most common''), values, beliefs, and ethical principles should all be included in the decision.

As a final criterion Drucker establishes the degree of periodicity in making the decision. This approach has to be combined with the previous three. Repetition allows a rule of decision-making to become established and one application can become routine, which, therefore, may be put in place at other operational levels. Nevertheless, the degree of future commitment, the consequences or qualitative factors, may suggest that this decision be considered at higher levels.

> A decision should always be made at the lowest possible level and as close to the scene of action as possible. Moreover, a decision should always be made at a level ensuring that all activities and objectives affected are fully considered. The first rule tells us how far down a decision should be made. The second how far down it can be made, as well as which managers must share in the decision and which must be informed of it.

Drucker, very correctly, stresses this in *Landmarks of Tomorrow* (1957b), when he discusses the government of The New Metropolis, and insists that it is completely relevant in the world of business management: if a technical problem is passed up to senior management, it will become a political problem and will be more difficult to solve. Similarly, it could be said that when top management focus on lower problems outside their remit, efficiency evaporates, and effectiveness is short lived (how common these errors are and how easy it would be to avoid them!).

Achieving a good decision-making philosophy will help us to decide how the top management should be structured and how authority and responsibility should be distributed within the organization.

Relationship analysis will provide a map of the contacts that a particular manager will have to deploy upward, downward, and sideways (remember what we said when talking about management by objectives and how it is about managing upward). Besides being an effective tool for building the structure, it is also useful for the intelligent selection of staff.

After analyzing the activities, decisions, and relationships, our author adds three requirements that a management structure must meet: focus on the undertaking, on performance and on results, and direct efforts toward the future and opportunities. Contain the minimum number of managerial levels and the shortest chain of command: each link that is added creates friction, inertia and hence, weakness. Train and evaluate the top management of the future.

In this context, Drucker presents us with what he called the two structural principles: federal decentralization and functional decentralization:

> … federal decentralisation, which organises activities into autonomous product businesses, each with its own market and product and with its own profit and loss responsibility. Where this is not possible it must use functional decentralisation, which sets up integral units with maximum responsibility for a major and distinct stage in the business process.

These are two different but complementary organizational principles, present in almost all companies, depending on the size and nature of the business. While federal decentralization requires a company of particular size, this is not the case with the functional decentralization, which is always applicable; however, an overemphasis on it may weaken the unity of the organization. Before the value chain had come to be thought of as a tool to analyze a company and make decisions, our author referred to something that we believe is very similar, when he says that the guide for functional organization must be the business process; the logic of the work to be carried out. Even with this approach, with the functional organization it is very hard to preserve a truly effective unity of action, focused on results. Organizational arrogance and selfishness that elevate a function over others are difficult to remedy, and "the functional specialist may become so narrow in this vision, his skills and his loyalties as to be totally unfit for general management." Then there is also the danger that setting objectives and undertaking evaluations within each function may clash with or be unrelated to the results sought by the company as a whole.

Faced with these difficulties, the federal decentralization adopted, according to Drucker, since the 1920s by General Motors, Du Pont, and later by General Electric, has the following features:

(1) It focuses the vision and management effort on work and results. It is more difficult to develop a complacent attitude of self-deception and forces one to think about the future: the evidence of results is irrefutable.

(2) Management by objectives and self-control is an effective tool, and management levels can be reduced, as such, to full delegation. Thus, it is a powerful means of management training, testing them with increasing responsibilities.

For federal decentralization to be effective, it must be borne in mind that the greater the decentralization, the stronger the central management must be. It must carry out the role of a guide, establishing clear and demanding objectives, which in turn impose high standards of performance and behavior. This also supposes a minimum business size; otherwise it is very difficult to maintain an adequate management broad enough to provide opportunities for growth, both for unit and central managers.

Our author adds to these requirements that units must compete with each other when the occasion arises, without being forced from above to cooperate.

This relationship should be strictly based on commercial terms to prevent any hiding of weaknesses, lack of productivity, low profitability, or required dependencies. Drucker turns to The Federalist Papers to provide a system that allows the disadvantaged unit to defend itself by exercising the so-called "right of nullification."

Once these criteria have been settled, shedding light on the decision of the most appropriate organizational structure for a particular business, our author emphasizes the value of underlying unity to the whole company. He states that decentralization has to be built on the foundation of "common citizenship," an expression of unity in diversity. Decentralization encourages autonomy because it promotes efficiency, and sets limits on independence, because this is the negation of community.

When building a decentralized organization, top management has to learn to channel the loyalties of its managers and employees so as to avoid conflicting loyalties, which always prejudice performance and efficiency. Drucker puts forward three ways:

(1) Top management has to keep hold of making certain decisions. There must be a "general welfare clause," which reserves decisions affecting the company as a whole and its long-term future welfare for central management, enabling common interest to be put before ambition and local pride. It depends on the type of business and the type of people making these separatist strategic decisions. In any event, this is not a fixed item; it should be the result of practical experience.
(2) The policy of manager rotation is a highly effective management tool. A manager who rotates instead of thinking exclusively in terms of a single department or division (because he is going to spend his entire professional career there, depending on his boss for promotions and has more to gain from growth within his department or division within the company) will always have an overview of the company in mind, despite his performance being limited to a specific area.
(3) The establishment of principles, goals, and common and basic beliefs (the mission and vision of the company) to adhere to. As a result, certain policies will be uniform and shared, but other policies and most criteria will be different. In other words, the unity of purpose and beliefs that give a community common

> citizenship is strengthened by diversity in practice. The practice must be uniform only where performance directly affects other units of the company. However, the principles should be common, clearly expressed and strictly observed.

In short, a good decentralized organization, whether federal or functional, or a mixture of both, is the creative synthesis of the centrifugal and centripetal forces inherent in any company. It is the expression of two opposing anthropological tendencies toward independence and unity. Like any living organism, a company also involves a balance that is unstable and in constant flux.

The symptoms of organizational illness are the following: (1) the existence of many levels of management, the result of unclear objectives, lack of clarity in activities, or overcentralization, (2) an oversized support staff, (3) the tendency to constantly apply established rules (''go through channels''), or (4) an average age in the management team that is too high (and, therefore, threatens continuity) or too low (and, therefore, hinders opportunities for sensible promotion). In contrast, the most obvious sign of organizational health would be an increase in efficiency and performance of the best managers and employees, converting the mediocre into good, raising their outlook and increasing what is expected of them and identifying and replacing the incompetent.

> Good organisation structure does not by itself produce good performance — just as a good constitution does not guarantee great presidents or good laws a moral society. But a poor organisation structure makes good performance impossible, no matter how good the individual managers may be.

Organizations help man to go further, to overcome difficulties, including his own.

4.5. Managerial Effectiveness and Leadership

After having looked at what Peter Drucker thought about the management of organizations in general and having detailed two of his most outstanding and interesting contributions (management by objectives and organizational decentralization), we believe the time has come to think about the figure of the manager and focus our attention on the traits that make him worthy of that name.

Throughout the preceding pages the concepts of effectiveness, achievement, accomplishment, contribution, and performance have appeared many times. In a way you could add to this list a term not used by Drucker — to add value — which is widely used today (Porter, 1985). All of them have come to mean something similar, with different semantics: an essential trait of the manager of modern organizations. To be responsible for ensuring that organizations and all their members fulfill their role, for which they receive compensation; that is, to be efficient and make others efficient, so as to obtain achievements, accomplishments and contributions; in short, to generate value, an asset that did not exist before.

A manager is an executive who measures his managerial and executive effectiveness by the contribution made; otherwise he is not a fair holder of this description. Effectiveness (results) and management are inseparable. Our author went even further, stating:

> Effectiveness reveals itself as crucial for the self-development of the individual, organisational development, and accomplishment and viability of modern society.
>
> (Drucker, 1985, p. 167)

We will go back, for the last time, to the methodology applied so far: tracing the possible sources of Druckerian interest in the effectiveness and its essential attribution to the manager. Then we will try to construct a systematic and synthetic presentation of managerial effectiveness.

When speaking in 1970 on the influence of Peter Drucker on Japanese management, the Japanese professor Susumu Takamiya described those developments, in the areas Drucker spoke of in Japan during his first visit in 1959, that had been experienced up until the latest development that he considers to have taken place in 1966. These topics range from what a company is, the responsibilities of senior management, management skills, human relations, innovation, long-term planning, decision making, competitiveness in the new global economy, entrepreneurship, and achieving higher results, and its impact on the development of successful companies; until in 1966 "his lectures were focused on managerial effectiveness, competent managers and the impact of computers on companies and industrial managers" (Takamiya, 1970, p. 252).

It is certainly an interesting discussion, albeit not exhaustive in its treatment of the range of themes Drucker worked on during those half-dozen years. However, concern for effectiveness and measurable results began with his first contact with the automotive industry. Back then he only employed the terms efficient and efficiency. They certainly mean different things and Drucker himself marked the difference between them in 1966, defining effectiveness as getting the right things done and efficiency as doing things right.

Our author attributes efficiency to manual work, where the most valuable technology is that which aims to get things done in an efficient, correct way; whereas in organizations based on knowledge workers the focus is on ensuring that what is done is done right. In both cases results and accomplishment polarize attention. Thus conceived, it seems to be appropriate to bring up several parts of *Concept of the Corporation* (1946), together with works from *The Practice of Management* (1954), as a prelude of what would later be shown in *The Effective Executive* (1967).

> The first rule of the corporation as an institution is survival as an efficient organisation of human efforts to the common end of most economic production. To this end it must have a policy which harmonises the divergent claims of administrative and purposive rationality; which makes possible adaptation to change and rejection

> of pure expediency, and which makes possible individual local action by providing a yardstick and a framework.
>
> (Drucker, 1946a, p. 40)

This text presents the elements needed to describe corporate action: (a) administrative rationality, focused on the means, (to do right), where the dominant criterion is efficiency, and (b) purposive rationality, focused on the ends (the right things), where effectiveness is the key. Both are focused on economic achievement (''the common end of most economical production''), characteristic of an efficient organization. A few lines later Drucker adds that the organization should be capable of training specialists (''high-grade human tools'') and generalists (''educated people capable of judgment and decision'').

> There is only one objective basis for wage rates: the productive efficiency of the worker. The worker may be paid only out of what he produces; his wage is a part of the unit costs — the largest part, normally — and must come out of the unit price. Any increase in wages that does not come out of increase in productivity is not only deceptive; it is harmful to the worker himself. It either penalises him directly by narrowing the market for his product, or it penalises the consumers, that is, the workers in other employment who are forced to pay higher prices. Hence only productive efficiency can give us a basis for the determination of wages that is both just and workable.

Twenty years later he would say something similar applied to the effectiveness of the manager: ''The executive is paid for being effective. He owes effectiveness to the organization for which he works.'' Ultimately the assessment of a manager (or worker) is directly related to his ability to be competent (effective and efficient) in his work; that is, to be productive. This statement does not exclude other deeper anthropological and ethical aspects, which involve the fact that a manager is a person and the respective consequences in terms of action and human motivation; it simply assumes that they are fundamental, without entering into a detailed study or discussion. In our view, he would agree with Chester Barnard[23] when the latter says that the background issues are so complex ''that we are constantly responding to them, albeit implicitly, when we make any statement about people's behavior'' (Barnard, 1938, p. 8). We will return to this point in our conclusions.

Let us turn to another text that we consider is the prelude to the figure of the knowledge worker and his contribution to the results of the organization. Every knowledge worker in modern organizations has a role that is similar to that of a manager. Due to his knowledge, the knowledge worker is responsible for the company's ability to be effective and efficient in implementing its objectives and in

23. An author whose influence on Druckerian thought is difficult to exaggerate. See Andrews (1968).

attaining the subsequent results. "Faced with an ever-growing need for executives and engaged in a technological and efficiency competition [...] the corporation simply cannot afford to deprive itself of the intelligence, imagination and initiative of ninety percent of the people who work for it, that is, the workers."

The key is not whether the worker in modern organization manages others or not, but rather in that they make decisions and take actions that affect the running of the organization and the attainment of its objectives. Nor does the worker "buy" the decisions "sold" from above, but rather he makes them his own with responsibility. We have gone from the hierarchical and dichotomous relationship to the dialogical relationship and teamwork.

In Drucker's opinion, the most effective leaders never say "I," not because they have practiced avoiding the word, but they do not think in the first person singular; they think of "us," in "the team." They understand that their job is to make the teamwork. They accept responsibility and not shirk it, but the credit belongs to the team. Within them is identification with the task and the group (often quite unconscious) that builds confidence and allows them to complete the task.

Before going on to a systematic exposition, the question of the efficiency and effectiveness was understood in *Concept of the Corporation* as a basic criterion in defining an economic policy that intertwined the interests of the company with those of its social environment. This economic policy should meet two requirements: be efficient and effective, both commercially and socially.

Finally, we think that an anecdote may illustrate what Drucker presented as managerial effectiveness. Lyndall Urwick tells us that in 1960 he conducted a survey for the American Society of Mechanical Engineers that was sent to 50 senior executives and business professors. One of the questions was "In your opinion what is the best management book published in the last decade?" Peter Drucker answered saying Philip Woodruff's book on the old British Indian Civil Service (Woodruff, 1954): a unique response, appropriate to the unusual character of our protagonist. It is enough to remember some of his sources: writers, philosophers, theologians, soldiers, artists, politicians, etc. But why that book? Because in it he discovered how fewer than 1000 young men — many of them educated at Balliol College, Oxford, in Liberal Arts (today a generalist education) and with only a few management tools — dominated a very complex continent in all areas, languages, religions, race, geography, etc. and made it work. The key to this was the training received, the organizational structure (very flat), a careful and thorough information system, and concern for carrying out effective administration (cf. Drucker, 1974f, p. 404, 1989a, 1993h, p. 349).

The most accomplished systematic exposition of the subject at hand, managerial effectiveness and leadership, was made by our author in the work cited above, *The Effective Executive* (1967). Almost 30 years after its first edition, he himself said of it that it was "an attempt to project what from Plato to Machiavelli had been known as the education of the governor, onto the education of managers in the organization." However, Drucker never intended for this work to be anything other than a "how-to" book in order to make managers more effective, both in terms of managing themselves and others.

If one accepts that increased efficiency will result in a corresponding increase in the level of performance, execution and management satisfaction, and if one adds that once a high level of skills and knowledge are reached, it is frankly difficult to increase them in normal cases (the exceptions being geniuses and experts), then, Drucker argues, one must focus on the instrument that makes the most of skills and knowledge: efficiency. The only sensible way to acquire this habit is through the repetition of actions. There is no special requirement that must be complied with beforehand.

Why is something so seemingly simple so hard to master? Perhaps because the various realities surrounding the manager pressure him in such a way that he loses control of the situation and, in particular, his self-control — that inescapable basis of any attempt to seek efficiency.

Our author identifies four important realities that affect the daily work of managers, which are essentially beyond their control, and which exert pressure that can lead to failure.

(1) The tendency for the manager's own time to be dominated by someone else. The manager may be defined as "a captive of the organisation," because everyone can take up his time.
(2) The pressure of activism. The flows of events (that often do not reveal the real problem, but are mere distractions) push the manager to impose solutions, without allowing him the opportunity to apply the criteria or basic policies.
(3) The organization that surrounds him. This is a paradox because it is precisely the organization that is the means to multiply the ability of the individuals, and it goes far beyond where the individual can. This requires building on what someone else has done and that is beyond our control. In an organization, efficiency is the result of cooperation.
(4) The tendency not to leave the organization to see what is going on outside it firsthand without prejudice based on preconceived ideas. The results lie outside the organization and depend on the client, exercising his purchasing power, to convert the cost (that festers and grows within the organization) into revenue and profits.

Curiously, the pressure to focus on what is going on inside, which comprises the immediate and powerful kingdom of the manager, increases as the manager moves up in the organization. The only antidote is a firm resolve to get outside and, once there, to focus on what is relevant. This does not seem to be helped by the flood of data often generated by modern technology.

How can these pressures be counteracted? By acquiring the habit through training oneself to manage time, focus on results, build on strengths, focus attention on a few important areas where excellent performance will generate excellent results, and make effective decisions (the result of, on the one hand, a decision grounded in divergent opinions and not in consensus on the data, and on the other, having taken the right steps in the right sequence).

According to Drucker, an effective manager does not start by planning, but by figuring out what to spend his time on. His tasks require a minimum amount of time to be effective, to spend less time than this is to waste time (especially in the case of decisions affecting people). Then he attempts systematic time management: identifying what is a potential waste of time, identifying who can replace him and do the task better, and eliminating the time he makes others waste.

A detailed analysis of the sources of lost time would bring out, among others, regularly recurring crises (easily manageable because they are known in advance); an oversized staff that creates friction, interference, and unnecessary explanations (which we have already dealt with); and poor organization that gives rise to protracted meetings and meetings: ''meetings are by definition a concession to deficient organisation.''

The second step of the effective manager is constantly asking how he can contribute. This spirit creates an atmosphere that expands in all directions within the organization:

> The person who focuses on efforts and underscores his higher authority is a subordinate, no matter how high his position and title. On the other hand, the person who focuses on contribution and who takes responsibility for the results, no matter how young he is, is 'senior management' in the most liberal sense of the term.
>
> (Drucker, 1967a, p. 53)

His concern is the whole organization.

For knowledge workers, whose contribution lies in their specialization, the effectiveness of their contribution lies in them being able to gain a certain generalist mentality that allows them to connect the parts to the whole?

Focusing on contribution not only requires information, but also minimal communication that allows others' needs, objectives, perceptions, and ways of working to be understood (again, efficiency goes hand-in-hand with cooperation).

The effective manager is he who makes the strengths of individuals and the organization productive and seeks to make their weaknesses irrelevant. Drucker offers several tips of real substance to establish objective job positions, that is, determined by the tasks rather than by the personalities of those who are to occupy them, which contributes to the aim of ''operationalizing'' strengths:

(1) Posts requiring someone extraordinary should be redesigned.
(2) Design jobs that are demanding yet broad, in such a way that they have sufficient scope to ensure that any strength relevant to this task produces significant results and that they provide room for personal development.
(3) Tolerate the weakness to gain the strength. Capable people do not exist in general but rather only in specific tasks. They have to be managed so that they reach excellence in that task; at the same time essential workers should be made to change posts quickly, so that their strengths are not wasted.

In short, the effective manager seeks to facilitate others by removing the barriers to their strengths, starting with their superiors (managing is also about managing upward and, by obeying orders, one can tell the obeyed what to do): this is an attitude. Furthermore, the effective manager feeds opportunities and stifles the problems: this is a practice. As a leader, he sets the guidelines.

Finally, effectiveness requires concentration and rejects dispersion (Drucker, 1967, p. 100). Determining priorities involves deciding with strength, because you have to prioritize the future over the past, opportunity over problems, the real over the immediate and the important over the urgent. To decide is to impose priorities on time and that always involves risk. Management and leadership involve this responsibility and an even greater one: the training and development of people.

Chapter 5

Management of Knowledge in the New Economy

5.1. The New Management Paradigms

We live in the Internet age, the fruit born of the confluence of new information technologies and telecommunications. The Internet is now fashionable, even ubiquitous in some parts of the world, and has triggered an intense speculative fever. But the Internet is more than just a fad. As happened with radio or television, the Internet is here to stay. Its impact on the economy and society is of such magnitude that we now speak and write of a *new economy*. Today we can learn from successes in this new field and, above all, the failures (see Stein, 2001).

Is there a *new economy* or is it the traditional economy transformed by new telecommunications technologies and IT? For Drucker, and for entrepreneurs and executives, the answer has no bearing on what really matters: leading in the Internet age is a work of synthesis and character, intelligence, and will. The development of the knowledge society is characterized by its swiftness. Knowing how to orient oneself with speed and flexibility is as difficult as it is indispensable. Not surprisingly, life is lived forward but understood backward. History gives us wise examples:

> As the century closed, the world becomes smaller. The public rapidly gained access to new and dramatically faster communications technologies. Entrepreneurs, able to draw on unprecedented scale economies, built vast empires. Great fortunes were made. The government demanded that these powerful new monopolists be held accountable under antitrust law. Every day brought forth new technological advances to which the old business models seemed no longer to apply. Yet, somehow, the basic laws of economics asserted themselves. Those who mastered these laws survived in the new environment. Those who did not, failed.
>
> (Shapiro & Varian, 1999, p. 1).[1]

1. Drucker fully concurs in this analysis: "Beyond The Information Revolution," *The Atlantic Monthly* (1999d).

Although it might only be a rough description of what is happening now in the economic world, these lines are intended to outline the situation of a century ago when technological innovations in rail or communications caused upheaval in business and social attitudes.

It is obvious that information and knowledge have always been factors that influenced the economic future of humanity; however, it is this increased presence of technology that has played an almost exclusive role in wealth creation. If we add to this the ability to digitize information and thus enable instantaneous and nearly free transmission, we find ourselves facing the core of the economic, and perhaps social, paradigm shift also.

Technology changes, but the laws of the economy remain. The information economy is characterized by several well-defined features: information is expensive to produce but cheap to reproduce, that is, it has high fixed costs and low marginal costs; also, information is a good, an asset, of experience — it has to be tested once to be evaluated; nevertheless, information as such is an asset of experience every time it is consumed. Before buying shoes, the client tests them; but what would happen if you read a newspaper, book, or market research *to test them*? And finally, the wealth of information leads to a corresponding poverty of attention.

In any case, what has really changed from what was going on until the early1990s is the technological infrastructure: today information is more accessible and therefore more valuable; nevertheless it does not change the total amount of information available? What is truly new is the ability of modern companies to make new orders based on the exchange of electronic data, which allow the analysis of orders in all branches under different pricing and promotion policies, and the speed with which they introduce discounts on products that are not selling well. And all of this with minimal human intervention.

How does Peter Drucker see these sweeping changes? What is their effect on the management of companies and individuals? For our author, the psychological effect of the information revolution, as with the Industrial Revolution, has been enormous: Electronic commerce is to information revolution what the railroad was to the Industrial Revolution: a completely new event unprecedented and completely unexpected. As with the railroad 170 years ago, electronic commerce is creating a radically different economic boom that is rapidly changing economy, society and politics.[2] The railroad changed people's "mental geography" and physical horizon; electronic commerce not only overcomes distance — in the case of purely informational products, it removes it.

As our author likes to point out, the largest e-commerce growth is occurring in a sector that until now had no trade: the labor exchanges. Internet has become a macrolabor exchange with millions of digitized résumés flowing through it. The result is a renewed labor market.

2. See "Beyond the Information Revolution" in *The Atlantic Monthly*, October 1999d.

Time is relentless and more so when it comes to practical action; what was true yesterday may be wrong tomorrow; therefore, to speak of absolute and immutable truths in management requires prudence to stay within limits that make a useful tool ineffective or useless, precisely because any institution — whether a commercial enterprise, a public service, a university, a church or a large military organization — is evaluated by its capability of producing results outside of itself.

In this sense, it is a theoretical and practical mistake to argue that there is an organization *par excellence* or one right way to manage people. But not everything is subject to a blind, random relativism: in the art of management can be found some extremely useful general features, especially in this accelerated era of Internet:

> There are, of course, differences in management between different organizations — Mission defines Strategy, after all, and Strategy defines Structure. There surely are differences between managing a chain of retail stores and managing Catholic diocese (though amazingly fewer than either chain stores or bishops believe); between managing an airbase, a hospital and a software company. But the greatest differences are in the terms individual organizations use. Otherwise the differences are mainly in application rather in principles. There are not even tremendous differences in tasks and challenges. The executives of all these organizations spend, for instance, about the same amount of their time on people problems — and the people problems are almost always the same. Ninety percent or so of what each of these organizations is concerned with is generic. And the differences in respect to the last 10 percent are not greater between businesses and non-businesses than they are between businesses in different industries, for example, between a multinational bank and a toy factory. In every organization — business or non-business alike — only the last 10 percent of management has to be fitted to the organization's specific mission, its specific culture, its specific history and its specific vocabulary.
>
> (Drucker, 1999h, p. 8)

The renewal of the practice of management also necessarily brings the emergence of knowledge workers and managers — Drucker also referred to them as technologists — because they are the people who apply the knowledge at the highest level.[3] Unlike manual workers, who were seen as a cost to the company, the new players are an asset. In reality they are not subordinates, but coworkers, and they quickly come to know their work better than their bosses. As in an orchestra, an

3. P. Drucker, "Only through the education of technologists can developed countries continue to have a considerable and lasting competitive advantage." In *Knowledge-Worker Productivity: The Biggest Challenge* (1999e).

organization of knowledge can easily undermine the more-capable superior, let alone the more autocratic.

What motivates a knowledge worker, in addition to the clinical factor of money, is, after all, just what motivates a volunteer: his work (Drucker, 1999g). They need a challenge; they need to know the mission of the organization and believe in it, they need ongoing training and to see results. Managing is built on the strengths and knowledge of each person. This requires that management become entrepreneurs: *management* and *entrepreneurship* are two sides of the same coin: "as a rule it is necessary to design the company for change, and to creating change rather than reacting to it."

5.2. Strategies and New Certainties

The Copernican revolution that will occur in the population pyramids leads our author to argue that the retirement age will eventually rise, and this will happen when those born in the baby boom retire (Drucker, 2000a). This will in turn influence the evolution of different sectors, which depends on the changes occurring in the distribution of disposable income. Consider that in the last years of the century we left the fastest growing sectors: health, education, leisure, and financial services, which were geared to ensure the purchasing power of seniors.

There will be major changes between sectors in growth, maturing, and declining, which will require appropriate management styles: "A growing sector which has demand for products and services will grow faster than the population and the economy; it is a sector that manages by creating the future. It will need to take the lead in innovation and be willing to take risks. In a mature industry management must achieve a leadership position in a few crucial areas, especially those in which demand can be met at a substantially lower cost due to technological development. Flexibility and rapid change are the keys (an example is the pharmaceutical sector which reached maturity in the nineties and is now facing new ways of meeting old demands, changing the chemical medication for genetics, molecular biology, medical electronics and even alternative medicine). In a declining sector management needs, above all, to achieve progressive and systematic cost reduction and pursue a steady increase in quality and service" (Drucker, 1999h).

Another certainty that influences and will influence the future is the paradox that we will have to operate in an increasingly globalized economic reality, and at the same time, in a world of continuing political fragmentation. One consequence is the risk exposure of currency exchange. Are we really safe from this danger with the Euro?

Current information technology must take into account new certainties. Top management should not be dealing with both cost control and the creation of value. Cost is not the driver of price, but vice versa.

Likewise, managers will have to easily handle the conceptual and practical triad of information–knowledge–action. Directors have to learn two things: eliminate data

not related to the information they need, organize data, analyze, and interpret it, and then direct the resulting information to action. Ultimately, the purpose of information is not knowledge but to be able to take the right action.

Information technology and strategic management must be oriented to systematically increase the productivity of knowledge workers. Knowledge, also called "human capital," has become the quintessential comparative advantage and this requires an immediate transfer into the governance of organizations. Knowledge workers are valuable, but have no "market value"; they are not an asset that can be bought or sold, and we have to satisfy them, just as we seek to satisfy customers and shareholders.

It is surprising to note that our author, even until his death at 95 years of age, enjoyed lucidity and an enviable sense of timing, and was able to put his finger on the pulse of the prevailing compensation systems. "The key knowledge workers in these businesses will surely continue to expect to share financially in the fruits of their labor. But the financial fruits are likely to take much longer to ripen, if they ripen at all. And then, probably within ten years or so, running a business with (short-term) 'shareholder value' as its first — if not its only — goal and justification will have become counterproductive. Increasingly, performance in these new knowledge-based industries will come to depend on running the institution so as to attract, hold, and motivate knowledge workers. When this can no longer be done by satisfying knowledge workers' greed, as we are now trying to do, it will have to be done by satisfying their values, and by giving them social recognition and social power. It will have to be done by turning them from subordinates into fellow executives, and from employees, however well paid, into partners" (see Drucker, 1999d. Also Drucker, 2000b, pp. 13–20). How will we act in the coming years? It depends on the ideas and principles that inspire the governance organizations. To satisfy greed seems to have its limitations.

5.3. Start by Managing Self

Perhaps this is the most innovative theme of all those addressed by Peter Drucker in his last two years, and he did so in two ways: the professional and personal. From a professional standpoint, to know how effective and efficient one is in management is an extremely arduous and strenuous task, for which it is very useful to regularly carry out what Drucker calls *the feedback analysis*. What does this retrospective analysis consist of? Essentially it extracts some conclusions from comparing expectations and results over time, for example, one year.

Here are some tips for undertaking this very personal review:

(1) Focus on your strengths and develop them.
(2) Identify areas where intellectual arrogance is the cause of occupational disability and overcome that arrogance.
(3) Transform bad habits into good manners.

(4) Do not assume jobs or tasks for which you lack the necessary minimum grounding.
(5) Do not waste efforts on improving areas in which you have no skill or competence. It is preferable to use your power to turn a competent person into an effective expert, than to achieve the mediocrity of an incompetent.
(6) In short, do not try to change yourself, but work hard to improve your performance.

In summary: "Organizations are no longer built on force. Increasingly they are built on trust. Trust does not mean that people like you. It means you can rely on one another" (Drucker, 1999h).

From the personal perspective, knowing how to manage oneself can open up wide horizons, especially in what Drucker called "the second part of life." Knowledge workers, unlike manual workers before them, can have a life of great skills that are not extinguished with retirement or entry into old age. Many will survive in their own organizations and will have new opportunities; however, they must be prepared and this requires previous training. These are not hobbies to kill free time, but performances full of meaning.

Perhaps it is in this "second career" — whether a parallel career, or a social activity, or the cultivation of a satisfying skill that one is going to develop in the second half of one's life — where we may achieve what eluded us in the first half: to do something important and valued by others.

Chapter 6

Conclusions for Turbulent Times

> Man is born to think; he is never a moment without doing so.
>
> Blaise Pascal

In January 2008, I had the opportunity to ask a group of executives, from 58 companies in 28 different economic sectors, what they had been doing in the preceding days at work. Their responses pointed mainly to *revisions* (taken as synonymous with *reductions*) of current plans. It was all business plans, sales forecasts, launches of new products and services, or forays into new markets; in short, reconsidering strategic planning, and that which always goes with it: teams of employees.

When I delved further, I became interested in the priorities that guided them in managing their companies. All of those present placed the priority on sales, although one of the protagonists added, "and billing." There was silence. Then I really realised that things were truly changing in our business environment.

What Bernanke, Trichet, Solbes, the vagaries of the stock market, and the subprime crisis had all failed to achieve in me, he had got spot on. Billing. It was so long ago that billing was considered a real problem worthy of management consideration, that I could not believe we were returning to the old ways with it. *Logically*, say the *logicians*, he who buys, pays, or he who borrows money, returns it; but the new turbulent realities have reminded us what we had almost forgotten, that people can, and indeed we do, exhibit unpredictable behavior (or different *logic*). Drucker believed that the company's main function was to create a customer, and the customer was someone who, having bought and paid for something the first time, would return to do so again.

Naturally, the bank executives present lacked the time to explain to us the renewed importance of real guarantees when obtaining funding. Forecast results (measured as earnings before interest, taxes, and amortization), supported by good previous accounting periods, were until recently a well-accepted guarantee, but are now insufficient.

It seemed as if, overnight, future projections had come under suspicion. However, it is always best to remember that prudent managers combine wisdom when looking at the accounts and magnanimity when facing the future.

This demonstrates the turbulence in the expectations of our society's protagonists, caused by the uncertainty of what will happen in the future. This climate of hesitation reminds me of what the Spanish author Ortega y Gasset said about a hundred years ago, when describing the hesitancy of the society around him: "our problem is that we don't know what will happen to us."

Although a spreadsheet application can handle practically every calculation, a hundred years is perhaps too long to calculate a cash flow. My financial colleagues tell me that from about 30 or 40 years the current value becomes zero; nevertheless, a century does not alter the inherent uncertainty of being human. It is strange that it is necessary to reduce time periods in order to more accurately calculate the value of companies, while more time is needed in order for us to mature.

Time, nevertheless, does pass and the underlying perplexity remains; or perhaps we now know better how to respond to the question: what do we believe in, what is it that really deserves the effort, to what end do we stake our lives. Drucker is a renewed antidote against turbulence and the confusion it triggers. The previous pages have tried to offer many reasons to return to Drucker's thinking, and the few remaining pages will try to complete this task.

In this book, we have attempted to travel from the obvious to the hidden. These conclusions are intended to be a summary of where that journey has taken us.

There is a tale about Novalis (pseudonym of the German author and philosopher, Georg Philipp Friedrich Freiherr von Hardenberg) who, staying in an inn, ordered his servant to prepare the luggage. The inquisitive servant, asked "Where are we going?" Novalis replied with gravity: "Home. We're always going home."

Peter Drucker's uniqueness makes him a truly appealing character, both in person and in his work. He is a creative, profound, enjoyable, and tireless knowledge worker. In an article published in 1997c, he describes six personal experiences that taught him how to grow, mature, and change without becoming a prisoner of the past. He says that, from Verdi, he learned to never stop trying. The famous Italian composer wrote Falstaff when he was 80 and already a celebrity, despite it requiring the most strenuous efforts. Drucker was overwhelmed by the maestro's response to a question of why, being now at his peak and so old, he had submitted himself to this. "All my life I've been a musician," said Verdi. "I have sought perfection and it has always eluded me. Truly, I was obliged to try again." And thus has our author reacted, right from his early years; striving to keep his mind alert and open to new knowledge. And "motivation for intellectual work must come from within the worker himself" (Drucker, 1969a). But his desire is not only to be remembered for his work, but also for his contribution to the lives of others. Although it seems mere rhetoric, it is true and is evidenced by his sober way of life and intense professional dedication.

The Druckerian personality and its nurture give rise to a creative and original approach to the theoretical and practical issues with which it deals; asking about the very nature of things and the most basic and fundamental realities. "The most important and difficult part of a task is never to find the right answer, but to find the right question." In a sense, Drucker is a management phenomenologist. (This book could well have been titled: *Peter Drucker's Management Phenomenology*.)

It is vital to look at the reality of things and actions without the distorting lenses of any prior theory. The constant supply of practical cases and examples and their interpretation enrich and strengthen his claims. If you live only for today, then history is nothing more than a hobby. As our author lives with an eye to the future, the study of history and business cases is for him to reflect on human nature. This is a solid foundation for any practice of business management.

The questions help us think. Another conclusion reached is that Drucker's ideas are as thought provoking as the way in which he applies his intellectual discourse to them: "Drucker's real contribution to understanding business is not so much the value of his ideas as in the rigorous activity of the mind that formulates them. You can learn more — and more profoundly — by contemplating him thinking than by studying the content of his thought" (Kantrow, 1980, p. 76). Drucker never intends to be original: he is more interested in originating, to write what he really knows. Moreover, if his ideas sometimes create a sense of *déjà vu*, it is because Drucker himself had advanced them many years ago, and many other people have read and written about them. Drucker exaggerates in order to think, and also conveys to the reader a fluid logic that leads to the heart of the problems and arguments.

His thinking was nurtured by extensive reading, exploited with depth and perfect timing. Among his reading influences are innumerable oddities. One is unlikely to find any other student of management with so much living cultural background, of which Drucker makes extensive use, almost on every page, enlivening and enriching his thinking. From Stahl, Herder, Humboldt to Parker Follett, via Smuts, Calhoun, Hamilton, Jefferson, Austen, James, Tocqueville, and a long and amazing "etcetera," not forgetting *The Men Who Ruled India* (1954). As any educated person, our author has read many books in an attempt to decipher the meaning of life, to which attempt, incidentally, he has not spared a single page.

From his broad, solid, and continuous education has been born a unified and yet multifaceted way of thinking, refusing to be pigeonholed. Starting from social philosophy, he went on to study organizations of the industrial society and ended up in management, to finally rethink the postindustrial and knowledge society. Drucker has shed an illuminating bright light on the growing complexity of society to contemplate a society of organizations and institutions; a light that, thanks to its nature, reduces and manages complexity. As he confesses in his autobiography, he has alternated books of social and political integration with works on management. Among the organizations that make up society at large, companies certainly stand out for their influence. In turn, corporations are permeated by the *ethos* of our time, such that management cannot be a neutral activity (Micklethwait & Wooldridge, 1996, p. 159). This mutual feedback is one of the greatest discoveries and, undoubtedly, one of the "secrets" of his success as a "prophet" of management. It is precisely this progression to the postindustrial and knowledge society that has highlighted the opportunities of business institutions.

Drucker was among the first — if not the first — to detect the imminence of this momentous change. Precisely because he is not a specialist, he was able to see details and nuances that had been overlooked by the great management "gurus."

We can say without reservation that our author is the father of modern management. Besides coining the modern sense of that concept and others such as human resources, decentralization, efficiency, knowledge worker, and management by objectives, he also anticipated trends and discontinuities: the features of postmodernity, the influence of technological changes at work and in companies, the leading role of innovation and entrepreneurship, the crisis of economic reductionism, and the fall of Marxist totalitarianism.

Finally, among the predictions, we wish to highlight the emphasis that Drucker ascribes to the nonspecialist education of organization management as a liberal art and a social function, combined with a healthy obsession for efficiency, focused on results and supported in the organization. Companies cannot withstand utopias.[1]

The good — or perhaps bad — side to social theories is that they are continually subject to the test of their social applicability and to the judgement of the results of such an application. If, moreover, it is not just a theory about some isolated and abstract aspect, but rather something as dynamic and concrete as a company, then the reality test is continuous. Almost no author has passed this test beyond a certain length of time. Drucker has done so throughout his life.

Not everything has hit the target, of course. There have also been some misses, but they are distinguished precisely because they go hand-in-hand with the hits. Some of the misses include: the superficiality with which our author sometimes deals with nuclear issues, the failure of a system, repetition, self-aggrandisement (a lesser sin), and wanting to be too definitive about too many things.

These are the difficulties that a "generalist" has to face these days: the body of knowledge is so great that it is impossible for one person to master. Aristotle said new and important things on everything, from the nature of God to the language of dolphins. Leibniz was probably the last *uomo universale*: he discovered differential calculus, prepared a military mission to Egypt, sought the union of the churches, and wrote the first theodicy. Since then, nobody has been able to know about almost everything. However, what we have noticed most in writing this work is that some expectations have not been sufficiently met.

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1. The editor of the Annual Report of a Spanish company (that happens to be among the world's most profitable in its sector) wrote in 1992: "In a banking enterprise, organisation remains the challenge. As not many people know how to make money, good organisation has to make up the deficiency. In other fields, organisation is also the key to success. We have a good example in politics. If we look at the success of the national party now in government or at the major autonomous parties, we see that they owe all to good organisation. According to this criterion, in this bank we spend time and ingenuity constantly improving the organisation. We believe that hitting the organisational challenge constitutes much of the success. We believe that failures are always organisational failures, that errors are preventable through organisation, that the future is not a serious problem if the organisation is ready. When the authors of the recently approved bill of Foundations withstood the harshest criticism for attempting to define foundations as organisations, and have maintained that definition in the final text, it is because they know well what they do." An unwittingly perfect synthesis of Drucker's thinking on organizations.

Chester Barnard said:

> I have found it impossible to advance the study of organisations or the performance of individuals within an organisation without running up against some substantive issues such as: What is an individual? What do we mean by using the word "person"? To what extent do people have the power to choose or the freedom to choose? The temptation is to avoid such issues as too difficult to answer, leaving them to the philosophers and scientists, who continue to disagree after centuries of discussion. One realises quickly, however, that although we try to avoid giving a definitive answer to these questions, we cannot avoid facing them. We are always answering them, even implicitly, when making any statement about the performance of individuals; and, most importantly, everyone, especially leaders, managers and executives, acts on the basis of assumptions or fundamental attitudes that suppose that answers have already been given to those questions, even though they are only rarely aware of them.
>
> (Barnard, 1938, p. 8)

Drucker has faced such questions more than almost anyone in the history of management. Not today from the world of management are there many who have applied their intelligence and willingness to resolve these questions theoretically and operationally.

However, from his social ecology, Drucker has not sufficiently developed questions of anthropology of management in such a way as to provide a thorough foundation for the theory of human action in organizations. This was needed yesterday and remains needed today. He has shed some light, but it is a very large field to illuminate.

His crowning glory: management by objectives and self-governance, which Carlos Llano describes:

> It is simply the express recovery, for the world of work, of this basic truth: that man only acts as such when he is conscious of and willing in the purpose for which he acts; the recovery of the knowledge — lost in the jungle of technical and procedural systems of the organisation — that being man, being rational, means knowing why he acts (has reasons for action) and means loving those reasons (or at least agrees with them); and the belief of something un-provable but true: work that undermines the rationality and freedom of those who perform that work cannot produce good results for anyone; nor, and principally, for those who want to make use of that work.
>
> In an even more rigorous manner, management action is marked by the stamp of finality, because to manage is nothing more than directing others to a proposed objective. Taking away the objective, human

> action ceases to be human; and management action ceases to be management.
>
> (Llano, 1979)

In short, Peter Drucker wanted and largely achieved the restoration of the role of the person in the business world. We recall his writings on the manager, the foreman, the manual worker, and the knowledge worker. Those writings provide reason enough why he is a star that still shines in a sky characterized by transience.

To read Peter Drucker has been a joyful adventure, entertaining, and informative. He is a writer who knows where his writing leads.[2] In our view, he provides an unbeatable introduction to business management.

We started with Goethe, and shall now finish with Cervantes. Drucker can say with good reason, after looking at the world and trying to understand it, what only Don Quixote, in his madness, thought to say:

> I know who I am.
>
> (de Cervantes, 1605)

2. When people ask me about why I write," says Drucker, "my first reaction is evasive. I've written a lot about economics, but I certainly am not an economist. I've written a lot about history, but I certainly am not a historian. I've written at length about politics and state, but although I started as a political scientist, I left the field years ago. Nor am I am a sociologist. Nevertheless, I know (I've known for years) what I am trying to do. I consider myself as a social ecologist. The object of my study and concern is the environment created by man, including himself, in a similar way to the ecologist studying the biological environment" (*The Ecological Vision*, 1993, p. 441).

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