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Perennial Insights from Peter Drucker

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As a prolific writer who published some 40 books, Peter Drucker has left us with an abundant and wide-ranging legacy—such that it is sometimes hard to decide the heading his most significant and lasting lessons belong under. Unlike other management writers and gurus, Drucker did not start out as a thinker about organizations and management. Rather, he made his mark as a young man as a political scientist studying the seismic shifts of the twentieth century that gave rise to totalitarianism, in both its fascist and communist forms. This preoccupation remained central to his outlook and output all his life.

Analyzing the roots of these epochal developments in his first major book, *The End of Economic Man*, Drucker concluded that, as became apparent in the Great Depression of the 1930s, capitalism had failed to give people meaning beyond the purely economic. That left them open to the new fascist or communist creeds that promised not only a better world but a perfect one, based on a seemingly rational logic that used scientific language and theories to legitimize their world view. As examples, consider dialectic materialism, race theory and eugenics. Drucker was intrigued, and alarmed, by the way

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the Enlightenment and its unbounded belief in absolute reason and rationality had paved the way for the most murderous ideologies in human history. He saw the havoc that violent upheavals such as the Bolshevik and Mao's Cultural Revolution had wreaked in pursuit of their utopian goals, for which the French revolution with its Reign of Terror and the Vendée massacres had established a terrible precedent. He understood how the desperate yearning of the masses for a place, a status and a function in society made them easy targets for the rhetoric of toxic leaders—the charismatic preachers of death and destruction. By contrast, he perceived the American revolution of 1776 as marking a decisive turn of the absolutist and rationalist tide, the new constitution providing a pragmatic and carefully balanced design for both a functioning and a free society.

Management—A Vital Role in Society

In the course of his enquiries Drucker also uncovered a phenomenon, new to the twentieth century, that—not for the only time—he perceived while others missed. He called it 'the new society of organizations'. And this is where he placed his hopes—on those organizations in which, as they sprang up across all domains of society, he saw the potential to improve people's lives by affording them roles, function, meaning, and community as well as material sustenance. The emergence of large industrial corporations, growing public-sector services institutions and numerous social-sector and non-profit organizations were already generating employment and dignity for many. But to turn their potential into reality—to allow them to endure and help create Drucker's functioning society—it was clear that they needed to develop structures and systems to enable effective performance. In other words, they needed to be consciously managed.

Yet when in the 1950s Drucker searched for methods and tools to guide managers in these tasks, he found—inconceivable as it now sounds—that they barely existed. There were bits and pieces, but no coherent body of knowledge. His conclusion: if management was to become a discipline, something that could be researched, learned, taught, and systematically practised, he would have to create and codify it himself. 'I sat down and made a discipline of it',¹ he would tell an interviewer. This by itself was an enormous intellectual and personal endeavour—the chief of the 'widening circles' in which following the poet Rilke he lived his life, and whose outward ripples

¹ Quoted in Jack Beatty, *The World According to Drucker* (1998), 104.

drove, and still drive, subsequent explorers in the field to build on the foundations he had laid.

Coming to ‘management’ through a concern for the workings of society as a whole, Drucker always viewed the discipline in a broad social context. His argument was simple and fundamental. To function, a free society required strong self-governing institutions across every sector; the only alternative was totalitarianism. In turn, effective organizations required high-performing management: ‘Performing, responsible management is the alternative to tyranny and our only protection against it.’² Hence his description of management as a ‘constitutive organ’ of a functioning society: by comparison, making a profit, while important, indeed essential to fulfilling its function, was a means and a validation, not an end. From social purpose derives management’s further duty to minimize an organization’s social impacts and externalities. Like medicine, it should first do no social harm.

The ‘Why’ as the Starting Point

Specific to Drucker is the way he treats management as a whole, giving appropriate weight to the three dimensions of what we might call the ‘what’, the ‘how’, and the ‘why’ of management, where the ‘what’ represents the theories and concepts, the ‘how’ the tools and methods, and the ‘why’ the values, principles, and purpose of the work of managers. Most management thinkers address the ‘what’ and the ‘how’, eliding the ‘why’. For Drucker, the ‘why’ was the starting point.

The why is the area where what Drucker calls ‘the educated person’ is needed. For Drucker, management was always a ‘liberal art’—as he put it, “liberal” because it deals with the fundamentals of knowledge, self-knowledge, wisdom, and leadership; “art” because it deals with practice and application’.³ Management is to the social sciences what medicine is to the natural ones. Following this formulation, those versed in humanities and social sciences will be more at ease with tackling the big questions around purpose and values, because they have learned to think in a broader context. To ignore the ‘why’ is to turn management into a mere technique and run the risk of nudging us on to the slippery slope to technocracy.

² Quoted in J.A. Maciarello, *The Daily Drucker* (2004). Accessed at <http://meaningring.com/2017/01/10/management-as-the-alternative-tyranny-by-peter-drucker/>.

³ *The New Realities* (1988), 223.

Performance: The Litmus Test for Any Organization

To fulfill its social function, an organization must perform: it must satisfy the needs of customers, innovate to create new offerings, deliver effective public-sector services, and provide the cultural and spiritual experiences that humans need for meaningful lives. For Drucker, the *sine qua non* of management is therefore achieving results, a word that recurs throughout his work. As he put it: ‘Performance of his function is his first social responsibility. Unless [the organization] discharges its performance responsibility, it cannot discharge anything else. A bankrupt business is not a desirable employer and is unlikely to be a good neighbour in a community’.⁴ Without effective, well-performing institutions, society can’t survive, and if an individual cannot play their part in achieving performance that is more than the sum of its parts they are not a manager.

One of the human aspects of enabling performance is the requirement to place people in the organization where their strengths are made the most of and their weaknesses neutralized—a difficult job that imposes high demands on managers and on the individual. This is one reason why self-assessment and self-management were always a touchstone in Drucker’s thinking. After all, how can you expect others to perform at the highest level if you don’t expect it from yourself? In ‘Managing Oneself’, one of his most influential articles, Drucker argued that in a knowledge-driven world, it was the responsibility of managers to act as their own CEO: only when you operate from a combination of strength and self-knowledge can you achieve true and lasting excellence. But since management is a social as well as an economic technology, with individual freedom and dignity at its heart, executives have a double goal: as Jim Collins noted on their first encounter, the big question for Drucker is how to make society more productive *and* more humane, at the same time.

Self-Renewal Through Abandonment

Unfortunately, excellence doesn’t sustain itself, whether in individuals, organizations, the economy, and society at large. His studies in politics made Drucker profoundly aware of the vital need for rejuvenation and self-renewal in all human affairs. This leads to one of his most important principles,

⁴ *Management: Tasks, Responsibilities, Practices* (1985 [first published 1974]), 343.

one that many outstanding managers, including Jack Welch and Steve Jobs, publicly took to heart. He called it ‘abandonment’. To make it actionable—something a manager could do on Monday morning—Drucker ingeniously turned renewal on its head. He observed that without a ‘not-to-do’ list a ‘to-do’ list just proliferated. Deciding what to stop doing was therefore just as important as what to start. ‘Every three years, an organization should challenge every product, every service, every policy, every distribution channel with the question, If we were not in it already, would we be going into it now?’⁵ Without this challenge to its fundamental assumptions about the ‘theory of the business’, entropy would set in and the organization would be overtaken by events. It was in the same spirit that Drucker urged managers to pay as much attention to the majority of consumers who didn’t buy their products as to the minority who did. Non-customers always outnumbered customers: *ergo*, the first signs of fundamental change were more likely to emerge outside your immediate field of vision, in the parts of the market you weren’t currently addressing.

Seeing Reality and the Future That Has Already Arrived

‘I never predict. I just look out of the window and see what’s visible – but not yet seen’, Drucker told a Forbes interviewer in 1997. Given his lived experience, it is hardly surprising that Drucker’s radar was perpetually sweeping the horizon for weak signs of what lay ahead. In Jack Beatty’s nice phrase, his work constantly ‘walks the faint line between the known and the unknown’.⁶ Consider the strikingly future-looking titles of many of his books: *America’s Next Twenty Years*, *The Ecological Vision* (1993), *Landmarks of Tomorrow: A Report on the ‘Post-Modern’ World* (1959), *The Age of Discontinuity*, *Managing for the Future*, *The New Realities*, *Post-Capitalist Society* (1993). Drucker claimed to have been the first to use the terms ‘post-modern’ and ‘knowledge work’ and ‘knowledge worker’. While eschewing prediction, he foresaw the collapse of communism and the fall of the Berlin Wall, the rise of Japan in the 1980s (partly because its manufacturers were quicker to absorb his ideas than their US competitors), and later that of China and India. Alive today, Drucker would be writing about what comes after VUCA, AI and social media, and their consequences for society. Know it or not, the authors

⁵ ‘The Theory of the Business’, HBR, September–October 1994.

⁶ Beatty, *The World*, 29.

of today's management models that put the focus on experiential learning, experimentation and a high degree of reactivity and agility are all following Peter Drucker's theory-informed but practically oriented management philosophy. Many of them have been presented and vigorously debated at the annual Global Peter Drucker Forum in Vienna.

The Power of Metaphor

Drucker considered himself as 'a writer'; as such, as Charles Handy observed, he was a master of the creative use of metaphor, low-definition but memorable concepts, to amplify weak signals from the future and as 'the art which draws men's minds to the love of true knowledge',⁷ as Drucker himself defined the art of rhetoric. Sharp Drucker quotes, both true and apocryphal, abound, and those metaphors are still in use. Often they seem obvious at first, but deliver added layers of meaning the more time goes by. 'The essence of management is to make knowledge productive'.⁸ 'There is only one valid definition of business purpose: to create a customer'.⁹ 'Leadership is defined by results, not attributes'.¹⁰ 'So much of management consists of making it hard for people to work'.

Linked together, two of his apparently simple thoughts encapsulate the entire management problematic, today and every day. 'Efficiency is concerned with doing things right; effectiveness is doing the right thing'.¹¹ 'There is surely nothing quite so useless as doing with great efficiency what should not be done at all'.¹² Efficiency and effectiveness are not the same thing. Sometimes they conflict. Deceptively, while efficiency is essential, if applied to the wrong thing it is useless or worse. Take the obsession with production efficiencies to meet Wall Street's demands of the last few decades. Without a clear purpose and strategy for the business, maximizing efficiencies at any one moment diminishes possibilities for the longer term. In effect, it trades the future for the present. We call the result short-termism. Hence effectiveness comes before efficiency—what is the right thing to do for the business or specific projects and endeavors in the short and longer term?

⁷ *Adventures of a Bystander* (1994), 89.

⁸ *Managing in a Time of Great Change* (2012), 219.

⁹ *The Practice of Management* (1954), 37.

¹⁰ 'Managing Oneself'.

¹¹ *Management: Tasks, Responsibilities, Practices* (1974) 45.

¹² 'Managing for Business Effectiveness', HBR May-June 1963.

Examples of damage done by efficient accomplishment of pointless tasks are legion. Much bureaucracy comes under this heading. If the right thing is done, the need for box-ticking and other red tape falls away, as demonstrated by accelerated international vaccine research and emergency health procedures developed during the pandemic. In the 1980s IBM efficiently built out plant capacity based on flawed linear forecasts of mainframe demand that brought the company almost to its knees. More recently, the social media giants have developed ever more efficient means of capturing user data and using it to manipulate behavior to benefit advertisers. This is an undeniably lucrative formula in the short run. But it runs foul of management's 'no harm' principle, as people are becoming increasingly aware. In the inevitable backlash, as Drucker predicted, ruthlessly 'doing what shouldn't be done at all' eventually risks 'destroy[ing] society's support for the enterprise and with it the enterprise as well'.

Management and Leadership

Drucker's crucial distinction between 'things right' and 'the right thing' also illuminates the endlessly discussed issue of leadership. Drucker wrote remarkably little about leadership as such. He describes leadership tersely as a means (so the end, i.e., the 'why' and the 'right thing', is critical), conferring responsibility rather than a rank or privilege, and whose essence is performance. It has nothing to do with attributes. 'The only definition of a leader is someone who has followers,' he wrote in 'Managing Oneself'.

The terseness is not because leadership is unimportant. On the contrary: Drucker well knew the terrible potency of charismatic but toxic leaders, and as regularly pointed out that some who qualify as great leaders by their results present as unassuming to the point of colorlessness. For Drucker management and leadership are two poles on the same spectrum. Leadership is more concerned with overall effectiveness and managing with efficient use of resources to hand. A senior executive role includes a larger leadership component than a lower position in operational management. At the same time, as Jim Collins noted in his foreword to the second edition of the seminal *Management: Tasks, Responsibilities, Practices*, Drucker made it abundantly clear that 'the very best leaders are first and foremost effective managers. Those who seek to lead but fail to manage will become either irrelevant or dangerous, not only to their organizations, but to society'.

A Vision to Strive For: The Entrepreneurial Society

Characteristically, Drucker concludes his landmark *Innovation and Entrepreneurship* (1985) with a call not just for entrepreneurial firms to animate an entrepreneurial economy, but for an entrepreneurial society. ‘What we need,’ he wrote, ‘is an entrepreneurial society in which innovation and entrepreneurship are normal, steady, and continuous. Just as management has become the specific and integrating organ of all contemporary institutions, so innovation and entrepreneurship have to become an integral life-sustaining activity in our organizations, our economy and our society.’¹³

In the entrepreneurial society, Drucker’s ideas of what we might now call the twenty-first century society come together in a culture of independent but strongly connected individuals, entrepreneurs, organizations, and institutions, that generate progress through a constant flow of innovation. In today’s conditions, where companies based on knowledge work and peopled by what we might call knowledge entrepreneurs are inherently disruptive, the price of creative destruction as envisioned by Schumpeter must be accepted and adjusted to as the driving force of improved productivity and value creation. Clayton Christensen continued this line of thought with his notion of disruptive and market-creating innovation.

But although Drucker, unlike many other management writers, reserved a vital role for the state as decider in his entrepreneurial vision, it was not the function of government to act as entrepreneur and innovator on its own account. Like the American constitution in politics, its role is to ensure a balance between destruction and creation, continuity, and change: in this case taking a systemic approach to freeing up entrepreneurship, ensuring fair competition, and preventing the rise of over-dominant players that too often thwart innovation and progress. Innovation and entrepreneurship are needed in society as much as in the economy, in public service institutions as much as in businesses. These qualities are pragmatic rather than dogmatic and bottom-up rather than top-down. They provide the capacity for self-renewal to society, to business, to the public, and to the civil sector. For Drucker, key to an entrepreneurial society that can sidestep the bloodshed and destruction of violent revolution is the ability to self-renew.

¹³ *Innovation and Entrepreneurship* (1985), 236.

Management at the Crossroads

What would Drucker make of the world we find ourselves in in 2021? Although fundamentally an optimist, in the sense that he believed in human agency and rejected determinism, whether historical or technological, he was also a realist—never shy in pointing out societal failures and fallibilities, including those of managers subject to their own powerful forms of temptation. He was clear that perfect organizations and perfect economies were no more achievable than perfect humans. He deplored companies' overemphasis on short-term efficiency at the expense of long-term effectiveness, and was sharply critical of its outward manifestations in the form of soaring executive pay and wholesale outsourcing of jobs, which he saw as directly linked. He would have detested the financialization of the economy, which reverses social priorities by making the real world of value creation dance to the tune of financial value-extractors who make billions from speculating on their success or failure, irrespective of the effects on society. Believing that the corporation was as important to society as to the economy—'free enterprise cannot be justified as being good for business. It can only be justified as good for society'¹⁴—he never accepted that managers had a duty only to shareholders.

In sum (although he might have found a different metaphor), I believe Drucker would have placed both management and society today at another of their historic crossroads. This time it would not be between democratic capitalism and brute totalitarianism, as in his first books. Equally important for our and our children's future, it would be between a self-renewing entrepreneurial society imbued with a pragmatic innovative mindset based on the ideas of individual freedom and human agency and a strong sense of reality on the one side, and a post-humanistic, technocratic, and financialized society centered on surveillance, intrusion, and manipulation in the private sphere and an over-regulated, algorithmically controlled, centralized power at an economic and societal level, on the other.

More than ever, safely navigating this fork in the road calls for management to live up to Drucker's Renaissance-style vision of it: an embodiment of unique human competencies combined with a deep understanding of what technology, expertise and science can and cannot do to augment and complement them. Only sound judgement, knowledge mined from experience, and competence-based creativity can keep what Drucker called a functioning and bearable society in place. Yet a pluralistic society must have a set of common values to survive—beyond the ideologies and of the day. This makes

¹⁴ *The Practice of Management* (1954).

of management something more than a band of hired hands and mercenaries. For Drucker, ‘the moralist of our business civilization’, in Beatty’s words, it makes it a moral, even noble calling. As someone who considered managers—‘ordinary people, people running the everyday concerns of business and institutions, [who] took responsibility and kept on building for tomorrow while around them the world came crashing down’¹⁵—the unsung heroes of the last century, he would certainly have asked: as individuals, as managers, as educators—which do we want for business and society now? What will we stand up and fight for today?

¹⁵ *The Frontiers of Management* (1968), Preface.