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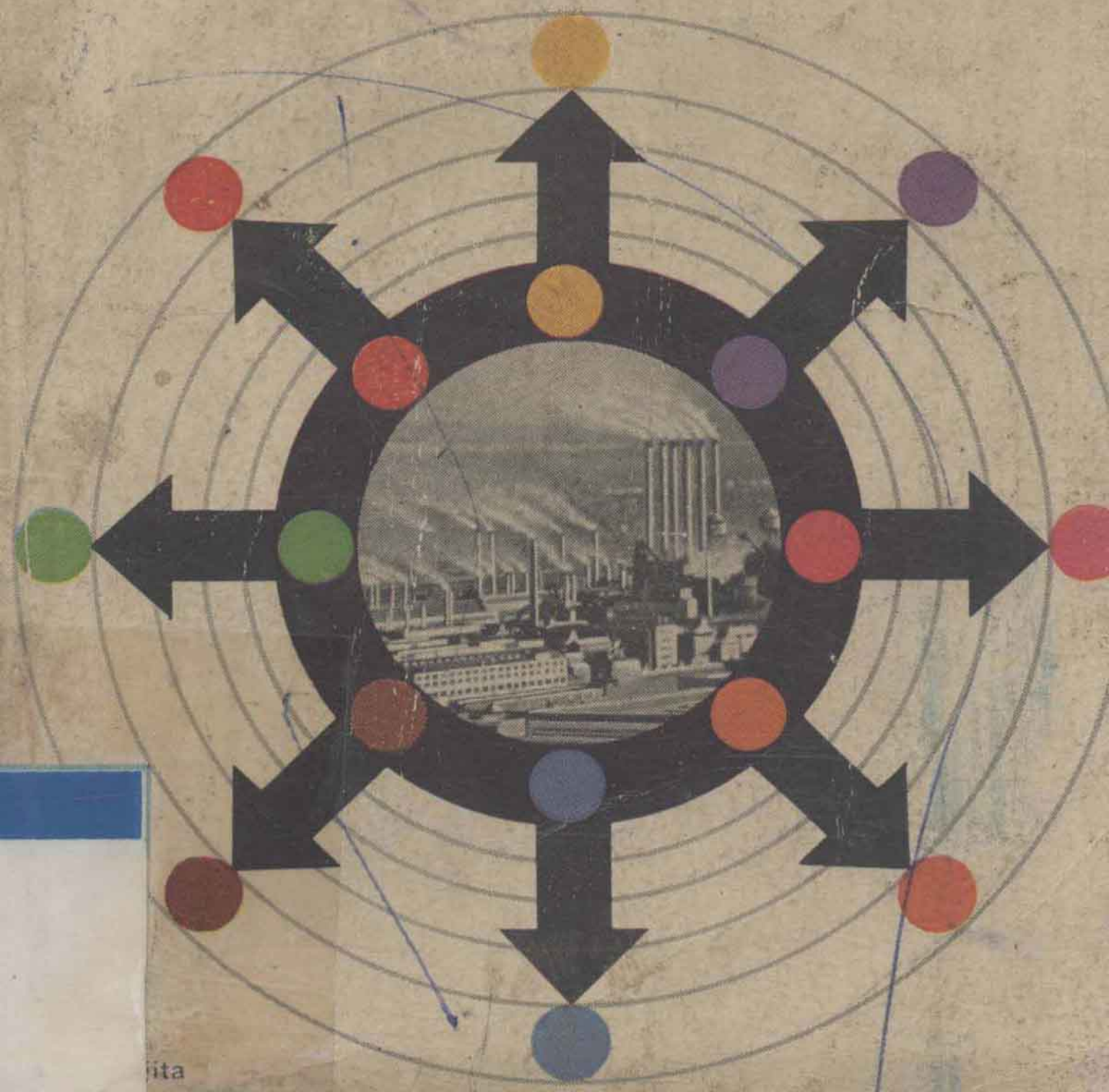


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THE CONCEPT OF THE CORPORATION

PETER F. DRUCKER

The classic study of the organization and management policies of General Motors—the company that has become the model for modern large-scale corporations across the world.



The Large-Scale Organization

The Concept of the Corporation dissects ~~the methods~~ evolved by General Motors in its growth from a small company to a giant industrial complex. Headed by Alfred P. Sloan, considered, the architect of the modern corporation, General Motors' innovations in organization, management, and finance procedures have become the standard for nearly every efficient major corporate enterprise today.

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The Concept of the Corporation

by

PETER F. DRUCKER



A MENTOR EXECUTIVE LIBRARY BOOK

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Introduction to the Mentor Edition

The emergence of large-scale organizations in the first half of the present century may be one of the most important changes in man's social history. It has given man new capacities. But it also has raised new problems.

Only a lifetime ago, at the turn of the century, the social world of Western man might have been represented as a prairie on which man himself was the highest eminence. A small hill—government—rose on the horizon, but while it was larger than anything else there, it was still quite low. Today, by contrast, man's social world, whether West or East, resembles the Himalayas. Man seems to be dwarfed by the giant mountains of large-scale organization all around him. Here is the Mount Everest of modern government. Next to it there are the armed forces, which in every country devour the lion's share of national production. Then come the towering cliffs of the large business corporations and, scarcely less high and forbidding, the peaks of the large, powerful labor unions; then the huge universities, the big hospitals—all of them creatures of this century.

How great the change has been, very few of us appreciate. It is hard for us even to imagine the reality of 1900. As far as we can tell, for instance, there was then not a single university in the Western world with as many as 10,000 students; only a very few institutions had student bodies of 5,000. Indeed, the "large" university of those days was so small that its president, or dean, was expected to know every student by name and to be available for counsel on his choice of career. Today the United States alone has at least 60 universities with student populations of more than 10,000, and about 150 with more than 5,000 students each. The American military services have a peacetime budget now—some fifty billion dollars a year—which would have sufficed to maintain the most powerful and most dreaded army of 1900, that of Imperial Germany, for more than a century.

江島 邦太郎

The "giant" business of those days, the huge "trust" which gave our grandparents nightmares, was Mr. Rockefeller's Standard Oil Company. Every one of the eleven companies into which the Supreme Court split the "octopus" in 1911 is today larger than the original Standard Oil Company ever was—in capital, in employees, in production. Yet only four of them rank among the major American, let alone the major international, oil companies today.

When Lord Curzon became British Foreign Secretary at the end of World War I, he found the Foreign Office so swollen and inflated by wartime expansion that, as he complained bitterly, he still had not met every member of the professional staff after working for three whole days. Can anyone imagine today's statesman, in any large country, even trying to meet the tens of thousands of professional employees of a major government department?

Of course there were large organizations in earlier days—the masses of laborers who built the pyramids, the armies that fought the Napoleonic wars or the American Civil War, forces much larger than anything man had till then thought possible. But there is a real difference between these traditional large organizations and those of today. Historically, man has been able to organize on a large scale only repetitive, monotonous, thoroughly unskilled work.

The designers of the pyramids must have been men of tremendous knowledge and ability. A modern engineer would be hard-pressed to design such a structure with the degree of precision required by its religious purpose. And no modern engineer would be able to build any such structure without tools and without any means of transportation for the huge stone blocks. The Egyptians had neither wheeled vehicles nor draft animals. The execution of the design was done by unskilled peasants doing totally unskilled work. The overseer had only to make sure that his men used their brute strength and pulled together when the command was given. He had, one imagines, little concern with "communications" and none with employee morale or employee motivation.

These are the prototypes of large organizations down to this century. The largest of them, armies, were always composed of a tiny group of generals at the top, who made all the decisions, and a vast mass of illiterate soldiers underneath, who were rigidly drilled to obey a few repetitive commands. Frederick the Great, the creator of the Prussian Army in the late eighteenth century, was thoroughly ridiculed by contemporary military writers because his soldiers were

expected to be able to distinguish among fifteen different commands. Everyone knew that this was far too many for soldiers as well as for officers. Men in large organizations could not possibly be that skilled! Seen in this perspective, Henry Ford's assembly line is not a new but an old organization pattern. All Ford did was to bring into the factory the tradition of large-scale organization. It is the new plant, the automated factory, in which the work is done by people of very different knowledges, working together for a common purpose and for joint results, that characterizes the modern organization. And it is this organization that has become the pattern on which all our institutions try to mold themselves.

For the characteristic of this large-scale organization of the twentieth century is that within it people of very diverse skills and knowledges work together. This, traditionally, could never be done except in very small groups, teams of four or five at most. Today we can do this with very large numbers of people—thousands of people with different knowledges, coming together in a business, a government agency, or an armed service—and a management with a specific knowledge of building and directing the large-scale organization.

This newly gained ability has given man great new capacities, for better or worse. The atom bomb was much less a triumph of science than a triumph of organization. What created it was our new ability to have thousands upon thousands of scientists, each with his highly specialized knowledge, work together under one management and direction. Science by itself could not have done the job. If the capacity to organize has raised our power of destruction, it has also given us the means to work purposefully at economic and social development. That we can today talk of development as something we can plan and do springs directly from the capacity to organize. Indeed, what we mean in calling a country "underdeveloped" is not primarily that it is poor. That, we know today, is an effect rather than a cause. The cause is the absence of ability to build and use the large-scale organization that is the instrument of social achievement in the modern world. It is not the accomplishment of one race. The Japanese are as good at creating and guiding large knowledge organizations as any people of the European tradition. And many countries of the European tradition (such as most countries of Latin America) are at best beginners at organizing.

The business enterprise is the large-scale organization through which a modern society accomplishes its economic purposes of production and distribution. But there are many other social purposes—and therefore there are many other large-scale organizations. The business enterprise may not even be the organization that has grown the most or the fastest. (In all probability this is the university.)

But the big-business enterprise is both the most visible of the large-scale organizations and the most self-conscious.

It is most visible simply because adults have more direct daily contact with it—as employees, as customers, as shareholders, and so on—than with any other of the big organizations. Armed services are much larger, but the people most directly in contact with them in peacetime are primarily young people, liable to military service. Government agencies are much bigger and much more powerful than any business corporation. But only in Washington are they truly visible. In the rest of the country the fifty thousand men or so whom General Electric employs in Schenectady or General Motors employs in Flint, Michigan, are much more visible. They are fathers, husbands, neighbors, friends. The large business enterprise therefore is something we all see clearly, are fully aware of, and have in mind when we say “large organization.”

At the same time the big corporation is very conscious of itself. The main reason is that, unlike the other large-scale organizations, it has such very shallow roots in history. It is the newcomer. Military men still quote from a strategy manual a Chinese general wrote many centuries before Christ. The modern university is very different from medieval Oxford or Bologna; but the individual professor in his classroom probably does not act too differently from his remote predecessor of six centuries ago. The business corporation (and its counterpart, the labor union) cannot claim such ancestry. It is strictly “modern”—and at best can trace its lineage for a little farther back than a century. The first modern business, the first truly organized enterprise, was the large railroad, especially the first transcontinental lines that spanned the country in the decades after the Civil War.

The organizers of business enterprises cannot fall back on tradition, but have to tackle new tasks consciously and deliberately. They must be self-conscious in planning structures and systems of organization.

This was particularly true of the specific firm analyzed in this book: General Motors. The world's largest manufacturing company, it did not—like its old rival Ford, for instance

—grow out of the small shop of an individual entrepreneur. It started out as a big enterprise. General Motors was created, around 1910, by William C. Durant, a promoter with vision, who saw the future of the automobile and promptly bought up a number of small, independent automobile companies, all of which he merged into General Motors. With these small companies came their highly independent and strong-minded former owners, each determined to remain in control of what had been “his” company. When this did not work out, when indeed a General Motors made up of semi-independent chieftains came perilously close to collapse in the 1921 depression that followed World War I, the job of building the organization of a very large and professionally managed business had to be tackled as such. The one thing clear at the time was that to continue the tradition could only lead to disaster. But what else could be done?

Out of this question grew the first deliberate attempt to organize the modern large industrial enterprise. Alfred P. Sloan, Jr., assumed the leadership of General Motors in 1921 and retained it until 1955. The charter which he developed in those early days was such a success that within five years the firm surged to first place in the American automobile industry, and shortly thereafter became the world’s largest manufacturing enterprise. The principles of organization by which this success was achieved became, inevitably, a major concern for the management of General Motors.

My choice therefore was obvious when, early in World War II, I sought a company in which to study the organization structure, the social order, the basic beliefs, of modern big business. No other company in those days had paid as much attention to organization. No other company had developed as consciously and as clearly the principles of structure and management policies.

The outstanding achievement of the years 1941–1944 was the “production miracle” wrought by American industry. This was clearly an achievement of organization, of management. It was the work of men from industry, some of them in their old jobs, some working temporarily for the government, but all applying to the wartime task the experience in management and organization they had acquired in private industry in the decades between the two world wars. It was only natural, therefore, to ask: What is this experience? What is the organization, the structure, the policies and relationships of the industrial enterprise?

Much to my surprise, I found that no one could give me

an answer. There was some literature—technical articles and a few equally technical books. But by and large no one seemed to have given much attention to the organization of business enterprise and to the concept of the corporation. The people inside business were not passing on their knowledge in intelligible form. The people outside neither knew nor, it seemed, cared. I decided then to embark on the study which resulted in *The Concept of the Corporation*. The manuscript of the book was completed just a few days after the German surrender in 1945.

What has happened since, in General Motors specifically and in the American corporation as a whole, and what we have learned about the structure, the values, the problems of large-scale business enterprise, is sketched in rough outline in the new concluding chapter to this Mentor edition. But the main point which I tried to make almost twenty years ago still needs to be made, and perhaps with even greater emphasis. The modern business enterprise is not just an economic institution. In order to discharge its economic function, it has to have a concept behind it, an organization and a constitution. It is a social institution and a community as well, and needs to be managed—and studied—as such.

The success which this book has enjoyed over these last two decades, and its republication under the distinguished auspices of the New American Library, indicate that I am no longer alone in my interest in the business corporation as a representative institution of American society. Whether or not one "likes" business enterprise or "approves" of it, it is a reality. What is important is that one try to understand it. To help convey this understanding, to help portray this new central institution of our time, has been ever the purpose of this book.

PETER F. DRUCKER

Montclair, N.J.
January 2, 1964

Preface

Once upon a time a young man set out to write *the* definitive book on China. He prepared himself by studying all that had been written on the subject. He learned the language. And so great became his reputation as an expert on China that a publisher gave him a most advantageous contract and a big advance. Thus prepared, he landed in Shanghai one fine morning. He spent a pleasant day calling on some people who had been recommended to him as wise in the ways of the country and he was dined and wined wherever he went. He returned to his hotel late at night, but could not go to sleep. His head almost burst with ideas. Finally, in the false dawn, he got out of bed again to jot down a few of these thoughts. When he rose from his desk twelve hours later, he had a most comprehensive, most beautiful outline; the book was done except for the transcription of his mental shorthand. He only needed a few minor statistics on some unimportant point. "Well," said the young man to himself as he read over his outline, "one day's delay won't make much difference; I might as well get those figures tomorrow so that I won't have to interrupt my writing later on." That was forty-six years ago; last heard of the young man—now a very old man—was still looking up a few minor details and figures.

The subject of this book, the social and political problems of industrial society, is fully as big as China and even less known. My qualifications for writing it are vastly inferior to those of the young man in our story. Hence this study cannot and does not claim to be complete or conclusive. It touches upon far more topics than could be adequately treated within the covers of a short book, or be mastered and understood even by a man much better trained than the author. Yet it does not discuss enough topics to cover the field; and the omissions may well be serious enough to affect the conclusions. The subject is so ambitious as to make the author's attempts to deal with it appear journalistic; yet the book is

not ambitious enough to do justice to the subject. The only excuse the author has is that the alternative to submitting to the public so sketchy an essay would have been to follow the example of our friend in China and postpone writing and publication if not forever, at least for a lifetime. This may well have been the preferable course. But it seems to me that we cannot afford to postpone any further the discussion of the fundamentals of our industrial society. There is no more urgent, no more immediate topic for America—and none which is less known and less discussed. This book does ~~not attempt to give the answers; it hopes only to raise questions.~~ It does not pretend to be *the* definitive book on the relationship between the big-business corporation and a free industrial society; it is an opening statement in what I hope will be a lively and fruitful debate.

My interest in the social and political approach to the problems of an industrial society—as distinct from economics—goes back a considerable time. Nevertheless I would not have been able to work out even this preliminary sketch but for an invitation received in the fall of 1943. The General Motors Corporation asked me to study and to report on its managerial policies and organization from the standpoint of an outside consultant, in which capacity I served for eighteen months. This invitation not only made possible this study financially; it also made available to me the records and the plants of General Motors as well as the rich experience of its executives. Needless to say, the opinions expressed and the conclusions reached in this book are exclusively mine, and do not reflect the opinions and conclusions of General Motors Corporation or of any of its officers. But it would be ungrateful not to admit how much clarity and understanding this book owes to members of General Motors' management in the central offices in New York and Detroit as well as in the manufacturing divisions. That the end of my investigation means necessarily the end of the close contact with this group, which it has been my privilege to enjoy for almost two years, fills me with real regret.

I also want to record the great debt this book owes to many other friends—in the government service, in trade unions, in business, who abundantly gave of their knowledge and experience.

PETER F. DRUCKER

Bennington, Vermont
January 2, 1946

CHAPTER ONE

Capitalism in One Country

1

This book on the central problems of American industrial society rests on the one assumption that nothing could induce the overwhelming majority of the American people to give up the belief in a free-enterprise economic system except a major catastrophe such as a new total war or a new total depression. This does not mean that history will necessarily prove the American people right or make their beliefs prevail. But it means that there is only one course open to American political and economic statesmanship: the attempt to make a free-enterprise system work. For it is obvious that any attempt at organizing our economic and social system on another than the free-enterprise basis—either because the free-enterprise system fails to work or because it is considered undesirable—will introduce into American society a tension between political belief and social reality, between the will of the people and their actions, which would compromise our national unity and paralyze our political and economic faculties. The central questions of American statesmanship must thus be: how does the free-enterprise system function and what are its problems; what can it do, what can it not do; and what are the questions yet to be answered?

On America's ability to make the free-enterprise system work depends not only her stability at home but world peace. Peace in the postwar world will not rest, as it always has in

the history of the modern West, upon the homogeneity of political, social, and economic beliefs and institutions, transcending national boundaries, but upon the ability and willingness of radically different political and economic systems to live together peaceably. This—an unprecedented task—can only be achieved if each of the major countries can prove her particular system to be stable and successful. We have gradually learned that the ability of the Soviet Union to realize a stable and successful “socialism in one country” is the prerequisite for Russia’s collaboration in the maintenance of the peace. Should she fail in this attempt she would have to resort to isolationism, world revolution, or imperialist aggression; for every development anywhere except in the direction of a communist dictatorship would have to appear to her as a direct attack upon her national security. We will now have to learn that similarly the ability of the United States to participate in the maintenance of peace in a world of Great Powers based upon competing principles of political and social order, depends on our ability to create a successful, stable, and confident “capitalism in one country.” Thus to make our free-enterprise system function—as the basis of domestic strength and unity and as a model for others—is the most important and the most immediate contribution Americans can make to international peace.

In accepting this approach this book does not intend to become an apology for free enterprise. On the contrary, we shall often be a great deal more critical of the existing order than are its enemies. We shall demand of it not only the performance of economic functions but the discharge of heavy social and political tasks. But the purpose of this study is not to prove that free enterprise is good or bad but to find out the extent to which it does its job and the most promising line of approach for the performance of those jobs that remain to be done. And if only because the American people do so, we have to assume that free enterprise can function.

But what do the American people mean by “free enterprise”? The term has become so loose that even the American Communist Party in one of its giddy gyrations could declare itself in favor of “free enterprise.” Yet, I think that it is quite clear, on the whole, what the people have in mind when they use the term. It does not exclude government regulation or government limitation of business; but it sees the function of government in setting the frame within which business is to be conducted rather than in running business enterprises. It does not, however, exclude government management or govern-