

**PETER F. DRUCKER**

# The Essential Drucker

The Best of Sixty Years of Peter Drucker's  
Essential Writings on Management

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T H E   E S S E N T I A L

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DRUCKER

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*The Best of Sixty Years of Peter Drucker's*

*Essential Writings on Management*

P E T E R   F .   D R U C K E R



**Collins Business**

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## INTRODUCTION: THE ORIGIN AND PURPOSE OF *THE ESSENTIAL DRUCKER*

*The Essential Drucker* is a selection from my sixty years of work and writing on management. It begins with my book *The Future of Industrial Man* (1942) and ends (so far at least) with my 1999 book *Management Challenges for the 21st Century*.

*The Essential Drucker* has two purposes. First, it offers, I hope, a coherent and fairly comprehensive Introduction to Management. But second, it gives an Overview of my works on management and thus answers a question that my editors and I have been asked again and again, Where do I start to read Drucker? Which of his writings are *essential*?

Atsuo Ueda, longtime Japanese friend, first conceived *The Essential Drucker*. He himself has had a distinguished career in Japanese management. And having reached the age of sixty, he recently started a second career and became the founder and chief executive officer of a new technical university in Tokyo. But for thirty years Mr. Ueda has also been my Japanese translator and editor. He has actually translated many of my books several times as they went into new Japanese editions. He is thus thoroughly familiar with my work—in fact, he knows it better than I do. As a result

he increasingly got invited to conduct Japanese conferences and seminars on my work and found himself being asked over and over again—especially by younger people, both students and executives at the start of their careers—Where do I start reading Drucker?

This led Mr. Ueda to reread my entire work, to select from it the most pertinent chapters and to abridge them so that they read as if they had originally been written as *one* cohesive text. The result was a three-volume essential Drucker of fifty-seven chapters—one volume on the management of organizations; one volume on the individual in the society of organizations; one on society in general—which was published in Japan in the summer and fall of 2000 and has met with great success. It is also being published in Taiwan, mainland China and Korea, and in Argentina, Mexico, and Brazil.

It is Mr. Ueda's text that is being used for the U.S. and U.K. editions of *The Essential Drucker*. But these editions not only are less than half the size of Mr. Ueda's original Japanese version—twenty-six chapters versus the three-volumes' fifty-seven. They also have a somewhat different focus. Cass Canfield Jr. at HarperCollins in the United States—longtime friend and my U.S. editor for over thirty years—also came to the conclusion a few years ago that there was need for an introduction to, and overview of, my sixty years of management writings. But he—rightly—saw that the U.S. and U.K. (and probably altogether the Western) audience for such a work would be both broader and narrower than the audience for the Japanese venture. It would be broader because there is in the West a growing number of people who, while not themselves executives, have come to see management as an area of public interest; there are also an increasing number of students in colleges and universities who, while not necessarily management students, see an understanding of management as part of a general education; and, finally, there are a large and rapidly growing number of mid-career managers and professionals who are flocking to advanced-executive programs, both in universities and in their employing organizations. The focus would, however, also be narrower because these

additional audiences need and want less an introduction to, and overview of, Drucker's work than they want a concise, comprehensive, and sharply focused Introduction to Management, and to management alone. And thus, while using Mr. Ueda's editing and abridging, Cass Canfield Jr. (with my full, indeed my enthusiastic, support) selected and edited the texts from the Japanese three-volume edition into a comprehensive, cohesive, and self-contained introduction to management—both of the management of an enterprise and of the self-management of the individual, whether executive or professional, within an enterprise and altogether in our society of managed organizations.

My readers as well as I owe to both Atsuo Ueda and Cass Canfield Jr. an enormous debt of gratitude. The two put an incredible amount of work and dedication into *The Essential Drucker*. And the end product is not only the best introduction to one's work any author could possibly have asked for. It is also, I am convinced, a truly unique, cohesive, and self-contained introduction to management, its basic principles and concerns; its problems, challenges, opportunities.

This volume, as said before, is also an overview of my works on management. Readers may therefore want to know where to go in my books to further pursue this or that topic or this or that area of particular interest to them. Here, therefore, are the sources in my books for each of twenty-six chapters of the *The Essential Drucker*.

Chapter 1 and 26 are excerpted from *The New Realities* (1988).

Chapters 2, 3, 5, 18 are excerpted from *Management, Tasks, Responsibilities, Practices* (1974).

Chapters 4 and 19 are excerpted from *Managing for the Future* (1992), and were first published in the *Harvard Business Review* (1989) and in the *Wall Street Journal* (1988), respectively.

Chapters 6, 15, and 21 are excerpted from *Management Challenges for the 21st Century* (1999).

Chapters 7 and 23 are excerpted from *Management in a Time of Great Change* (1995) and were first published in the *Harvard*

*Business Review* (1994) and in the *Atlantic Monthly* (1996), respectively.

Chapter 8 was excerpted from *The Practice of Management* (1954).

Chapter 9 was excerpted from *The Frontiers of Management* (1986) and was first published in the *Harvard Business Review* (1985).

Chapters 10, 11, 12, 20, 24 were excerpted from *Innovation and Entrepreneurship* (1985).

Chapters 13, 14, 16, 17 were excerpted from *The Effective Executive* (1966).

Chapters 22 and 25 were excerpted from *Post-Capitalist Society* (1993).

All these books are still in print in the United States and in many other countries.

This one-volume edition of *The Essential Drucker* does not, however, include any excerpts from five important Management books of mine: *The Future of Industrial Man* (1942); *Concept of the Corporation* (1946); *Managing for Results* (1964; the first book on what is now called "strategy," a term unknown for business forty years ago); *Managing in Turbulent Times* (1980); *Managing the Non-Profit Organization* (1990). These are important books and still widely read and used. But their subject matter is more specialized—and in some cases also more technical—than that of the books from which the chapters of the present book were chosen—and thus had to be left out of a work that calls itself *Essential*.

—Peter F. Drucker  
Claremont, California  
Spring 2001

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# C O N T E N T S

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Introduction: The Origin and Purpose of  
*The Essential Drucker*

vii

► I. MANAGEMENT

1. Management as Social Function and Liberal Art	3
2. The Dimensions of Management	14
3. The Purpose and Objectives of a Business	18
4. What the Nonprofits Are Teaching Business	39
5. Social Impacts and Social Problems	51
6. Management's New Paradigms	69
7. The Information Executives Need Today	95
8. Management by Objectives and Self-Control	112
9. Picking People—The Basic Rules	127
10. The Entrepreneurial Business	136
11. The New Venture	144
12. Entrepreneurial Strategies	161

► II. THE INDIVIDUAL

13. Effectiveness Must Be Learned	191
14. Focus on Contribution	207



15. Know Your Strengths and Values	217
16. Know Your Time	225
17. Effective Decisions	241
18. Functioning Communications	261
19. Leadership as Work	268
20. Principles of Innovation	272
21. The Second Half of Your Life	280
22. The Educated Person	287

### ► III. SOCIETY

23. A Century of Social Transformation—Emergence of Knowledge Society	299
24. The Coming of Entrepreneurial Society	321
25. Citizenship through the Social Sector	329
26. From Analysis to Perception—The New Worldview	337
 Afterword: The Challenge Ahead	 347
Index	351

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I.

MANAGEMENT

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# 1.

## MANAGEMENT AS SOCIAL FUNCTION AND LIBERAL ART

When Karl Marx was beginning work on *Das Kapital* in the 1850s, the phenomenon of management was unknown. So were the enterprises that managers run. The largest manufacturing company around was a Manchester cotton mill employing fewer than three hundred people and owned by Marx's friend and collaborator Friedrich Engels. And in Engels's mill—one of the most profitable businesses of its day—there were no “managers,” only “charge hands” who, themselves workers, enforced discipline over a handful of fellow “proletarians.”

Rarely in human history has any institution emerged as quickly as management or had as great an impact so fast. In less than 150 years, management has transformed the social and economic fabric of the world's developed countries. It has created a global economy and set new rules for countries that would participate in that economy as equals. And it has itself been transformed. Few executives are aware of the tremendous impact management has had. Indeed, a good many are like M. Jourdain, the character in Molière's *Bourgeois Gentilhomme*, who did not know that he spoke prose. They barely realize that they practice—or mispractice—management. As

a result, they are ill prepared for the tremendous challenges that now confront them. The truly important problems managers face do not come from technology or politics; they do not originate outside of management and enterprise. They are problems caused by the very success of management itself.

To be sure, the fundamental task of management remains the same: to make people capable of joint performance through common goals, common values, the right structure, and the training and development they need to perform and to respond to change. But the very meaning of this task has changed, if only because the performance of management has converted the workforce from one composed largely of unskilled laborers to one of highly educated knowledge workers.

## The Origins and Development of Management

On the threshold of World War I, a few thinkers were just becoming aware of management's existence. But few people even in the most advanced countries had anything to do with it. Now the largest single group in the labor force, more than one-third of the total, are people whom the U.S. Bureau of the Census calls "managerial and professional." Management has been the main agent of this transformation. Management explains why, for the first time in human history, we can employ large numbers of knowledgeable, skilled people in productive work. No earlier society could do this. Indeed, no earlier society could support more than a handful of such people. Until quite recently, no one knew how to put people with different skills and knowledge together to achieve common goals.

Eighteenth-century China was the envy of contemporary Western intellectuals because it supplied more jobs for educated people than all of Europe did—some twenty thousand per year. Today, the United States, with about the same population China then had, graduates nearly a million college students a year, few of whom have

the slightest difficulty finding well-paid employment. Management enables us to employ them.

Knowledge, especially advanced knowledge, is always specialized. By itself it produces nothing. Yet a modern business, and not only the largest ones, may employ up to ten thousand highly knowledgeable people who represent up to sixty different knowledge areas. Engineers of all sorts, designers, marketing experts, economists, statisticians, psychologists, planners, accountants, human-resources people—all working together in a joint venture. None would be effective without the managed enterprise.

There is no point in asking which came first, the educational explosion of the last one hundred years or the management that put this knowledge to productive use. Modern management and modern enterprise could not exist without the knowledge base that developed societies have built. But equally, it is management, and management alone, that makes effective all this knowledge and these knowledgeable people. The emergence of management has converted knowledge from social ornament and luxury into the true capital of any economy.

Not many business leaders could have predicted this development back in 1870, when large enterprises were first beginning to take shape. The reason was not so much lack of foresight as lack of precedent. At that time, the only large permanent organization around was the army. Not surprisingly, therefore, its command-and-control structure became the model for the men who were putting together transcontinental railroads, steel mills, modern banks, and department stores. The command model, with a very few at the top giving orders and a great many at the bottom obeying them, remained the norm for nearly one hundred years. But it was never as static as its longevity might suggest. On the contrary, it began to change almost at once, as specialized knowledge of all sorts poured into enterprise.

The first university-trained engineer in manufacturing industry was hired by Siemens in Germany in 1867—his name was Friedrich von Hefner-Alteneck. Within five years he had built a

research department. Other specialized departments followed suit. By World War I the standard functions of a manufacturer had been developed: research and engineering, manufacturing, sales, finance and accounting, and a little later, human resources (or personnel).

Even more important for its impact on enterprise—and on the world economy in general—was another management-directed development that took place at this time. That was the application of management to manual work in the form of training. The child of wartime necessity, training has propelled the transformation of the world economy in the last forty years because it allows low-wage countries to do something that traditional economic theory had said could never be done: to become efficient—and yet still low-wage—competitors almost overnight.

Adam Smith reported that it took several hundred years for a country or region to develop a tradition of labor and the expertise in manual and managerial skills needed to produce and market a given product, whether cotton textiles or violins.

During World War I, however, large numbers of unskilled, preindustrial people had to be made productive workers in practically no time. To meet this need, businesses in the United States and the United Kingdom began to apply the theory of scientific management developed by Frederick W. Taylor between 1885 and 1910 to the systematic training of blue-collar workers on a large scale. They analyzed tasks and broke them down into individual, unskilled operations that could then be learned quite quickly. Further developed in World War II, training was then picked up by the Japanese and, twenty years later, by the South Koreans, who made it the basis for their countries' phenomenal development.

During the 1920s and 1930s, management was applied to many more areas and aspects of the manufacturing business. Decentralization, for instance, arose to combine the advantages of bigness and the advantages of smallness within one enterprise. Accounting went from "bookkeeping" to analysis and control. Planning grew out of the "Gantt charts" designed in 1917 and 1918 to plan war production; and so did the use of analytical logic and statistics, which

employ quantification to convert experience and intuition into definitions, information, and diagnosis. Marketing evolved as a result of applying management concepts to distribution and selling. Moreover, as early as the mid-1920s and early 1930s, some American management pioneers such as Thomas Watson Sr. at the fledgling IBM; Robert E. Wood at Sears, Roebuck; and George Elton Mayo at the Harvard Business School began to question the way manufacturing was organized. They concluded that the assembly line was a short-term compromise. Despite its tremendous productivity, it was poor economics because of its inflexibility, poor use of human resources, even poor engineering. They began the thinking and experimenting that eventually led to "automation" as the way to organize the manufacturing process, and to teamwork, quality circles, and the information-based organization as the way to manage human resources. Every one of these managerial innovations represented the application of knowledge to work, the substitution of system and information for guesswork, brawn, and toil. Every one, to use Frederick Taylor's term, replaced "working harder" with "working smarter."

The powerful effect of these changes became apparent during World War II. To the very end, the Germans were by far the better strategists. Having much shorter interior lines, they needed fewer support troops and could match their opponents in combat strength. Yet the Allies won—their victory achieved by management. The United States, with one-fifth the population of all the other belligerents combined, had almost as many men in uniform. Yet it produced more war matériel than all the others taken together. It managed to transport the stuff to fighting fronts as far apart as China, Russia, India, Africa, and Western Europe. No wonder, then, that by the war's end almost all the world had become management-conscious. Or that management emerged as a recognizably distinct kind of work, one that could be studied and developed into a discipline—as happened in each country that has enjoyed economic leadership during the postwar period.

After World War II we began to see that management is not



exclusively *business* management. It pertains to every human effort that brings together in one organization people of diverse knowledge and skills. It needs to be applied to all third-sector institutions, such as hospitals, universities, churches, arts organizations, and social service agencies, which since World War II have grown faster in the United States than either business or government. For even though the need to manage volunteers or raise funds may differentiate nonprofit managers from their for-profit peers, many more of their responsibilities are the same—among them defining the right strategy and goals, developing people, measuring performance, and marketing the organization's services. *Management worldwide has become the new social function.*

## Management and Entrepreneurship

One important advance in the discipline and practice of management is that both now embrace entrepreneurship and innovation. A sham fight these days pits “management” against “entrepreneurship” as adversaries, if not as mutually exclusive. That's like saying that the fingering hand and the bow hand of the violinist are “adversaries” or “mutually exclusive.” Both are always needed and at the same time. And both have to be coordinated and work together. Any *existing* organization, whether a business, a church, a labor union, or a hospital, goes down fast if it does not innovate. Conversely, any *new* organization, whether a business, a church, a labor union, or a hospital, collapses if it does not manage. Not to innovate is the single largest reason for the decline of existing organizations. Not to know how to manage is the single largest reason for the failure of new ventures.

Yet few management books have paid attention to entrepreneurship and innovation. One reason is that during the period after World War II when most of those books were written, managing the existing rather than innovating the new and different was the dominant task. During this period most institutions developed