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MANAGING  
*in a* TIME *of*  
GREAT CHANGE

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# Managing in a Time of Great Change



Peter F. Drucker

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## PREFACE

All the pieces in this book—two interviews, one at the beginning and one at the end, and the twenty-five chapters in between, have one common theme, despite their apparent diversity. They all deal with *changes that have already irreversibly happened*. They therefore deal with changes on which executives can—indeed must—take action. None of the pieces in this book attempt to predict the future. All deal with what executives can do—have to do—to make the future.

It is not so very difficult to predict the future. It is only pointless. Many futurologists have high batting averages—the way they measure themselves and are commonly measured. They do a good job of foretelling *some* things. But what are always far more important are fundamental changes that happened though no one predicted them or could possibly have predicted them. Looking back ten years ago today, no one in 1985 predicted—or could have predicted—that the establishment of the European Economic Community would not release explosive economic growth in Europe but would, on the contrary, usher in a decade of economic stagnation and petty bickering. As a result, the unified Europe of 1995 is actually weaker in the world economy than was the fractured Europe of 1985. No one, ten years ago, predicted—or could have predicted—the

explosive economic growth of mainland China, a growth that came despite rather than because of its government policies. No one predicted the emergence of the 55 million overseas Chinese as the new economic superpower. No one ten years ago could have predicted that the biggest impact of the Information Revolution on business would be a radical rethinking and restructuring of the oldest information system—and one that apparently was ossified in every joint and tissue—the accounting model of the “bean counters.”

But equally important: one cannot make decisions for the future. Decisions are commitments to action. And actions are always in the present, and in the present only. But actions in the present are also the one and only way to *make the future*. Executives are paid to execute—that is, to take effective action. *That* they can only do in contemplation of the present, and by exploiting the changes that have already happened.

This book starts out with the executive's job, that is, with management. What has already happened in the world of the executive that puts into question—or perhaps even makes obsolete—the assumptions, rules, and practices that have worked these last forty years and that therefore have automatically been taken for granted? The book then proceeds to look at the implications of one particular fundamental change in management, economy, and society: the emergence of information as the executive's key resource and as the organization's skeleton. The premise of this part of the book is the old adage that either you are the tool's master or you are its servant. What do executives have to learn to be masters of the new tool? Then this book moves out of the executive's job and organization into markets and into a world economy in which there are new power centers, new growth markets, new growth industries. In its last section the book analyzes the changes in society and government—the biggest changes, perhaps, in this century of social transformation, in which government has been both a great success and the ultimate failure.

Only thirty—perhaps even only twenty-five—years ago it was often said that while there were a great many more managers and executives than there had been in the 1920s (let alone before World War I), most of them were doing pretty much what their predecessors had done and in pretty much the same way. No one would say that anymore for today's managers and executives. But if there is one thing that is certain today, it is that tomorrow's managers and executives will do things that are even more different from what today's managers and executives do. And they will do them quite differently. To enable today's executives to be ahead of this different tomorrow—indeed to make it their tomorrow—is the aim of the book.

Peter F. Drucker  
Claremont, California  
May 1995



## ACKNOWLEDGMENTS

From the very beginning, in 1991, every piece in this volume was written with this book in mind. But every single one was also pre-published, intentionally so. It is the reaction of readers—and especially of friends all over the world, former students, present and former clients—that ultimately determines whether a piece is worthy of being included in the final book. Prepublication is, so to speak, my market test.

For the most part, the pieces chosen appear as chapters in this book without any change other than perhaps a new title or a restoration of cuts that had to be made to fit a piece into a magazine or newspaper. But three long pieces in this book are substantially different from the version in which they were published originally—they are much longer. Chapter 21 (“A Century of Social Transformation”) was published only in an abridged version in *The Atlantic Monthly* and so was chapter 25 (“Can the Democracies Win the Peace?”). Chapter 13 (“Trade Lessons from the World Economy”) was similarly published only in an abridged version in *Foreign Affairs* magazine. The other long chapters—the two interviews that open and close the book; chapters 1, 7, and 12 (all three first published in the *Harvard Business Review*); chapter 18 (first published in *Foreign Affairs*); and chapter 24 (first published in *The Atlantic Monthly*)—are

published in this book the way they first appeared in print. Of the short pieces—reprinted virtually unchanged except for the occasional change in title—all but one first appeared in the *Wall Street Journal*. Chapter 16 first appeared in the *Asian Wall Street Journal* under the sponsorship of Citibank. The May 1995 epilogue to chapter 24 was written especially for this book.

This is the fourth book of mine that owes its focus and structure to my friend, editor, and publisher M. Truman Talley, of Truman Talley Books. It was Mr. Talley who fifteen years ago first had the idea that I might organize my articles and essays written over a period of years around a common idea and toward a common objective. Each piece was to be written separately and had to stand on its own. But eventually the pieces would form a unit—as does this book. Prepublication would test them, or rather would allow them to be tested by executives all over the world. Pieces that proved to contribute the most to their readers' effectiveness would be selected for republication in a book. The idea has proven extraordinarily productive. The three earlier books that resulted from it—published respectively in 1982 (*The Changing Work of the Executive*), 1986 (*The Frontiers of Management*), and 1992 (*Managing for the Future*)—have been extremely successful, both in their original English editions and in a large number of translations. They have also proven extremely effective as tools, guides, thought-starters, and action-starters for practicing executives and managers worldwide. To M. Truman Talley my readers and I thus owe a large debt of gratitude. And I want to express my gratitude also to Mr. Talley's associates, the managing editor and the production editor, who worked hard to turn a manuscript into a handsome book.



## INTERVIEW: THE POST-CAPITALIST EXECUTIVE

An interview with the *Harvard Business Review*  
Conducted by T. George Harris

*For half a century, Peter F. Drucker has been teacher and adviser to senior managers in business, human service organizations, and government. Sometimes called the godfather of modern management, he combines an acute understanding of socioeconomic forces with practical insights into how leaders can turn turbulence into opportunity. With a rare gift for synthesis, Drucker nourishes his insatiable mind on a full range of intellectual disciplines, from Japanese art to network theory in higher mathematics. Yet he learns most from in-depth conversations with clients and students: a global network of men and women who draw their ideas from action and act on ideas.*

*Since 1946, when his book *Concept of the Corporation* redefined employees as a resource rather than a cost, Drucker's works have become an ever-growing resource for leaders in every major culture, particularly among Japan's top decision makers in the critical stages of their rise to world business leadership. A goodly share of productive organizations worldwide are led by men and women who consider Drucker their intellectual guide, if not their personal mentor.*

*Drucker's most productive insights have often appeared first in the Harvard Business Review. He has written thirty HBR articles, more than any other contributor. In the September–October 1992 issue, he published core concepts for his major new work, Post-Capitalist Society (HarperCollins 1993). HBR editors sent T. George Harris, a Drucker friend for twenty-four years, to the Drucker Management Center at the Claremont Graduate School in California for two days of intensive conversation about recent practical implications for today's executives.*

*HBR: Peter, you always bring ideas down to the gut level where people work and live. Now we need to know how managers can operate in the post-capitalist society.*

*Peter F. Drucker: You have to learn to manage in situations where you don't have command authority, where you are neither controlled nor controlling. That is the fundamental change. Management textbooks still talk mainly about managing subordinates. But you no longer evaluate an executive in terms of how many people report to him or her. That standard doesn't mean as much as the complexity of the job, the information it uses and generates, and the different kinds of relationships needed to do the work.*

Similarly, business news still refers to managing subsidiaries. But this is the control approach of the 1950s or 1960s. The reality is that the multinational corporation is rapidly becoming an endangered species. Businesses used to grow in one of two ways: from grassroots up or by acquisition. In both cases, the manager had control. Today businesses grow through alliances, all kinds of dangerous liaisons and joint ventures, which, by the way, very few people understand. This new type of growth upsets the traditional manager, who believes he or she must own or control sources and markets.

*How will the manager operate in a work environment free of the old hierarchies?*

Would you believe that you're going to work permanently with people who work for you but are not your employees? Increasingly,

for instance, you outsource when possible. It is predictable, then, that ten years from now a company will outsource all work that does not have a career ladder up to senior management. To get productivity, you have to outsource activities that have their *own* senior management. Believe me, the trend toward outsourcing has very little to do with economizing and a great deal to do with quality.

*Can you give an example?*

Take a hospital. Everybody there knows how important cleanliness is, but doctors and nurses are never going to be very concerned with how you sweep in corners. That's not part of their value system. They need a hospital maintenance company. One company I got to know in southern California had a cleaning woman who came in as an illiterate Latino immigrant. She is brilliant. She figured out how to split a bed sheet so that the bed of a very sick patient, no matter how heavy, could be changed. Using her method, you have to move the patient about only six inches, and she cut the bed-making time from twelve minutes to two. Now she's in charge of the cleaning operations, but she is not an employee of the hospital. The hospital can't give her one single order. It can only say, "We don't like this; we'll work it out."

The point is, managers still talk about the people who "report" to them, but that word should be stricken from management vocabulary. Information is replacing authority. A company treasurer with outsourced information technology, IT, may have only two assistants and a receptionist, but his decisions in foreign exchange can lose or make more money in a day than the rest of the company makes all year. A scientist decides which research *not* to do in a big company lab. He doesn't even have a secretary or a title, but his track record means that he is not apt to be overruled. He may have more effect than the CEO. In the military, a lieutenant colonel used to command a battalion, but today he may have only a receptionist and be in charge of liaisons with a major foreign country.

*Amidst these new circumstances, everybody is trying to build the ideal organization, generally flat with few layers of bosses and driven directly by consumer satisfaction. But how do managers gear up their lives for this new world?*

More than anything else, the individual has to take more responsibility for himself or herself, rather than depend on the company. In this country, and increasingly in Europe and even Japan, you can't expect that if you've worked for a company for five years you'll be there when you retire forty years from now. Nor can you expect that you will be able to do what you want to do at the company in forty years' time. In fact, if you make a wager on any big company, the chances of it being split within the next ten years are better than the chances of it remaining the way it is.

This is a new trend. Big corporations became stable factors before World War I and in the 1920s were almost frozen. Many survived the Depression without change. Then there were thirty or forty years when additional stories were built onto skyscrapers or more wings added onto corporate centers. But now they're not going to build corporate skyscrapers. In fact, within the past ten years, the proportion of the workforce employed by *Fortune* 500 companies has fallen from 30 percent to 13 percent.

Corporations once built to last like pyramids are now more like tents. Tomorrow they're gone or in turmoil. And this is true not only of companies in the headlines like Sears or GM or IBM. Technology is changing very quickly, as are markets and structures. You can't design your life around a temporary organization. Let me give you a simple example of the way assumptions are changing. Most men and women in the executive program I teach are about forty-five years old and just below senior management in a big organization or running a mid-size one. When we began fifteen or twenty years ago, people at this stage were asking, "How can we prepare ourselves for the next promotion?" Now they say, "What do I need to learn so that I can decide where to go next?"



*If a young man in a gray flannel suit represented the lifelong corporate type, what's today's image?*

Taking individual responsibility and not depending on any particular company. Equally important is managing your own career. The stepladder is gone, and there's not even the implied structure of an industry's rope ladder. It's more like vines, and you bring your own machete. You don't know what you'll be doing next, or whether you'll work in a private office or one big amphitheater or even out of your home. You have to take responsibility for knowing yourself, so you can find the right jobs as you develop and as your family becomes a factor in your values and choices.

*That's a significant departure from what managers could expect in the past.*

Well, the changes in the manager's work are appearing everywhere, though on different timetables. For instance, I see more career confusion among the many Japanese students I've had over the years. They're totally bewildered. Though the Japanese are more structured than we ever were, suddenly they are halfway between being totally managed and having to take responsibility for themselves. What frightens them is that titles don't mean what they used to mean. Whether you were in India or France, if you were an assistant director of market research, everybody used to know what you were doing. That's not true anymore, as we found in one multinational. A woman who had just completed a management course told me not long ago that in five years she would be an assistant vice president of her bank. I'm afraid I had to tell her that she might indeed get the title, but it would no longer have the meaning she thought it did.

*Another rung in the ladder?*

Yes. The big company mentality. Most people expect the personnel department to be Papa or Ma Bell. When the AT&T personnel department was at its high point thirty years ago, it was the power

behind the scenes. With all their testing and career planning, they'd know that a particular twenty-seven-year-old would be, by age forty-five, an assistant operating manager and no more. They didn't know whether he'd be in Nebraska or Florida. But unless he did something quite extraordinary, his career path until retirement was set.

Times have certainly changed. And, in fact, the Bell people have done better than most, because they could see that change coming in the antitrust decision. They couldn't ignore it. But most people still have a big-company mentality buried in their assumptions. If they lose a job with Sears, they hunt for one with Kmart, unaware that small companies create most of the new jobs and are about as secure as big companies.

Even today, remarkably few Americans are prepared to select jobs for themselves. When you ask, "Do you know what you are good at? Do you know your limitations?" they look at you with a blank stare. Or they often respond in terms of subject knowledge, which is the wrong answer. When they prepare their resumes, they still try to list positions like steps up a ladder. It is time to give up thinking of jobs or career paths as we once did and think in terms of taking on assignments one after the other.

*How does one prepare for this new kind of managerial career?*

Being an educated person is no longer adequate, not even educated in management. One hears that the government is doing research on new job descriptions based on subject knowledge. But I think that we probably have to leap right over the search for objective criteria and get into the subjective what I call *competencies*. Do you really like pressure? Can you be steady when things are rough and confused? Do you absorb information better by reading, talking, or looking at graphs and numbers? I asked one executive the other day, "When you sit down with a person, a subordinate, do you know what to say?" Empathy is a practical competence. I have been urging this kind of self-knowledge for years, but now it is essential for survival.



People, especially the young, think that they want all the freedom they can get, but it is very demanding, very difficult to think through who you are and what you do best. In helping people learn how to be responsible, our educational system is more and more counterproductive. The longer you stay in school, the fewer decisions you have to make. For instance, the decision whether to take French II or Art History is really based on whether one likes to get up early in the morning. And graduate school is much worse.

Do you know why most people start with big companies? Because most graduates have not figured out where to place themselves, and companies send in the recruiters. But as soon as the recruits get through training and into a job, they have to start making decisions about the future. Nobody's going to do it for them.

And once they start making decisions, many of the best move to mid-size companies in three to five years, because there they can break through to top management. With less emphasis on seniority, a person can go upstairs and say, "I've been in accounting for three years, and I'm ready to go into marketing." Each year I phone a list of my old students to see what's happening with them. The second job used to be with another big company, often because people were beginning to have families and wanted security. But with two-career families, a different problem emerges. At a smaller organization, you can often work out arrangements for both the man and the woman to move to new jobs in the same city.

*Some of the psychological tests being developed now are getting better at helping people figure out their competencies. But if the world economy is shifting from a command model to a knowledge model, why shouldn't education determine who gets each job?*

Because of the enormous danger that we would not value the person in terms of performance, but in terms of credentials. Strange as it may seem, a knowledge economy's greatest pitfall is in becoming a mandarin meritocracy. You see creeping credentialism all around. Why should people find it necessary to tell me so-and-so is

really a good researcher even though he or she doesn't have a PhD? It's easy to fall into the trap, because degrees are black-and-white. But it takes judgment to weigh a person's contribution.

The problem is becoming more serious in information-based organizations. As Michael Hammer pointed out three years ago in HBR, when an organization reengineers itself around information, the majority of management layers becomes redundant. Most turn out to have been just information relays. Now, each layer has much more information responsibility. Most large companies have cut the number of layers by fifty percent, even in Japan. Toyota came down from twenty-odd to eleven. GM has streamlined from twenty-eight to maybe nineteen, and even that number is decreasing rapidly. Organizations will become fatter and fatter. As a result, there's real panic in Japan, because it's a vertical society based on subtle layers of status. Everybody wants to become a *kachō*, a supervisor or section manager. Still, the United States doesn't have the answer either. We don't know how to use rewards and recognition to move the competent people into the management positions that remain. I don't care for the popular theory that a generation of entrepreneurs can solve our problems. Entrepreneurs are monomaniacs. Managers are synthesizers who bring resources together and have that ability to "smell" opportunity and timing. Today perceptiveness is more important than analysis. In the new society of organizations, you need to be able to recognize patterns to see what is there rather than what you expect to see. You need the invaluable listener who says, "I hear us all trying to kill the new product to protect the old one."

*How do you find these people?*

One way is to use small companies as farm clubs, as in baseball. One of my ablest friends is buying minority stakes in small companies within his industry. When I said it didn't make sense, he said, "I'm buying farm teams. I'm putting my bright young people in these companies so they have their own commands. They have to do everything a CEO does in a big company."

And do you know the biggest thing these young executives have to learn in their new positions? My friend continued, “We have more PhD’s in biology and chemistry than we have janitors, and they have to learn that their customers aren’t PhD’s, and the people who do the work aren’t.” In other words, they must learn to speak English instead of putting formulas on the blackboard. They must learn to listen to somebody who does not know what a regression analysis is. Basically, they have to learn the meaning and importance of respect.

*A difficult thing to learn, let alone teach.*

You have to focus on a person’s performance. The individual must shoulder the burden of denying what his or her own contribution will be. We have to demand—and “demand” is the word, nothing permissive—that people think through what constitutes the greatest contribution that they can make to the company in the next eighteen months or two years. Then they have to make sure that contribution is accepted and understood by the people they work with and for.

Most people don’t ask themselves this question, however obvious and essential it seems. When I ask people what they contribute to an organization, they blossom and love to answer. And when I follow with, “Have you told other people about it?” the answer often is “No, that would be silly, because they know.” But of course “they” don’t. We are one hundred years past the simple economy in which most people knew what others did at work. Farmers knew what most farmers did, and industrial workers knew what other factory workers did. Domestic servants understood each other’s work, as did the fourth major group in that economy: small tradesmen. No one needed to explain. But now nobody knows what others do, even within the same organization. Everybody you work with needs to know your priorities. If you don’t ask and don’t tell, your peers and subordinates will guess incorrectly.

*What’s the result of this lack of communication?*

When you don’t communicate, you don’t get to do the things you are good at. Let me give you an example. The engineers in my class,