

HARVARD BUSINESS REVIEW PRESS

PETER F.
DRUCKER

THE
FRONTIERS *of*
MANAGEMENT

*Where Tomorrow's Decisions
Are Being Shaped Today*



The Frontiers of Management

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Harvard Business Review Press
Boston, Massachusetts

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Printed in the United States of America

14 13 12 11 10 5 4 3 2 1

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ISBN: 978-1-4221-3157-2

Library-of-Congress cataloging information forthcoming

The paper used in this publication meets the requirements of the American National Standard for Permanence of Paper for Publications and Documents in Libraries and Archives Z39.48-1992.

The Frontiers of Management



The Drucker Library

The Drucker Library brings together the prolific writings of Peter F. Drucker, a writer, teacher, and management consultant. An extraordinary thinker, Drucker described the implications of cutting-edge trends while recognizing timeless human truths. From seemingly complex ideas he revealed simple management lessons addressing the down-to-earth challenges faced by real executives. His classic writings have been published in more than seventy languages, and he remains one of the most respected and read business thinkers today.

People and Performance

Managing in a Time of Great Change

Toward the Next Economics

The Changing World of the Executive

The Future Is Being Shaped Today

The thirty-seven chapters in this volume: an Interview, an Afterword, and thirty-five essays and articles, cover a broad range of subjects. Yet they were planned from the beginning to be published eventually in one volume and as variations on one unifying theme: the challenges of tomorrow that face the executive today. If there is one single postulate underlying these pieces, it is that the future is being made by totally anonymous people, a CEO here, a marketing manager there, a training director or a comptroller yonder doing mundane jobs: building a management team; developing a new pricing strategy; changing a training program so that it matches people with different educational backgrounds to new technologies; or working out a new cost-accounting analysis to find out whether automating the welding line will pay off.

This, after all, is the lesson of this century. It has been a century of unprecedented disasters and cataclysms: two world wars, a Stalin, a Hitler, a Mao, and scores of lesser but no less murderous villains. Indeed we packed into every decade as much "history" as one usually finds in a century; and little of it was benign. Yet most of

this world, and especially the developed world, somehow managed not only to recover from the catastrophes again and again but to regain direction and momentum—economic, social, even political. The main reason was that ordinary people, people running the everyday concerns of everyday businesses and institutions, took responsibility and kept on building for tomorrow while all around them the world came crashing down. Thus tomorrow is being shaped today.

And what kind of tomorrow it will be thus depends heavily on the knowledge, insight, foresight, and competence of the decision makers of today, and especially of the decision makers in our institutions, that is, on executives. Yet these executives are busy people. Every one of them is already fully occupied with the daily crisis—and the daily crisis is indeed the one absolutely predictable event in the working day of the executive. To enable these busy people to see and to understand the long-range implications and impacts of their immediate, everyday, urgent actions and decisions is thus the purpose to which every one of the pieces in this volume addresses itself.

There is a second theme that runs through these thirty-seven diverse and different articles and essays: Change is opportunity. Every one of the pieces in this volume looks at changes. Some are profound and major ones, such as the impact of information on organization, the meaning of the U.S. entrepreneurial surge in the last decade, or the problems created by the success of management. Other changes are perhaps ephemeral and transitory—though for that matter no less important—for example, the mismatch between traditional jobs and the expectations and qualifications of a new, young, and educated work force. Every one of these changes might be seen as a threat and is indeed seen as such by a good many executives. Every one needs to be seen and exploited as an opportunity—for doing something different, for doing something new, and, above all, for

doing something better, something more productive, something more profitable. This volume therefore aims not only at providing knowledge, insight, foresight, and competence; it aims at creating vision.

Peter F. Drucker
Claremont, California
Summer 1986



A Talk with a Wide-Ranging Mind

Q: The last book of yours was the one in which you wrote about the deliberateness of the innovation process. Has there been any deliberateness in your own life? Was there a plan for Peter Drucker?

A: In retrospect, my life makes sense, but not in prospect, no. I was probably thirty before I had the foggiest notion where I belonged. For ten or twelve years before that I had experimented, not by design but by accident. I knew, even as a little boy, that I didn't want to stay in Austria, and I knew that I didn't want to waste four years going to a university. So I had my father get me a job as far away as one could go and as far away from anything that I was eventually headed for. I was an apprentice clerk in an export house. Then I worked in a small bank in Frankfurt. It's a job I got because I was bilingual in English and German. That was October 1929. The stock market crashed, and I was the last in and the first out. I needed a job and got one at the local newspaper. It was a good education, I must say.

In retrospect, the one thing I was good at was looking at phenomena and asking what they meant. I knew in 1933 how Hitler would end, and I then began my first book, *The End of Economic*

Man, which could not be published until 1939, because no publisher was willing to accept such horrible insights. It was very clear to me that Hitler would end up killing the Jews. And it was also very clear that he would end up with a treaty with Stalin.

I had been quite active in German conservative politics even though I had a foreign passport, and so I knew that Hitler was not for me. I left and went first to England and then, four years later, to this country. I worked in London for an insurance company as a securities analyst and as an investment banker. If I had wanted to be a rich man I would have stayed there, but it bored me to tears.

Q: *Would you define entrepreneur?*

A: The definition is very old. It is somebody who endows resources with new wealth-producing capacity. That's all.

Q: *You make the point that small business and entrepreneurial business are not necessarily the same thing.*

A: The great majority of small businesses are incapable of innovation, partly because they don't have the resources, but a lot more because they don't have the time and they don't have the ambition. I'm not even talking of the corner cigar store. Look at the typical small business. It's grotesquely understaffed. It doesn't have the resources and the cash flow. Maybe the boss doesn't sweep the store anymore, but he's not that far away. He's basically fighting the daily battle. He doesn't have, by and large, the discipline. He doesn't have the background. The most successful of the young entrepreneurs today are people who have spent five to eight years in a big organization.

Q: *What does that do for them?*

A: They learn. They get tools. They learn how to do a cash-flow analysis and how one trains people and how one delegates and how one builds a team. The ones without that background are the entrepreneurs who, no matter how great their success, are being pushed out. For example, if you ask me what's wrong with [Apple Computer Inc. cofounders] Wozniak and Jobs...

Q: *That's exactly what I was going to ask.*

A: They don't have the discipline. They don't have the tools, the knowledge.

Q: *But that's the company that we've looked to for the past five or six years as being prototypical of entrepreneurial success.*

A: I am on record as saying that those two young men would not survive. The Lord was singularly unkind to them.

Q: *Really?*

A: By giving them too much success too soon. If the Lord wants to destroy, He does what He did to those two. They never got their noses rubbed in the dirt. They never had to dig. It came too easy. Success made them arrogant. They don't know the simple elements. They're like an architect who doesn't know how one drives a nail or what a stud is. A great strength is to have five to ten years of, call it management, under your belt before you start. If you don't have it, then you make these elementary mistakes.

Q: *People who haven't had this big-company experience you prescribe: would you tell them that they shouldn't attempt their own enterprise?*

A: No, I would say read my entrepreneurial book, because that's what it's written for. We have reached the point [in entrepreneurial management] where we know what the practice is, and it's not waiting around for the muse to kiss you. The muse is very, very choosy, not only in whom she kisses but in where she kisses them. And so one can't wait.

In high tech, we have the old casualty rate among young companies, eight out of ten, or seven out of ten. But outside of high tech, the rate is so much lower.

Q: *Because?*

A: Because they have the competence to manage their enterprises and to manage themselves. That's the most difficult thing for the person who starts his own business, to redefine his own role in the business.

Q: *You make it sound so easy in the book.*

A: It is simple, but not easy. What you have to do and how you do it are incredibly simple. Are you willing to do it? That is another matter. You have to ask the question.

There is a young man I know who starts businesses. He is on his fifth. He develops them to the point that they are past the baby diseases and then sells out. He's a nanny. You know, when I grew up there were still nannies around, and most of them used to give notice on the day their child spoke its first word. Then it was no longer a baby. That's what this particular fellow is, a baby nurse. When his companies reach twenty-nine employees he says, "Out!" I ask why and he says, "Once I get to thirty people, including myself, then I have to manage them, and I'm simply not going to do anything that stupid."

Q: *That example would tend to confirm the conventional wisdom, which holds that there are entrepreneurs and there are managers, but that the two are not the same.*

A: Yes and no. You see, there is entrepreneurial work and there is managerial work, and the two are not the same. But you can't be a successful entrepreneur unless you manage, and if you try to manage without some entrepreneurship, you are in danger of becoming a bureaucrat. Yes, the work is different, but that's not so unusual.

Look at entrepreneurial businesses today. A lot of them are built around somebody in his fifties who came straight out of college, engineering school, and went to work for GE. Thirty years later, he is in charge of market research for the small condenser department and is very nicely paid. His mortgage is paid up and his pension is vested, the kids are grown, and he enjoys the work and likes GE, but he knows he's never going to be general manager of the department, let alone of the division. And that's when he takes early retirement, and three weeks later, he's working for one of the companies around Route 128 in Boston. This morning I talked to one of those men. He had been in market planning and market research

for a du Pont division—specialty chemicals—and he said, “You know, I was in my early fifties, and I enjoyed it, but they wanted to transfer me....” Do I have to finish the story?

So now he’s a vice-president for marketing on Route 128 in a company where he is badly needed, an eight-year-old company of engineers that has grown very fast and has outgrown its marketing. But he knows how one does it. At du Pont, was he an entrepreneur or was he a manager? He knows more about how one finds new markets than the boys at his new company do. He’s been doing it for thirty years. It’s routine. You come out with something, and it works fine in the market, but then you see what other markets there are that you never heard of. There are lots of markets that have nothing to do with the treatment of effluents, or whatever that company does, but they didn’t know how to find them until this fellow came along.

There is entrepreneurial work and there is managerial work, and most people can do both. But not everybody is attracted to them equally. The young man I told you about who starts companies, he asked himself the question, and his answer was, “I don’t want to run a business.”

Q: Isn’t there some irony in the fact that you who study organizations aren’t part of one?

A: I couldn’t work in a large organization. They bore me to tears.

Q: Aren’t you being very hard on the Route 128 and Silicon Valley people? You’ve called them arrogant, immature.

A: High tech is living in the nineteenth century, the pre-management world. They believe that people pay for technology. They have a romance with technology. But people don’t pay for technology: they pay for what they get out of technology.

If you look at the successful companies, they are the ones who either learn management or bring it in. In the really successful high-tech companies, the originator isn’t usually there five years later. He may be on the board; he may be honorary chairman; but he is

out, and usually with bitterness. The Apple story is different only in its dimensions. Steve Jobs lacked the discipline. I don't mean the self-discipline. I mean the basic knowledge and the willingness to apply it.

High tech, precisely because it has all the glamour, is prone to arrogance far more than any other. But it's not confined to high tech.

Q: *Where else?*

A: Finance. There's a different kind of egomaniac there, but still an egomaniac. Partly for the same reason. They make too much money too soon. It spoils you, you know, to get \$450,000 in stock options at age twenty-three. It's a very dangerous thing. It's too much excitement.

Q: *This entrepreneurial society that you write about in the book, how did it develop? And are you absolutely persuaded that it's not just a fad?*

A: Certainly, demographics have had a lot to do with it. You go back thirty years, twenty-five years, and the able graduates of, let's say, Harvard Business School all wanted to go into big business. And it was a rational, intelligent thing to do because the career opportunities were there. But now, you see, because of the baby boom, the pipelines are full.

Another reason we have an entrepreneurial society, and it's an important reason, is that high tech has made it respectable. The great role of high tech is in creating the climate for entrepreneurs, the vision. And it has also created the sources of capital. When you go to the venture capitalists, you know, most of them are no longer emphasizing high tech. But all of them began in high tech. It was high tech that created the capital flow. And how recent this is is very hard to imagine. In 1976, I published a book on pension funds in which I said that one of the great problems in making capital formation institutional is that there won't be any money for new businesses. That was only ten years ago and at that time what I said was obvious. Today it would be silly.

The third thing promoting the entrepreneurial society perhaps is the most important, although I'm not sure whether I'm talking chicken or egg. There's been a fundamental change in basic perception over the past, make it, fifty years. The trend was toward centralization—in business, in government, and in health care. At the same time, when we came out of World War II we had discovered management. But management was something that we thought could work only in large, centralized institutions. In the early 1950s, I helped start what became the Presidents' Course given by the American Management Associations. In the first years, until 1970, for every hundred people they invited, eighty wrote back and said: "This is very interesting, but I'm not GE. What would I need management for?" And the same was true when I first started to work with the American College of Hospital Administrators, which gave a seminar in management. Hospital administrators needed it, but invariably we got the answer, "We have only ninety beds; we can't afford management." This has all changed now. Don't ask me how and when. But nowadays, the only place left where you still have the cult of bigness is in Japan. There, bigger is better and biggest is best.

So, in part, the entrepreneurial society came about because we all "learned" how to manage. It's become part of the general culture. Look, Harper & Row—who is the publisher for [Tom] Peters and [Bob] Waterman—half of the 2 or 3 million books they sold were graduation presents for high school graduates.

Q: *Your book or In Search of Excellence?*

A: Oh, no, no. Not my book. My book would be hopeless. They couldn't read it, much less master it. The great virtue of the Peters and Waterman book is its extreme simplicity, maybe oversimplification. But when Aunt Mary has to give that nephew of hers a high school graduation present and she gives him *In Search of Excellence*, you know that management has become part of the general culture.

Q: Does the arrival of the entrepreneurial society mean that we should be rejoicing now because our national economic future is assured?

A: No. It's bringing tremendous change to a lot of vast institutions, and if they can't learn, the changes will be socially unbearable.

Q: Has any of them started to change?

A: My God, yes. The new companies are the least of it, historically. The more important part is what goes on in existing institutions. What is far more important is that the American railroad has become innovative with a vengeance in the last thirty years. When I first knew the railroads in the late 1940s, there was no hope for them. I was quite sure that they would all have to be nationalized. Now, even Conrail, the government-owned railroad, makes money.

What has happened in finance is even more dramatic. In, make it, 1960, some smart cookies at General Electric Credit Corporation realized that commercial paper is a commercial loan, not legally, but economically. Legally, in this country, it's a security, so the commercial banks have a hard time using it. Our number-two bank is not Chase and not Bank of America. It's General Electric Credit.

The most robotized plant in the world is probably the GE locomotive plant in Erie, Pennsylvania. Twenty years ago, GE didn't make a single locomotive in this country. It was much too expensive. They were all made by GE Brazil. Now, the U.S. plant is far more automated than anything you could possibly find in Japan or Korea.

That's where the innovation has been, and that's where we need it, because if we don't get the changes in there we will have one corpse after another, with enormous social danger.

Q: Is that why you wrote Innovation and Entrepreneurship?

A: I wrote the book because I felt the time had come to be a little more serious about the topic than most of the prevailing work was and also in part because, bluntly, most of the things you read or hear seem to me, on the basis of thirty years of work and experience, to be misunderstandings. The entrepreneur—the person with

George Gilder's entrepreneurial personality—yes, there are such people, but they are rarely successful. On the other hand, people whom Gilder would never accept as entrepreneurs are often very successful. Entrepreneurship is not a romantic subject. It's hard work. I wanted to dislodge the nineteenth-century folklore that holds that entrepreneurship is all about small business and new business. Entrepreneurs range from the likes of Citibank, whom nobody has accused of being new or small—or General Electric Credit—to Edward D. Jones & Co. in St. Louis, the fastest-growing American financial-services company.

But there's another reason. When I published *Practice of Management* thirty years ago, that book made it possible for people to learn how to manage, something that up to then only a few geniuses seemed able to do, and nobody could replicate it. I sat down and made a discipline of it. This book does the same with innovation and entrepreneurship.

Q: Well, you didn't invent the stuff.

A: In a large part, yes.

Q: You didn't invent the strategies. They were around before you wrote them down.

A: Not really.

Q: No? What I'm trying to say is that people were doing these things—finding market niches, promoting entrepreneurial behavior in their employees—before your book came out.

A: Yes, and everybody thought it required genius and that it could not be replicated. Look, if you can't replicate something because you don't understand it, then it really hasn't been invented; it's only been done.

When I came into management, a lot of it had come out of engineering. And a lot of it came out of accounting. And some of it came out of psychology. And some more came out of labor relations. Each of those was considered separate, and each of them, by itself, was ineffectual. You can't do carpentry, you know, if you