

DRUCKER'S LOST ART OF MANAGEMENT

PETER DRUCKER'S TIMELESS
VISION FOR BUILDING
EFFECTIVE ORGANIZATIONS

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PREFACE

This book represents the union of two very different approaches to the study of management. One author is a professor of management, with expertise in management systems, cost management, and project management. The other is a historian. What the authors have in common, however, is that both personally knew Peter Drucker, and have studied his work intensively.

This shared interest in Drucker's work was the origin of this book. As we conducted our research independently, it became clear that Drucker's vision of management required a deep understanding of the humanities and its goals. Drucker himself called management a "liberal art," linking it directly to the humanities disciplines. What we have attempted to do in this book is to discern what Drucker meant by "management as a liberal art," and to ground that concept in historical context and practice. It is our belief that, practiced in keeping with Drucker's vision, management as a liberal art may offer hope for a more humanitarian, moral society.

Chapters 1 through 3 define the discipline of management as a liberal art. Chapter 1 focuses on the ways in which various disciplines in the liberal arts influenced Drucker's management ideas. Drucker envisioned a moral society of functioning institutions, and his studies in theology, philosophy, political theory, and economics informed

his management writings. In Chapter 2, we discuss the historical connection between management education and the liberal arts, and the price that has been paid for cutting that tie. Chapter 3 contains a discussion of management as a liberal art's contributions to both the liberal arts and management. Because Drucker's management philosophy was so driven by ethics and the idea of virtue, we address the questions of values, character, and ethics that are raised by management as a liberal art. Just as a liberal arts education historically emphasized creating people of virtue, management as a liberal art must also deal with these concepts.

The remaining chapters deal with four major topics for putting management as a liberal art into practice—federalism (Chapter 4), the human dimension (Chapter 5), leadership (Chapter 6), and social ecology (Chapters 7 and 8). The book does not address specific functional areas of management such as marketing, operations, accounting, finance, and information technology. Nor does it contain a detailed study of the disciplines that comprise the liberal arts. Instead, it presents new ways of thinking about both the liberal arts and the practice of management by weaving the two together in these four major topics. In the chapter on federalism, we show how political philosophy can have applications to modern organizations. In Chapter 5, we draw on religious and Enlightenment theories to discuss the need for a framework for conceptualizing the nature of human existence. Drawing on American history, we use Abraham Lincoln as a case study to illustrate Drucker's notion of effective leadership in Chapter 6. Finally, we include discussions of sociology, economics, and management theorists to evaluate the function of the social ecologist in Chapters 7 and 8.

Drucker identified the Federalist Papers, and by inference federalism, as a "lasting contribution America has made to Western thought" (Drucker, 1954, p. 280). The arguments made by Federalists and Anti-Federalists during the process of ratifying the Constitution of the United States dealt with difficulties and trade-

offs involved in the design of structure and policies for all human organizations. These difficulties, trade-offs, and solutions to ongoing challenges posed by questions of the appropriate distribution of power and design of organization structures are topics considered in Chapter 4.

Organizations are made up of human beings who, while capable of behaving like angels, often insist on behaving perversely. The primary task of management as a liberal art is to provide leadership for human beings to help them fulfill the mission of the organization. The characteristics of human beings at work are topics taken up in Chapter 5. The closely related topic of providing executive leadership to achieve the mission of an organization is the topic of Chapter 6.

Finally, Drucker called himself a social ecologist. The work of a social ecologist is to create and maintain a society of functioning organizations. Doing so requires the social ecologist to anticipate discontinuities in society and to manage them through processes that provide for both continuity and change. The practice of social ecology is, in essence, the practice of management as a liberal art for producing a society of organizations that perform according to their missions.

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Publishing Ltd., formulated policies for Emerald authors that permitted adaptation of our previously published work in an Emerald journal associated with the Drucker Symposium in Vienna, Austria, on November 19–20, 2009.

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Karen would like to thank her husband, George, for his patience. And she would like to thank her surgeons, oncologist, and many friends for supporting her through a difficult time while simultaneously working with Joe on this labor of love.

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INTRODUCTION

We do not know yet precisely how to link the liberal arts and management. We do not know yet what impact this linkage will have on either party—and marriages, even bad ones, always change both partners.

—Drucker, “Teaching the Work of Management”

In the wake of the global financial crisis that began in late 2008, corporate governance has come under substantial fire in the media and public square. Government bailouts of corporations, exorbitant CEO salaries in the midst of high unemployment and outsourcing of jobs, allegations of unethical or illegal business practices—it seems clear to the American public that corporate leaders have lost any sense of moral values or ethics that they once may have had.

What has gone wrong with America’s managerial class? A host of books and articles have been published recently that have offered various answers, from Jim Wallis’s *Rediscovering Values: On Wall Street, Main Street, and Your Street* (2010) to Jonathan Tasini’s *The*

Audacity of Greed: Free Markets, Corporate Thieves and the Looting of America (2009).

Have we trained our managers incorrectly? Or, as Wallis argues, have we as a society lost our sense of right and wrong? Is Tasini correct in blaming America's worship of the free market system? There is certainly no shortage of explanations for what ails the economy and the state of organizational leadership.

Peter Drucker devoted his life to providing managers with guidance so that they could be as effective as possible. He had much to say about the role of power in organizations, as well as the selection and training of effective executives. But his most pressing concern was that organizations concern themselves with people; organizations must provide human beings with status, function, and a sense of community and purpose. Viewed in this context, the management of people within organizations involves an understanding of human nature and cultural or communal values and morals—in Drucker's words, with questions of “Good and Evil” (Drucker, 1988, p. 5).

Although most businesses have some sort of ethics code in their mission statements, matters of “good and evil” are perceived as best left to the realm of theology or philosophy—not the boardroom. Yet Drucker insisted on the need for values in organizations. Given the state of the image of business in the public's eyes, perhaps it would help to at least raise a question: what do managers and executives value, and why? If organizations are about human beings, from where do those human beings derive their values?

One way to begin to address this subject is to take seriously Drucker's statement that management is a liberal art. Although he never fully defined this concept, it is clear that he envisioned a linkage between the liberal arts tradition inherited from Greek and Roman civilizations and the pragmatic, day-to-day operations of an organization.

One crucial element that links the liberal arts and management is the fostering and maintenance of cultural values. Historically, liberal arts training emphasized the cultivation of beliefs, behaviors, and opinions thought to be of high moral quality (good or right) in a given civilization. If management is, as Drucker said, a liberal art, then it must similarly involve the development of shared codes of conduct and beliefs within an organization. The practical implications of management as a liberal art for today's organizations are far-reaching, and may indeed provide a new blueprint for redeeming corporate America's reputation.

THE LIBERAL ARTS: AN HISTORIC TRADITION

The term "liberal art" stems from the concept of the "liberal arts," which has a long history. Although the Latin term *artes liberales* was derived from the Greeks, the Romans, notably Cicero, used it beginning around the first century BCE. The definition of a liberal art was a skill or craft practiced by a free citizen with time and means for study, a member of the elite, ruling classes of society. Liberal arts training, then, meant training citizens to be society's leaders. As such, the ideals of an *artes liberales* education were to instill standards of conduct and character, knowledge and mastery of a body of texts, a respect for societal values and standards, and an appreciation for knowledge and truth.

The content of a liberal arts education changed along with the times, as first the Christian Church and then secular universities adapted the curriculum to meet their needs. However, the emphasis on the values of antiquity and transmission of moral values in order to refine the human being remained at the core of the liberal arts ideal.

In the United States, religious liberal arts colleges, and later large research universities modeled after their European predecessors,

again modified their programs, but even the earliest professional business schools assumed that their students would have received some form of liberal arts training in order to foster "character development" or instill moral values.

Therefore, while there certainly has never been one single liberal arts curriculum, what *is* constant is the attempt to inculcate a set of agreed-upon values or cultural beliefs. The values and beliefs change over time, but the overarching goal does not. Ultimately, the *artes liberales* and its various iterations strive to define what is good, right, and just in a given society or culture. As the tradition has shifted its context from pagan to Christian to today's secular society, the ideal of instilling shared values remains, but has become increasingly complex. In a diverse society, what constitutes "right" and "good"? Who or what defines it? Where one locates these values is an important question. To wrestle with this question is to wrestle with the legitimacy and universality of certain values. Ultimately, it involves addressing larger theological or philosophical issues: Drucker's concern with "Good and Evil."

Such big-picture questions are not confined to the ivory tower; the overwhelming success of Rick Warren's book *The Purpose Driven Life* (2002) indicates there is a global search for answers to some of life's most important questions, such as "why am I here?" and "what is my purpose?" Instilling a liberal arts mentality, then, involves an ever-shifting search for the best way to foster values based on tradition, even though that tradition may morph through time. It is to take seriously the counsel of Socrates to examine one's life, for "the unexamined life is not worth living."

Today, the *artes liberales* are widely proclaimed as irrelevant to American society and education. The past goals of liberal arts training seem elitist, culturally insensitive, and totally impractical for today's cadre of up-and-coming executives and professionals, not to mention mid-level managers or entrepreneurs. Liberal arts colleges have radically revamped their curriculum, entrance requirements,

and attitude to try to survive, economically as much as culturally. Yet there is much evidence to support the view that the erosion of the liberal arts is in part responsible for our current climate of greed and profit at any cost.

In his book *From Higher Aims to Hired Hands*, Rakesh Khurana argues that the business schools' recent emphasis on maximization of shareholder value as the sole measure of organizational success has demoted professional managers to nothing more than "hired hands." With no responsibilities to anything other than themselves, these hired guns lack any sense of a greater moral, social, or ethical obligation to society or the organizations that employ them.

In the revised edition of *Management*, Peter Drucker, a thinker always ahead of his time, called management a liberal art:

Management is thus what tradition used to call a liberal art: "liberal" because it deals with the fundamentals of knowledge, self knowledge, wisdom, and leadership; "art" because it is practice and application. Managers [should] draw on all the knowledge and insights of the humanities and the social sciences—on psychology and philosophy, on economics and history, on ethics as well as on the physical sciences. But they have to focus this knowledge on effectiveness and results—on healing a sick patient, teaching a student, building a bridge, designing and selling a "user friendly" software program. (Drucker, 2008, p. 25)

Drucker believed that management would be the key to keeping the liberal arts sentiment alive in today's society. He saw an important relationship between the two forms of training. The liberal arts can bring wisdom and self-knowledge to the practice of management, while management can "be the discipline and the practice through and in which the 'humanities' will again acquire recognition, impact, and relevance" (Drucker, 2008, p. 25). And practicing

management as a liberal art might, in fact, return management to its original, intended professional status.

APPLYING MANAGEMENT AS A LIBERAL ART FOR TODAY'S EXECUTIVES

If Peter Drucker was right about management being a liberal art, management must return to the original ideals of liberal arts education that were fundamental to the concept of professionalism in business, and to Drucker's concept of "The Educated Person." The difficulty in implementing management as a liberal art lies in the perceived dichotomy between the "ivory tower" of academia and the "real world" of business. The history of the liberal arts tradition involved training for the "real world" of politics, law, medicine, and religious leadership. Reconciling the classical *artes liberales* with the everyday world has a long tradition in America, from the Puritan colonists' use of Harvard to train community leaders through the founding fathers' desire for republican virtue in those chosen to govern.

One of the keys is to reconnect the liberal arts and management, restoring a union that once existed. *The connection between the goals of the liberal arts and practicing professionals may have been lost, but it can be restored.* In Drucker's view, it was the liberal arts' responsibility to "demonstrate and to embody values, to create vision . . . [and] to lead" (Drucker, 1994, p. 63). Management as a liberal art would require practitioners to do the same.

In Chapters 1 to 3 of this book, we lay out the intellectual framework for Drucker's idea of management as a liberal art, followed by a discussion of how management and the liberal arts were once connected but have become divided. We complete this section with an overview of the potential contributions of management as a liberal art, as well as some caveats regarding what management as a liberal art is not.

In the second part of the text, we illustrate management as a liberal art in practice, concentrating on five primary issues confronting practitioners: the use and abuse of power within organizations (and by organizations in society); the nature of human existence and its implications for management; leadership; “social ecology,” or the process of observing various external and internal factors for potential threats and opportunities; and the role of innovation and technology. In each chapter dealing with these topics, we show how a specific discipline in the liberal arts can enhance the performance of management practitioners through providing a different perspective, a new prism through which to view problems, or an enriched sense of the responsibilities of managers.

Why management as a liberal art now? There are many examples within these pages, but four specific instances of management failure provide substantial evidence of the need for management as a liberal art at this crucial moment in time. These four examples show, basically, how management as a liberal art in action has very real consequences for today’s world.

Lessons of Power: Goldman Sachs as “Too Big to Fail”

Andrew Ross Sorkin’s book *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System—and Themselves* (2009) describes the global financial crisis that materialized in September 2008 in terms of concentration of power. As Sorkin argues, executives running a handful of America’s financial institutions wielded sufficient power to derail the entire global financial system, and the federal government has done nothing to diffuse or curb that power. Nowhere is the role of concentrated, unchecked power more apparent than in the case of Goldman Sachs’ role in the global financial crisis.

Goldman Sachs is one of the firms that received government aid under the Troubled Asset Relief Program (TARP) of 2008. The firm

paid back the \$10 billion in government loans in April 2009, and reported unexpectedly high profits of over \$3 billion in the second quarter of the same year. Goldman Sachs' far-reaching power in the global financial markets was well known on Wall Street, but the TARP bailouts, along with a series of highly publicized articles by *Rolling Stone* investigative reporter Matthew Taibbi, put the investment bank's activities in the public limelight. In April 2010, U.S. federal prosecutors opened an inquiry into potential fraudulent activities at the firm. Specifically, the Securities and Exchange Commission (SEC) accused Goldman Sachs of selling investors mortgage derivatives that were selected and packaged with the help of a major hedge fund that was simultaneously betting on those securities failing. Goldman settled with the SEC in July 2010 by agreeing to pay a fine of \$550 million without admitting wrongdoing (CNNMoney.com, 2010).

Goldman Sachs' record profits on both sides were in part due to its ability to leverage its extensive power. The firm reaped profits on both sides of the collateralized debt obligation (the mortgage derivative package known as Abacus). The firm capitalized on its retail and institutional relationships to play a role as both advocate and saboteur of an investment, reaping rewards in both positions. What is more worrisome, Goldman Sachs used its remarkable influence to assemble numerous complex deals involving derivative products, many of which have had significant effects on the global financial crisis. The firm's involvement in the Greek debt meltdown of 2010, which we discuss in this book, is only one example of how Goldman Sachs' behavior is a lesson in the need for recognizing the problem of unchecked power in organizations (Carney, February 15, 2010).

Drucker was keenly aware of this problem, and he saw political theory (specifically the concept of federalism) as a way of controlling power within organizations. Political science and theory, in the