

PETER F. DRUCKER



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THE
PRACTICE
OF
MANAGEMENT

PETER F. DRUCKER



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P R E F A C E

Management books, though only few of them, had been written and published before *The Practice of Management* appeared in 1954. I myself had published in 1946 my first management book, *Concept of the Corporation* (New York: John Day). A few years earlier, in 1938, Chester I. Barnard's *The Functions of the Executive* (Cambridge, Mass.: Harvard University Press) had appeared. The papers on management Mary Parker Follett had written in the 1920s and early 1930s were collected and published under the title *Dynamic Administration* (New York: Harper & Brothers) in 1941. Elton Mayo, the Australian-born Harvard professor, had published his two short books on work and worker: *The Human Problems of an Industrial Civilization* (New York: Macmillan) and *The Social Problems of an Industrial Civilization* (Cambridge, Mass.: Harvard University Press) in 1933 and 1945, respectively. The English translation of Henry Fayol's *Industrial and General Administration*—first published in Paris in 1916—had come out in 1930 (London, England: Pitman); and Frederick W. Taylor's *Scientific Management* had come out even earlier, in 1911 (New York: Harper & Brothers), and had been reprinted many times since.

Every one of these books is still being read widely, and deserves to be read widely. Every one was a major achievement. Every one laid firm and lasting foundations; indeed, in their respective fields, none has yet been surpassed. There are no better guides to what we now call organizational psychology and organizational development than Barnard and Mary Parker Follett. When we talk of "quality circles" and "worker involvement," we only echo what Elton Mayo wrote forty and fifty years ago. Fayol's language is outdated, but his insights into the work of management and its organization are still fresh and original. Little has been added in respect to top management, its functions and its policies to what I wrote in *Concept of the Corporation*.

And we find ourselves today going back to Taylor in order to understand the work of knowledge-workers and to learn how to make knowledge-work productive.

Still, *The Practice of Management* was the first true "management" book. It was the first to look at management as a whole, the first that attempted to depict management as a distinct function, managing as specific work, and being a manager as a distinct responsibility. All earlier books had dealt with one aspect of management and managing—with communications, for instance, as did Barnard's *Functions of the Executive*, or with top management, organizational structure, and corporate policy, as did my *Concept of the Corporation*. *The Practice of Management* talks of "managing a business," "managing managers," and "the management of worker and work"—the titles, respectively, of Parts One, Two, and Four. It talks of "the structure of management" (Part Three) but also of "making decisions" (Chapter 28). It talks of "the nature of management," its role, its jobs, and the challenges managements face. But it also talks of managers as people, of the individual men and women who perform managerial work and hold managerial positions: their qualifications, their development, their responsibilities, their values. *The Practice of Management* has a chapter entitled "The Spirit of an Organization" (Chapter 13), in which can be found everything that is now discussed under the heading of "corporate culture." *The Practice of Management* was the first book to talk of "objectives," to define "key result areas," to outline how to set objectives, and to describe how to use them to direct and steer a business and to measure its performance. Indeed *The Practice of Management* probably invented the term "objectives"—at least, it is not to be found in the earlier literature. And *The Practice of Management* was the first book to discuss both managing the existing business and innovating the business of tomorrow.

Perhaps even more important—and certainly more novel—was the fact that *The Practice of Management* was a "first" also in that it saw the enterprise as a whole. All earlier management books—and indeed most management books even now—only see one aspect. Indeed, they usually see only the internal dimension: organization, policies, human relations within the organization, authority within it, and so on. *The Practice of Management* portrays the enterprise three-dimensionally: first, as a "business" that is an institution exist-

ing to produce economic results outside of it, in the market and for customers; second, as a human and social "organization" which employs people, has to develop them, has to pay them, has to organize them for productivity, and therefore requires governance, embodies values and creates relationships of power and responsibility; and third, as a "social institution" embedded in society and community and thus affected by the public interest. *The Practice of Management* also discusses the "social responsibilities of business"—a term that was practically unknown at the time the book was published.

The Practice of Management thus created some thirty years ago what we now refer to as the "discipline" of management. And this was neither accident nor good luck—it was the book's mission and intent.

When I wrote *The Practice of Management*, I had ten years' successful consulting practice under my belt. My own starting point had been neither business nor management. To be sure, I had, much earlier, worked for banks—one short year in Germany, three years in England. But I had become a writer and journalist and taught government and political science. I thus came to management almost by accident. In 1942 I published a book, *Future of Industrial Man*, in which I argued that a good many of the social tasks which community and family had performed in earlier societies had come to be discharged by organizations and especially by the business enterprise. This book attracted the attention of a senior executive of the world's largest manufacturing company, General Motors, who, in the late fall of 1943, invited me to make an in-depth study of his top management, its structure and its basic policies. Out of this study grew *Concept of the Corporation*, finished in 1945 and published in 1946.

I found the work fascinating—but also frustrating. There was practically nothing to help me prepare myself for it. Worse, what few books on management and business enterprise existed were totally inadequate. They dealt with one aspect, and one aspect only, as if it existed in isolation. They reminded me of a book on human anatomy that would discuss one joint in the body—the elbow, for instance—without even mentioning the arm, let alone the skeleton and musculature. Worse still, there were no studies at all on most

aspects of management. Yet what made management and the work of the manager so interesting, I thought, was precisely that there was always a true whole, a three-dimensional entity. Managing, I soon learned, always had to take into account the results and performance for the sake of which the business exists, the internal organization of people engaged in a common task and the outside social dimension—the dimension of social impacts and social responsibilities. Yet nothing could be found on most of these topics, let alone on their relationship to one another. Plenty of books existed at the time on the impact of government policy on business; indeed, courses on government regulation of business were then—and still are—highly popular. But what about the impact of business on society and community? There was ample material on corporate finance—but virtually nothing on business policy and so on.

I continued for some time as a consultant to General Motors after I had finished my study. And then I gradually was called in to consult by some other large corporations—Sears, Roebuck, the Chesapeake & Ohio Railroad, General Electric. Everywhere I found the same situation: a near-total absence of study, thought and knowledge regarding the job, function and challenges of management—nothing but fragments and specialized monographs. And so I decided to sit down, first to map out that “dark continent,” management, then to define what pieces were missing and had to be forged and finally to put the whole together into one systematic, organized—yet short—book. In my consulting assignments I was meeting large numbers of able younger people, people in middle- and upper-middle management positions or in their first major assignment, either as a manager or as an individual professional contributor. These were the people who *knew* that they were managers—their predecessors, who had made their careers before World War II, were often barely conscious of that fact. These younger achieving people knew that they needed systematic knowledge; needed concepts, principles, tools—and had none. It was for them that I wrote the book. And it was that generation which made the book an immediate success, that generation which converted being a manager from being a “rank” into work, function and responsibility. And the book was an immediate success, not only in the United States but worldwide, in Europe, in Latin America and, especially, in Japan.

Indeed, the Japanese consider it the foundation of their economic success and industrial performance.

Some of my subsequent management books have taken one major theme of *The Practice of Management* and developed it at greater length—for instance, *Managing for Results* (1964), which was the first book on business strategy, and *The Effective Executive* (1966), which treats managing oneself as a manager and executive in an organization. *Management: Tasks, Responsibilities, Practices* (1973) was written as a systematic handbook for the practicing executive but also as a systematic text for the student of management; it thus aims at being comprehensive and definitive, whereas *The Practice of Management* aims at being accessible and stimulating. *Managing in Turbulent Times* (1980) further develops basic questions raised in *The Practice of Management*—What is our business? What could it be? What should it be?—but also considers the question of how a business both innovates and maintains continuity in a time of change, thus turning change into opportunity. These four volumes—all originally published by Harper & Row—have now come out as Harper paperbacks in the same format as this paperback edition of *The Practice of Management*.

But *The Practice of Management* has remained the *one* book which students of management, young people aspiring to become managers and mature managers still consider the foundation book. “If you read only one book on management,” the chairman of one of the world’s largest banks tells his officers again and again, “read *The Practice of Management*.” What explains this success is, I believe, the book’s balance between being comprehensive and being accessible and easy to read. Each chapter is short, yet each presents the fundamentals in their entirety. This is, of course, the result of the book’s origins; I wanted something that would give the managers I was working with in my client companies *everything* they would need to do their jobs and prepare themselves for top-management responsibilities; yet the material had to be accessible, had to be readable, had to fit the limited time and attention busy people could give to it. It is this balance, I believe, that has made this book keep on selling and being read for thirty years despite the plethora of books on management that have been written and published since. This balance, I believe, has made it the preferred book of the practitioner of

management and of those who aspire to become managers, in public-service organizations as well as in businesses. And I hope this paperback edition will serve the same function and make the same contribution to new generations of students, aspiring young management professionals, and seasoned practitioners for years to come.

PETER F. DRUCKER
Claremont, California
Thanksgiving Day, 1985

CONTENTS

PREFACE	<i>Page</i> vii
---------	--------------------

INTRODUCTION: THE NATURE OF MANAGEMENT

1. THE ROLE OF MANAGEMENT	3
2. THE JOBS OF MANAGEMENT	6
3. THE CHALLENGE TO MANAGEMENT	18

PART ONE. MANAGING A BUSINESS

4. THE SEARS STORY	27
5. WHAT IS A BUSINESS?	34
6. WHAT IS OUR BUSINESS—AND WHAT SHOULD IT BE?	49
7. THE OBJECTIVES OF A BUSINESS	62
8. TODAY'S DECISIONS FOR TOMORROW'S RESULTS	88
9. THE PRINCIPLES OF PRODUCTION	95

PART TWO. MANAGING MANAGERS

10. THE FORD STORY	111
11. MANAGEMENT BY OBJECTIVES AND SELF-CONTROL	121
12. MANAGERS MUST MANAGE	137
13. THE SPIRIT OF AN ORGANIZATION	144
14. CHIEF EXECUTIVE AND BOARD	161
15. DEVELOPING MANAGERS	182

PART THREE. THE STRUCTURE
OF MANAGEMENT

16. WHAT KIND OF STRUCTURE?	193
17. BUILDING THE STRUCTURE	202
18. THE SMALL, THE LARGE, THE GROWING BUSINESS	227

PART FOUR. THE MANAGEMENT
OF WORKER AND WORK

19. THE IBM STORY	255
20. EMPLOYING THE WHOLE MAN	262
21. IS PERSONNEL MANAGEMENT BANKRUPT?	273
22. HUMAN ORGANIZATION FOR PEAK PERFORMANCE	289
23. MOTIVATING TO PEAK PERFORMANCE	302
24. THE ECONOMIC DIMENSION	312
25. THE SUPERVISOR	319
26. THE PROFESSIONAL EMPLOYEE	329

PART FIVE. WHAT IT MEANS
TO BE A MANAGER

27. THE MANAGER AND HIS WORK	341
28. MAKING DECISIONS	351
29. THE MANAGER OF TOMORROW	370

CONCLUSION: THE RESPONSIBILITIES
OF MANAGEMENT

SELECTED BIBLIOGRAPHY	393
INDEX	397

INTRODUCTION

THE NATURE OF MANAGEMENT

THE ROLE OF MANAGEMENT

The dynamic element in every business—A distinct and a leading group—The emergence of management—The free world's stake in management.

THE manager is the dynamic, life-giving element in every business. Without his leadership the "resources of production" remain resources and never become production. In a competitive economy, above all, the quality and performance of the managers determine the success of a business, indeed they determine its survival. For the quality and performance of its managers is the only effective advantage an enterprise in a competitive economy can have.

Management is also a distinct and a leading group in industrial society. We no longer talk of "capital" and "labor"; we talk of "management" and "labor." The "responsibilities of capital" have disappeared from our vocabulary together with the "rights of capital"; instead, we hear of the "responsibilities of management," and (a singularly hapless phrase) of the "prerogatives of management." We are building up a comprehensive and distinct system of "education for management." And when the Eisenhower Administration was formed in 1952, it was formed consciously as a "Management Administration."

The emergence of management as an essential, a distinct and a leading institution is a pivotal event in social history. Rarely, if ever, has a new basic institution, a new leading group, emerged as fast as has management since the turn of this century. Rarely in human history has a new institution proven indispensable so quickly;

and even less often has a new institution arrived with so little opposition, so little disturbance, so little controversy.

Management will remain a basic and dominant institution perhaps as long as Western civilization itself survives. For management is not only grounded in the nature of the modern industrial system and in the needs of the modern business enterprise to which an industrial system must entrust its productive resources—both human and material. Management also expresses basic beliefs of modern Western society. It expresses the belief in the possibility of controlling man's livelihood through systematic organization of economic resources. It expresses the belief that economic change can be made into the most powerful engine for human betterment and social justice—that, as Jonathan Swift first overstated it two hundred and fifty years ago, whoever makes two blades of grass grow where only one grew before deserves better of mankind than any speculative philosopher or metaphysical system builder.

This belief that the material can and should be used to advance the human spirit is not just the age-old human heresy "materialism." In fact, it is incompatible with materialism as the term has always been understood. It is something new, distinctly modern, distinctly Western. Prior to, and outside of, the modern West, resources have always been considered a limit to man's activities, a restriction on his control over his environment—rather than an opportunity and a tool of his control over nature. They have always been considered God-given and unchangeable. Indeed all societies, except the modern West, have looked upon economic change as a danger to society and individual alike, and have considered it the first responsibility of government to keep the economy unchangeable.

Management, which is the organ of society specifically charged with making resources productive, that is, with the responsibility for organized economic advance, therefore reflects the basic spirit of the modern age. It is in fact indispensable—and this explains why, once begotten, it grew so fast and with so little opposition.

The Importance of Management

Management, its competence, its integrity and its performance will be decisive both to the United States and to the free world in