

**MANAGEMENT PHILOSOPHY
OF PETER DRUCKER**

N. N. Sachitanand



FORUM OF FREE ENTERPRISE

**PIRAMAL MANSION, 235 DR. D. N. ROAD,
BOMBAY 400 001.**

**"Free Enterprise was born with man and
shall survive as long as man survives."**

—A. D. Shroff

1899-1965

**Founder-President
Forum of Free Enterprise**

MANAGEMENT PHILOSOPHY OF PETER DRUCKER

N. N. Sachitanand*

If the karatekas have a “living God” in Gogen Yamaguchi, the management fraternity has in Peter F. Drucker, a “living prophet.” Drucker has become a legend in his lifetime and superlatives are usually linked to his name. A “New York Times” interviewer once wrote that his prominence in management circles was such that he qualified as a cult.

To the Press in Bangalore, where he had come to deliver the keynote address at the silver jubilee celebrations of the Bangalore Management Association, Drucker was introduced as the “Prometheus of Management.” Short and stocky of build, with scant hair lying awry on his head and myopic eyes almost camouflaged by thick bifocals, he looked the very epitome of the absent-minded professor.

However, it soon became very apparent that he had his wits very much about him when, in his Teutonic baritone, he provided sharply cogent answers, interlaced with witty asides, to the newsmen’s questions. His awareness of the Indian circumstances, although this was his first visit to the country, was impressive. His courteous and unpretentious *mein*, despite his eminence, was notable.

* This is the text of a special article which appeared in “The Hindu” of 29th November, 1978. We are grateful to the Editor for permission to reproduce this for public education.

The man who "invented the philosophy of management" (according to C. Northcote Parkinson) was born in 1909 into a highly cultivated, well-to-do family in Vienna. By 18 he was in Germany, first as an apprentice clerk in a Hamburg export firm and later as a trainee economist in the Frankfurt branch of a Wall Street brokerage house. In 1931, he obtained his doctorate in law at the University of Frankfurt and took on a dual career as a teacher of law and editor and financial writer for a Frankfurt newspaper.

In early 1933 he completed his first serious work, a monograph that was interpreted by the Nazis as a complete rejection of their philosophy. When the Nazis came to power a few weeks after the essay appeared, it was banned. Drucker fled Germany for England where he spent four years as a journalist.

In 1937, he moved to the United States where he first established himself as the American editor for a group of Scottish and English newspapers and as resident economist in the U.S. for a group of investors, most of whom were British. He taught economics and statistics at Sarah Lawrence College, New York, before moving to Bennington College in Vermont as professor of politics and philosophy.

Drucker's first brush with the world of management came in 1942, when the gigantic General Motors Corporation surprised him with an invitation to study its top management and the company from inside. Based on his 18 months with GM, he wrote "Concept of the Corporation," a landmark study of the large American Corporation. What he saw there convinced him that the big corporation was America's

representative social institution. He later extended this idea to modern society as a whole and called it the Society of Organisations.

As he explained a few years ago in an article in the magazine **Management To-day** : "...To-day the great majority of educated people work for an organisation, whether that is a company or a government agency or a hospital or a university. This is the first society in which there are no masters, but almost everybody is an employee of an organisation. Therefore, the manager assumes a tremendous importance." If the manager succeeds, says Drucker, then the institutions and thus society as a whole will work.

Ever since the GM experience, Drucker has been "hooked" to the study of business and management. In performing this task, he has come to occupy a unique niche as a kind of management philosopher, a system thinker who can draw disparate threads of knowledge together into a meaningful pattern.

Peter Drucker has probably influenced more business executives in more countries than anyone else through his books, essays, lectures and, of course, consultation. He is the author of 13 books, which have sold over three million copies. The most popular is **The Practice of Management**, regarded as a classic in its field, which has sold over a million copies since it was first published in 1954.

Drucker's observations about management come directly from experience. As he says, "practice comes before theory." His consulting and teaching and writing are mutually supportive. "Consulting is my laboratory," he says. "Teaching

forces me to organise my thinking. It enables me to hear myself and try things.. That's why I like to teach experienced executives rather than kids." He uses the information gained from his consultancy in formulating the ideas that appear in his books.

Unlike the typical management academic whose job is apparently to obfuscate with jargon, Drucker's writing as well as his speech is direct, lucid and laced with wit. He is reported to have commented about academics thus : "Graduate school faculties are made up of people who have never been out working in organisations, who have never found out about the brilliant marketing strategy that does not work because the consumer does not behave the way you think he ought to!" No wonder, many in the academic world consider Drucker to be inconsistent, opinionated and infuriating.

Asked (at Bangalore) to give a brief definition of the philosophy of management, he replied, "To produce the best from the resources available to the organisation and obtain the maximum productivity from the employees."

In an article, "The Multidimensional Job of Management", published in Management To-day, Drucker lists the following three basic rules of good management :

(1) Take time to think through your purpose and your objectives. Management by objectives works but ninety per cent of the time the objectives are not known and much effort is frittered away pointlessly.

(2) Concentrate. Organisations are not agile. Butterflies flutter from flower to flower, elephants do not. Even a

small organisation is an elephant, so concentrate your resources, which also means thinking through priorities and sticking to them.

(3) Lead from strength, particularly with people. The key test for distinguishing a competent management from the incompetent one is whether it forever worries about the things its associates cannot do, or whether it gauges what the fellow can do and, therefore, what he really should be used for. The very great weakness of most managements is that they do not see what is their strength but worry about the things they are not and very often should not be.

Reverting to this point at Bangalore, Drucker emphasised, "People is what management is about. The problem of all management is that they focus on weaknesses of the personnel and not the strengths. People are always problems. There is not one human being who does not get into trouble some time or the other. Managements are not demanding enough responsibility from the employees."

Drucker has very strong views about profit. To a question about the stigma attached to the profit motive by Leftists he exploded, "There are no profits in business. There are only costs. There are the costs of to-day and the costs of to-morrow. I know of no business to-day which operates at such a rate of return that it can meet the costs of to-morrow. Profit is not a company's purpose but an objective requirement of economic activity. With to-day's rates of inflation, businesses are not making profits but only destroying capital"

"In India, where capital is a very scarce resource and where you need to accumulate capital in order to generate

future jobs, it is irresponsible to run a business at a loss or even talk of profiteering. The cost of capital, which is a means to change your future, has to be met. One of the primary tasks of management is to reduce the costs of tomorrow and extract the maximum possible out of available capital."

Drucker is known to be sceptical about any government's ability to perform efficiently, particularly in running industrial enterprises. (According to him the only two things government has proved itself quite capable of doing in this century are : wage war and inflate the currency).

Among other things, Government is limited by the rigid controls with which it must operate in order to diminish the very real threat of corruption. Similarly, the elaborate safeguards which have been built to protect the civil service from political interference, inevitably serve to protect bureaucrats from demands for high performance and also act as a barrier against innovation, flexibility and—as we have seen in India—initiative.

Despite this poor opinion of Government's ability to handle business and industry, Drucker was honest enough to dole out his kudos to the Indian Government, which has managed to operate many businesses and industries without recourse to heavy subsidies, i.e., without losses, something which even Japan has not managed. But he advised that the more successful of Government enterprises, which had established a firm foothold and were now venturing into the international sphere, like Hindustan Machine Tools, should go really public and autonomous.

The capital acquired by the Government through selling off its assets could be used for fresh investment and further job generation. The freed companies, no longer harassed by such requirements as referring all decisions to Delhi and facing PAC questions, will be able to cope more effectively with international competition.

In his book, **The Age of Discontinuity**, Drucker has pointed out that the inability to stop doing anything is the central degenerative disease of Government. Explaining this point further at Bangalore, he said that the most difficult task for organisations appears to be abandonment of a line of activity that has outlived its purpose or become obsolete. This organisational inertia is particularly acute in Government.

The fact that businesses must remain competitive provides a discipline which Government lacks. Bankruptcy and merger in private business are acceptable to society but a sick Government agency is not allowed to expire. For all these reasons, Drucker prefers reducing the scope of Government and increasing the role of private business in those innovative activities in which false starts are inevitable and in which errors must be recognised and eliminated as promptly as possible. The ardent votaries of nationalisation in this country should pay heed to these arguments.

Drucker believes in each organisation having its own specific task. The society of organisations, he says, is pluralistic. He would be against the present pressure on industrial organisations to take up rural development, not because rural development is undesirable but because industries are not competent in that field. Industry's inability to accept open-ended liability places real limits on industrial

entrepreneurship entering fields like social welfare, where the risks are ill-defined.

About worker participation on management boards, in favour of which many voices have been raised in India, Drucker has written thus : "I am afraid it is going to be a horrible let-down, a delusion. It is likely to undermine responsibility and decision-making authority down the line.

"Where worker participation has been instituted, managers have been made infinitely more autocratic, because now they do not have to worry about the reaction from the shop floor. That is the union steward's job, and he takes care of it because his own authority is at stake. In fact, worker participation is union participation. But this is a conspiracy against the consumer—this idea that the enterprise exists for the sake of the worker."

Surprisingly for a person who deals with the problems of the largest corporations in the world, Drucker is very well informed about the woes of the small-scale entrepreneur. Although this was his first visit to India, with remarkable accuracy he catalogued the handicaps faced by the Indian small-scale sector. "I do not think your Government and opinion makers are sufficiently aware," he said, "of the strengths of the small entrepreneurs. One of the big tasks that still remains to be done in your country is to enable the small, independent businessman to spend most of his time nurturing his business. To-day he is wasting too much time in relating to Government agencies. He is being killed by kindness—well meaning regulations that he cannot afford. The small unit is usually a one-man show and for it, the management of time is very important."

For Drucker the multinational corporation is the most fruitful social innovation of the century, carrying opportunities and ideas across national boundaries and so, working to unite the world economy.

Reacting to the implications of Indian investment regulations for foreign companies, like FERA, Drucker told me in Bangalore, "I don't understand why your Government insists on indigenous capital and thereby indirectly helps subsidise the developed world. What you should insist on is the development of people and exports. Your country needs capital and exports—and both can be provided by the multinational. I made myself very unpopular recently at IBM because I told them that they were shown the door by India because they did not say that IBM (India) would be built up into an export industry, just as IBM-Japan is."

As a consultant, Drucker is very much in demand and even large corporations have to wait in queue for anywhere up to six months to get hold of his services, for which he is reputed to charge \$ 1,500 a day. In his consulting work, Drucker is a "one-man band," working from his home. He seldom spoonfeeds his client with specific suggestions. His method is to catalyse the executive's innovative thinking by raising questions about corporate purpose and mission.

Few companies have any clear idea about what their mission is, he contends, and that is one of the three major causes of their worst mistakes. The other two causes are : managers have no feeling for what the company is really good at (and conversely what it is really not good at), and they do not know how to make "people decisions". Most of the time is

spent on picking personnel for the bottom, says Drucker. "The least time is spent on selecting the colonels though this is the step where you are picking your future generals."

While Drucker's practice has been mainly with the large corporations, in recent years he has shifted attention to the small businessman. He believes that the service institutions—universities, research organisations, hospitals, Government agencies, etc.—will be the focus for management attention for the rest of this century, because they are often vast but inefficient and so are the most difficult and challenging to manage.

The peculiarity of these institutions, he points out, is that they survive even though badly managed, because of the subsidy prop. Drucker told a questioner that he was planning to write three more books of which one would deal with the management of such public service institutions.

A man of catholic interests, Drucker is a student not only of management and economics but also mathematics, psychology and philosophy. One of his hobbies is mushroom picking. He can identify more than 20 varieties and picks them for his table during the long walks he takes near the mountains near his home, with his wife Doris, who is a physicist and patent agent. He is fascinated by Japanese history and culture and delighted by Japanese art.

To-day, as he approaches 70, he has had to slow down his numerous activities, though none of them has been given up. He continues to teach (he has been the professor of social science and business administration at Claremont College, California, since 1971), write and, of course, advise. In an article on Business and Technology, Drucker writes

about the future : “The job of business in the years to come won’t be to create wealth by discovering new continents, but to create it by discovering new and better uses of existing resources and for known and already exploited economic potentials. Technology, while not the only tool for this purpose, may be the most important one”.

Drucker sees the world as evolutionary and feels that an organisation must change to remain viable. What he mourns is that the ability to evaluate and study change lags behind change itself. So he sees the world, including the world of business, in something of a philosophical vacuum, awaiting a new concept of the “whole.” A write-up in **Business Week**, quotes him as saying, “I’m, an old existentialist, but that’s gone too. It is now the end of ideology. We may be getting to the idea of ‘Does it work?’ instead of ‘Is it right!’ It may be all we have. We may have a better idea of not the good society but the tolerant society—based on avoiding the negatives we do not want. We may need to be looking for the acceptable range of imperfection.”

*The views expressed in this booklet are not necessarily
the views of the Forum of
Free Enterprise.*

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

—Eugene Black

Have you joined the Forum?

The Forum of Free Enterprise is a non-political and non-partisan organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 15/- (entrance fee, Rs. 10/-) and Associate Membership fee, Rs. 7/- only (entrance fee, Rs. 5/-). Graduate course students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 3/- only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-400 001.



Published by M. R. PAI for the Forum of Free Enterprise.
"Piramal Mansion", 235 Dr. Dadabhai Naoroji Road, Bombay-1,
and printed by B. D. Nadirshaw at Bombay Chronicle Press,
Sayed Abdulla Brelvi Road, Fort, Bombay-1.