

# **Management – Beyond the Day**

## **Insights from Encounters with Peter Drucker**

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In the recent past, I have had several opportunities to visit Peter Drucker at his home in Claremont near Los Angeles. We have been also corresponding for years on management issues. From our personal encounters and discussions, I gained numerous insights which stand in contradiction to the constantly changing fads so characteristic of modern management literature and teachings. In the following article, I would like to share the most relevant of these insights with the reader.

### **Management is more than a fad**

Management literature's stormy development in the last twenty years has left a clear imprint on books and especially magazines. One reoccurring aspect - the focus on new fads, catch phrases and recipes for success - are pushed by the respective authors as "the" solution for current problems. Reengineering, total quality management, time competition, outsourcing, benchmarking, core competency and similar concepts have all been trumpeted as ultimate, definitive methods. The contemporary case studies which support these claims seem to remove all empirical doubt. The fad "revolution" - a concept which management guru Gary Hamel applies to corporate leadership - is the latest designer outfit in this never-ending management fashion show.

Three to six months after publication (particularly in the Harvard Business Review) concepts like these would be adopted to the letter by US corporate boardrooms, often without a critical look. My experience as a non-executive director in

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a US company for many years confirmed this. In companies outside the United States, managers demonstrated a greater degree of resistance.

But the vast majority of these management fads are deceptive nonsense, especially when applied in a one-sided and exaggerated manner. This is perhaps the most important insight which I gained through my experiences with Peter Drucker. Most of these “perfect” ideas fade away after a few years. In the 1980’s, IBM was considered the paradigm for a super company, a leader in areas such as closeness to customer. At the beginning of the 1990’s, the bestseller “The Machine that Changed the World” described Japanese automobile manufacturers as unbeatable. Later, computer companies like Hewlett Packard, Compaq or Dell served as role models. More recently, Nokia or Cisco apparently discovered the philosopher’s stone and showed other companies the right way to success. Today, these companies find themselves in critical condition. How will General Electric, one of today’s corporate heroes, be seen in a few years?

Good management has nothing to do with short-term successes and the management elixirs that allegedly led to them. This seemingly banal insight results from a long-term, historical perspective like Drucker’s. It cannot be achieved by judgments based on quarterly results, but rather emerges from a deeply rooted understanding of the durable, unclouded by short-term spectacular success stories. Not the momentary “how” is important, but rather the seminal “why.” Past stock market euphoria of the years 1999/2000 and the sense of doom that prevailed after September 11, 2001 appear in a new light when seen from Drucker’s perspective. Only a historical yardstick and an understanding of the “why” help us recognize what leads companies to success over the long-term.

Peter Drucker teaches us from history. He holds up a historical mirror which provides both a new perspective and better understanding of the future. He comes full circle with Søren Kierkegaard, whom Drucker admires and who said: “Life can only be understood backwards. But then one forgets the other principle: that it must be lived forwards.” For that reason, Peter Drucker - by orienting himself on the past - is a brilliant intellectual guide into the future.

## **Change, Innovation, and not Revolution**

In Drucker's view, fundamental management principles change very little over time. But this does not mean that a manager's central challenge is the organization of routine processes and the maintenance of stability. On the contrary, a manager's primary challenge is to gain an advantage from change, instability, and new developments. An intelligent handling of unexpected events separates the wheat from the chaff. Change seldom takes the form of revolution, however. Revolutions are an effective means to destroy traditional systems. They do not serve as a blueprint for new ones. Even Schumpeter does not speak of "destruction," but rather of "creative destruction." Creation is the pillar of good management.

"Revolution" seldom appears in Peter Drucker's work or discussions. This makes him a true exception among most writers of modern management literature. Only one of his more than 30 books has a title with the word revolution ("The Pension Fund Revolution"). Far more typical of Drucker's thought are titles like "Time of Great Change," "Changing World," "Turbulent Times," "Innovation", and "New Realities." They suggest the world is a process of constant shifts and never ending change – a seemingly Asian view, which appeals to Drucker anyway. Heraclitus' "panta rhei" also comes to mind. Drucker does not consider himself a prophet or mystic. He takes his views from an intelligent interpretation of signals at hand.

Population dynamics - a crucial issue for society and business - has been sending exactly such signals for a long time. Drucker contends that we only need to read and interpret them. This approach is also untypical of current-day management authors, who use past successes to revitalize their popularity or make fantastical forecasts (like tourism to the moon) which strike a note with a broad, eager readership. Drucker remains down to earth and interprets the tracks of time. As no other author, he has repeatedly proven he can anticipate future developments with sheer unbelievable methodology and precision. When did Drucker identify the "knowledge worker" phenomenon as the work trend of the future? That was already in 1966. Today, nearly all of us are knowledge workers. Even a spin-doctor like Tom Peters admits that "Drucker said it all". Professor Fredmund Malik from

the St. Gallen Management School described him as the “master of fundamental thought”.

### **Management Education on the Wrong Track**

Management literature’s miscues on so many issues should make us skeptical about management education. After all, authors and educators tend to be largely the same people. Two aspects require special scrutiny: the role of the case study and the position of professors.

International teaching methods are now predominantly based on case studies. Harvard Business School (HBS), the primary source of these cases, could force all other business schools out of business if it were to deny access to them. Drucker is very critical of case studies. In a letter dated September 6, 2000, he said: “I do not use case studies and do not favor using them. In the first place, I have long ago learned that different teachers teach things differently. The better the teacher, I’ve learned, the more likely that he or she functions best only by using the way they teach. Case studies force teachers into line. This enables a mediocre teacher to do a competent job. But it stifles the good teacher.

Drucker continues: “Case studies do not prepare future managers for reality. Their reality is a ‘crisis’ – and it is the daily reality for anybody in an organization. Then there is neither time nor information to study what happened ten years ago. Then the executive usually has ten minutes to respond. I therefore, insofar as I use cases at all, use ‘critical incidents’, that is things that take two pages or three to write, and demand that the student – that is the future executive (or in my case, in my advanced executive program, the present executive) – decide within ten or fifteen minutes what the crisis is all about, and how to respond to it. This is what is needed. The time for studies comes after the crisis has been resolved. But first the crisis has to be taken care of. And case studies encourage students, that is future or present executives, not to deal with the problem, not to respond, but to make a study.

Case studies basically say, ‘What we did in the past is the right thing to do tomorrow.’ This is nice, and may work in a period of long continuity. In a transition

period, such as we are in now – and such as actually we have now been in for ten years or more – it is the worst possible assumption. Then one has to assume that what we did in the past is in all likelihood the wrong thing to do today.”

So much for case studies!

Drucker is also critical of the orientation of many management professors, who tend to be too specialized. Specialization is needed to get published in highly technical journals, making it also a prerequisite for appointments and promotions. Unfortunately, specialization does not lend itself well to management education, which should provide a general, comprehensive understanding, demonstrate connections, and not serve mainly as training for functional specialists.

Drucker believes professors should do more not less consulting. He is critical of the one-day-a-week rule, which most universities apply. It is not enough, he contends. He sees a knowledge gap in professors’ practical experience. Management education should integrate theory and practice better. The German apprenticeship model, which integrates school and practical work, seems ideal for management training. Management cannot be learned through books or lectures alone. These insights question much of what is internationally established practice in management education.

### **Questionable Turns in Management**

Must, should, or ought top-managers be stars? What company doesn’t wish for a star performer like Jack Welch from General Electric? Is it the best approach for shareholders to seek exceptional leaders, just as sports clubs seek exceptional athletes, pay them huge sums, and feel they are worth the money?

Drucker considers such a path dangerous. He believes it is much too risky to place the fate of a company in the hands of stars. Companies do better on the long-term when they do not place their fate in the hands of star managers. The findings of a new book “From Good to Great” by James C. Collins, published in October 2001, seem to support Drucker’s view that managers who are not stars and appear less

in public are more successful in the long-term. This reaffirms the findings in my book “Hidden Champions”: The most successful companies and their managers often remain hidden from public view.

Management media and business schools would have a hard time without star managers, because they get their material from stories about prominent managers, not the inconspicuous leaders. The latter, however, place little value on spectacular success, and pay more attention to sturdy development.

Drucker is very critical of managers’ salary excesses. He sees signs of crisis and points to parallels in history. Times of crises have always been characterized by managers who plundered their companies. Crises and excesses often go hand-in-hand with a decline in morality. The question of executive compensation points ultimately to a deep-seated and wide-reaching problem – the legitimization of management in modern public stock corporations. In 1942, Drucker posed this question in his book “The Future of Industrial Man”. Even to this day, the question remains unanswered. The current discussion about corporate governance demonstrates its continued relevance. Once again, Peter Drucker was one of the first to identify a historical problem of modern industrial society.

### **The Great Trend**

What is the most important trend for the decades to come? Drucker feels it is the dynamics of global population. In his 1999 book “Management Challenges for the 21<sup>st</sup> Century”, he wrote that the combination of declining birth rates and increasing life spans will cause dramatic changes in all aspects of society. The article “The Next Society” published in The Economist 2001 further elaborates on the consequences. The title of a Harvard Business Review article in 2002 - “People Are Our Greatest Liability” - defines the issues even more provocatively and plays on the American slogan “people are our greatest asset.” He draws radical and far-reaching conclusions about increasing the pension age, integration of older people into the work force and immigration. Here as well, he introduced a historical analogy to the discussion which was new for me. At the height of the Roman Empire, the birth rate also dropped dramatically. What does that mean?

Will fertility rates ultimately prove to be stronger than economic and military power – as in the case of the Roman Empire?

As a rule, management literature does not deal with “great” trends, the vast and slow-moving waves which are the fundamental forces behind change. As a result, the recognition of strategic driving forces usually comes too late or not at all. Drucker’s abundant insights are evidence that graduates of business management and management thinkers – and with them their students and readers - can only profit from enlarging their radar screens and taking a longer, historical perspective.

How does Drucker perceive his own role? I asked him years ago whether he considered himself an economist, a social scientist or a historian. He answered without much hesitation: “ I am a historical writer”. Shortly before that, I had the opportunity to read his memoirs “Adventures of a Bystander,” which he considers to be his best book, as do I. He writes in a letter dated April 20, 2000: “It is not a business book. It is not an autobiography. It is not even a real ‘story’. It is not a ‘political book’”.

What is it then? In my view, it is a testimony to a thinker, who crosses traditional borders and for that very reason can impart insights that we limited thinkers do not discover on our own.