

PRACTICE OF MANAGEMENT, THE

Peter Drucker's 1954 book *The Practice of Management* was a landmark achievement. It codified into a discipline the practice of management so that it could be taught and learned systematically by executives and students. Building on existing knowledge in the scientific method of management in manufacturing; industrial psychology and sociology; human relations and worker motivation; organization and administration; and managerial economics Drucker added concepts relating to the structure of top management; organizational decentralization; management by objectives; and business policy and created an integrated configuration focusing on the work of the manager. *The Practice of Management* was written soon after Drucker's 18-month study, during 1944 and 1945, of the structure and policies of the General Motors Corporation, published in 1946 as *Concept of the Corporation*. The remainder of this entry will clarify these contributions and show their relevance to Drucker's life's project and to the central role of the practice of management.

Fundamentals

In response to a request from the then dean of The Peter F. Drucker Graduate School of Management at Claremont Graduate University, Drucker provided a carefully worded document: "What do I consider my most important contribution?" This document is reproduced below exactly as written by Peter Drucker on January 18, 1999 at the age of 89.

- That early on—almost sixty years ago—I realized that MANAGEMENT has become the constitutive organ and function of the society of organizations;

- That MANAGEMENT is not ‘business management’—though it first attained attention in business—but the governing organ of ALL institutions of modern society;
 - That I established the study of MANAGEMENT as a DISCIPLINE in its own right;
- And;
- That I focused this discipline on people and power; on values, structure, and constitution; AND ABOVE ALL ON THE RESPONSIBILITIES—that is, focused the discipline of management on management as a truly LIBERAL ART.

The Practice of Management

The Practice of Management contains what Drucker called “the constitutionalist approach” to governance in the foreword to the 1990 reissue of Alfred P. Sloan’s 1963 book, *My Years with General Motors*, as opposed to the “character and moral principles of the leader,” the approach Drucker called “the education of the prince” in the foreword to Sloan’s book. Managing a business was first and foremost a task of satisfying the customer—the customer is the business for Drucker. And for this purpose he fashioned “The Theory of the Business,” first in *The Practice of Management* and then more fully in his September-October 1994 *Harvard Business Review* article.

Drucker, in “The Theory of the Business,” always asks the same three questions: What Is Our Business? Who is Our Customer? And, What does the Customer Consider Value? He asks them in different ways with multiple extensions but he is trying always to get at the same thing. He asks these questions both for profit and nonprofit businesses, and for personal and work situations. To answer these questions one needs a good deal of information about the specific market environment, including information on demographics, technology, government, the economy and competition. And a theory of the business is merely a hypothesis about the way an

organization intends to create value for its customers. It has to be tested against reality and if it does not produce expected results, it must be altered, so there is always the innovation question, “What should our theory of the business be?”

Innovation and Entrepreneurship. Drucker’s master project was to help executives manage discontinuities using the dual processes of continuity and change. He fully adopted Joseph Schumpeter’s view of the entrepreneur as the economic agent in capitalism who seeks profit or economic rent through the process of innovation. And profit in turn becomes the means whereby the entrepreneur is able to continue his innovative activity. Because of the discontinuities caused by innovation, which Schumpeter called the process of “creative destruction,” profit became to Drucker a moral force for stimulating innovation and for maintaining continuity in society. But, to eliminate the discontinuities caused by major innovations, Drucker proposed in his 1985 seminal book, *Innovation and Entrepreneurship*, seven windows or sources of potential innovation opportunities whereby each organization in society may engage in systematic, continuous innovation to eliminate or minimize the disruptive effects of the process of creative destruction. He also put forth policies and strategies that should be followed to institutionalize innovation within the management structure of all organizations.

Social Impacts and Social Responsibilities. Drucker’s purpose was to create a society of functioning organizations so there would be no temptation to succumb to the appeals of dictators who promise to solve society’s problems only to subsequently make citizens live in bondage, misery, and fear. In order to create a society of functioning organizations, a nation needs a cadre of professional managers especially those who care about the negative impacts their actions could create on society. While the business sector is the first sector in the sense that it must create the wealth for all other sectors to grow and prosper, for the society to be a healthy

one its businesses must seek as objectives the elimination of any negative impacts. In addition, after meeting its primary mission, executives should support public efforts to build society through volunteerism and financial support.

The Spirit of Performance. The primary objective of Drucker's model is to create an organization with a high spirit of performance and this can only be done in what Drucker calls the "moral realm." Why? Because it requires that an organization overcome natural entropic forces that human organizations display towards deterioration and decay. Thus, in *The Practice of Management*, he states:

“[t]he purpose of an organization is to ‘make common men do uncommon things.’ . . . it is the test of an organization that it make ordinary human beings perform better than they are capable of, that it bring out whatever strength there is in its members and use it to make all other members perform better and better. It is the test of an organization that it neutralize the weaknesses of its members”
(pp. 144-145).

An organization high in spirit of performance is one that is led by executives who are committed to doing things right (efficiency) and to getting the right things done (effectiveness). These executives possess integrity of character; have a vision for the purpose of their organization; focus on opportunities; are change leaders; and follow essential tasks, responsibilities, and practices of management.

System for the Practice of Management

Each element of Drucker's system for the practice of management is presented in context in Figure 1 below. We observe from Figure 1 that the practice of management has many centers and the elements are interrelated. One could say that the practice of management is a polycentric configuration of related elements that should be viewed as a whole in order to appreciate the role and function of each part.

—INSERT FIGURE 1 ABOUT HERE—

Figure 1. Peter F. Drucker on the Practice of Management.

Source: *Peter F. Drucker on Executive Leadership and Effectiveness*, by Joseph A. Maciariello, *Leader of the Future 2*, Jossey-Bass, San Francisco, p. 4.... Copyright 2006, Leader to Leader Institute. Reprinted with permission of the author.

Evolution

Born in Vienna, Austria, on November 19, 1909, Peter Drucker was educated at the University of Frankfurt where in 1932 he earned his J.D. in International and Public Law. The prestigious publishing house, J.C.B. Mohr in Tübingen, Germany, published his first monograph, *Frederick Julius Stahl: His Conservative Theory of the State* in April 1933. Stahl, a converted Jew, was a German legal philosopher at the University of Berlin and a parliamentarian. Stahl studied and wrote about governmental institutions and sought to describe and promote a society of institutions able to achieve a balance between continuity and change. This balance between continuity and change, as a remedy for radical discontinuity in turbulent times, became a recurring theme in Drucker's work and the practice of management was the vehicle Drucker

codified and elaborated to minimize disruptions during turbulent times for the benefit of society. The Nazis banned Drucker's monograph immediately upon its publication. The monograph was translated much later into English by Martin M. Chemers and published in 2002. Foreseeing the future of Germany under Hitler from this and other events, Drucker left for London in 1933 where he worked as a journalist and investment-banking analyst. He married Doris Schmitz in London in 1937, whom he first met in Frankfurt. They moved to the United States in that same year.

In 1939, Drucker published his first major book, *The End of Economic Man*, an exposition of the failure of 'Economic Man' as the basis for organizing society's institutions and as an explanation for the masses turning to the dictators of totalitarian Europe—Hitler in Germany, Stalin in Russia, and Mussolini in Italy—to relieve them of their despair when Economic Man failed to deliver upon its promises. Winston Churchill thought enough of the book to review it for *The London Times Literary Supplement* and to make it required reading for his officers. Churchill was very much like Drucker in “seeing the future that had already happened.” He saw that the appeasement of Adolf Hitler by British Prime Minister Neville Chamberlain in the Munich agreement of 1938 would never produce peace and warned of the imminence of war with Germany. In his review of the book, published in *The London Times Literary Supplement* on May 27, 1939, Churchill said:

Mr. Drucker is one of those writers to whom almost anything can be forgiven because he not only has a mind of his own, but has the gift of starting other minds along a stimulating line of thought. . . . [He has written] a book that successfully links the dictatorships which are outstanding in contemporary life

with that absence of a working philosophy which is equally outstanding in contemporary thought. (Churchill 1939, p. 306).

The Ultimate Case Study

For eighteen months beginning in January 1943, Drucker had an opportunity that made an important impact on his thinking about industrial society, organizations, and individuals. Donaldson Brown, then an assistant to General Motors chairman Alfred Sloan, invited him to study the structure and policies of the company. Donaldson Brown's invitation came as a result of his reading Drucker's second major book, *The Future of Industrial Man*, published in 1942, in which Drucker describes the requirements of a functioning society in general with particular application to the emerging industrial societies.

The General Motors project eventually led to Drucker's first major management book, *Concept of the Corporation*, published in 1946 and re-issued in 1990. Drucker believed the book was "the first study of management as a discipline, the first study of a big corporation from within, of its constitutional principles, of its structure, its basic relationships, its strategies and policies." (Drucker 1990, p. v). In this book Drucker saw that a relatively new institution—the modern corporation—was going to have a major impact on society. Writing from the vantage point of society, a premise of the book is "what is good for America must be made good for General Motors." And while Sloan and the executives of General Motors thought Drucker's advice too radical, the book had a major influence on other industrial organizations throughout the world.

Sloan, a genuinely warm human being, was known as a brilliant and effective executive and organizational architect. He served as a mentor to Drucker. During Drucker's study period at GM, Sloan invited him to many management meetings in both Detroit and New York. After each

one Drucker debriefed himself as to why Sloan did what he did. Drucker analyzed the new decentralized management structure of General Motors using concepts that were influential in creating the Constitution of the United States, especially federalism with its emphasis on states' rights, a strong chief executive and checks and balances on power and authority. General Motors was formed as a union of separate companies—Chevrolet, Pontiac, Buick, Cadillac, and so on—that had to be brought together, just as the thirteen original US colonies were brought together by the US Constitution. Sloan chose decentralization as the organizational principle and granted autonomy to each company (division) while maintaining central control. Drucker saw that this resembled the concepts contained in the *Federalist Papers*, 85 essays written by Alexander Hamilton, James Madison, and John Jay in 1787 and 1788 promoting the ratification of the US Constitution and supporting the design of national and state governments including an executive, legislative, and judicial function. Drucker labeled the organization structure designed by Sloan as “Federal Decentralization” because of its attempt to balance decentralized operations (each company or division) with central control (the office of the Chief Executive). Each company managed itself autonomously although certain policies and decisions were reserved for top management (central control). GM was thus a study in “structure and constitution,” dealing with the pervasive issues in organizations of the distribution of power and authority.

Ultimately, when Drucker's book was ready to be published, the company didn't know what to make of it. Among his recommendations was that GM should go even further in decentralization. In a letter to Sloan transmitting the book, he called for GM to break up its largest division—Chevrolet—so that both Chevrolet and the General Motors Corporation could compete with each other, forcing each other to improve and innovate, while solving General Motors' antitrust problem that came about because of its control of over 50 percent of the

automobile market in the United States. Drucker's analysis proved completely correct in hindsight. However, the company did not adopt his ideas.

Nevertheless, it was evident that Drucker was well on his way to defining the study of the practice of management. He perceived in the "corporation" a new and major institution of society that was developing rapidly and was worthy of study. The corporation simply could not be ignored because of its impact on the lives of people and society. And this new social institution needed to be integrated with the interests of the individual on the one hand (to establish *status* for people at work) and the state on the other to promote a functioning society of organizations (thereby establishing *function* or integration of individuals into society).

In the early 1950s, Drucker worked extensively with the General Electric Company and its vice president, Harold Smiddy, and CEO Ralph Cordiner. At the end of the Korean War, GE anticipated that the move from wartime to peacetime would set off explosive growth in consumer demand. The question was how could GE best take advantage of that growth? The answer was through the federal decentralization that Drucker explored at General Motors—implementing it across GE's departments. That's what GE did, and GE grew. Almost every GE CEO since Cordiner had some contact with Peter Drucker, including Jack Welch.

Drucker's classic 1954 book *The Practice of Management* grew out of his work with the General Electric Company. Drucker even called Harold Smiddy the godfather of the book in the preface of the original hardcover volume. This is the book where Drucker codifies the nuts and bolts of the discipline and practice of management.

Importance

At the time of his death, the contributions of Peter Drucker's ideas to the practice of management were extolled worldwide across multiple media, including by John Byrne in a 2005 *Business Week* article. Here such management titans commented on his impact such as: Jack Welch—"The world knows he was the greatest management thinker of the last century"; Tom Peters—"He was the creator and inventor of modern management"; Andrew Grove—" . . . statements from him have influenced untold numbers of daily actions; they did mine over decades." Byrne adds to this that "What John Maynard Keynes is to economics or W. Edwards Deming to quality, Drucker is to management," citing contributions to such areas as decentralization, human resources, social responsibility, knowledge workers, the corporation as a human community, leadership practices, and the importance of a customer-focus.

Drucker considered the practice of management to be among the most significant innovations of the 20th century in the United States, Germany, and Japan. In his final public interview, on December 8, 2004, with Tom Asbrook of *National Public Radio*, Drucker commented,

Management is a new social function that has made possible a society of organizations. And while business management was the first one to emerge, it is not the most important ones. The most important ones are the management of non-businesses, which made possible a developed society—hospitals, universities, churches. They are also the more interesting ones because they have to define what they mean by results. In a business, profit and loss determines what is meant by results. You asked me, how do you define results

of that large church I am working with which has grown from 500 to 6000 members? What are results of Claremont Graduate University? These are questions that are much more important and much more difficult and much more interesting.

<http://onpoint.wbur.org/2004/12/08/management-guru-peter-drucker/player>, retrieved August 7, 2012

In summary, management as a theoretical discipline and specifically management as a practice is one of the fundamental social innovations of modern times because it has made possible a society of functioning organizations. Peter Drucker, as its innovator and chief expounder, is therefore not only one of its most important contributors but one of the most important innovators of the 20th century.

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See also Core Competence; Corporate Social Responsibility; Knowledge Workers; Management by Objective; Management Education as Practice; Organizational Structure and Design; Stages of Innovation; Technological Discontinuities; ‘Unstructured’ Decision Making

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