
*The continuing relevance of
the Drucker perspective.*

What Would Peter Say?

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What Would Peter Say?

The Idea in Brief

- Peter Drucker predicted many of the most important business developments of our time—including the public outrage over executive pay and the challenge to America’s global economic dominance.
- What advice might he have for business leaders today? Here are some ideas: Self-regulate to avoid overregulation by government, come together to reform the compensation system, professionalize boards of directors, and think beyond sovereignty to solve environmental problems.
- Long-term vision, Drucker would remind us, is critical to leading through turbulent times.

The continuing relevance of the Drucker perspective.

What Would Peter Say?

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Heeding the wisdom of Peter Drucker might have helped us avoid—and will help us solve—numerous challenges plaguing communities around the world: restoring trust in business in the wake of accounting scandals and the global financial crisis; attracting and motivating the best talent without creating crippling financial commitments; addressing societal problems such as climate change, health care, and public education; dealing with trouble spots in central Asia and the Middle East.

If Peter Drucker were here today, what would he have to say about such pressing matters? His first comment might be “I told you so”—and he would have every right to say that. In remarkably prescient writings, he pointed to important trends and looming disasters. He took a broad look at the context surrounding organizations, noting jarring events he called discontinuities. Next, since the signs of difficulties ahead were there all along, he might follow up by telling us, “Look at the underlying systems.” Drucker rarely named or blamed individuals; he saw root causes in the

design of organizations—in their structures, processes, norms, and routines. He would remind us that it is the responsibility of executives to challenge that design while being mindful of their companies’ ultimate purpose. Then he might finish by asking leaders a few provocative questions: “What is your mission? What should you stop doing? Where has the drive for short-term efficiencies undermined long-term effectiveness? What should be your objectives and guiding principles?”

My credentials for channeling Peter Drucker stem from early in my career—the first time I spoke on a panel with him, more than 25 years ago in Brussels. They extend beyond his death to the Drucker fingerprints I found in my multinational research for my latest book, *SuperCorp*. Managers everywhere, especially in Asia, described Drucker encounters as pivotal in making their enterprises well run and helping their countries develop.

Drucker’s Early Warnings

In the process of identifying the tasks of

managers, Drucker laid out their responsibilities in guiding organizations to endure in a world of change. Here are some of the critical issues he anticipated.

The bonus brouhaha. Drucker would not have been surprised that incentives to take excessive risks contributed to the recent global financial meltdown. Back in the mid-1980s, he warned about a public outcry over executive compensation—a main theme on the U.S. government’s agenda following the fall of banks in 2008. More than 20 years ago, Drucker pointed to a top-to-bottom ratio that was then rushing past 40 to 1. Just before his death, the ratio was greater than 400 to 1.

Drucker was not against wealth accumulation, but he was pragmatic about the work of organizations and society. He held that the role of executives was to coordinate the actions of others whose motivation (and thus compensation) was necessary to get the job done. But he also held that pay should be associated with performance; that was a major point of management by objectives, perhaps his best-known practical management contribution. Listening to Drucker might have headed off some of the excesses associated with Wall Street in general and with AIG in particular, in which bonuses not only were decried for their amounts but also were often uncorrelated with company results. He argued that knowledge workers—a rising proportion of employees—should be motivated by a sense of purpose and not just by money. And he defined performance broadly, to encompass responsibilities to a wide range of stakeholders in addition to shareholders. He stressed that ensuring the long-term health of the company—and eschewing short hits that jeopardize the future—is executives’ primary job.

Auto industry woes and creative destruction. Drucker came close to predicting the fall of General Motors, the company he had praised early in its career for its decentralized organizational structure. Years ago, he warned of troubles ahead if GM executives remained stuck in memories of previous successes and failed to ask his famous “what to stop doing” question. GM was an iconic example of failure to see the need for significant innovation; its structure had become ossified, and its top management couldn’t consider a change.

Drucker was influenced as a child in Austria by his father’s friend Joseph Schumpeter, the economist whose concept of creative destruction defined generations of entrepreneurs. Innovation and entrepreneurship were central to Drucker’s theories. He distinguished between efficiency, which managers could achieve by doing more of the same with less effort or lower cost, and effectiveness, which involved setting the right goals and transforming organizations as conditions changed.

In an “age of discontinuity,” as Drucker called the current era, entrepreneurs could find significant opportunities to create or transform organizations if they were willing to get ahead of societal changes. Drucker said that the best way to predict the future is to invent it. Discontinuities provided gaps in society that could be filled with creativity. Note his emphasis on society rather than markets: He felt that innovators should be attuned to unmet needs that did not yet show up in market research.

Thus, a company like GM could not survive simply by doing the old things with redoubled efficiency and lower costs. The company needed to dramatically rethink its entire organizational model and related assumptions. It would not be enough, for example, to exhort GM to focus on fewer models or dealerships and “get back to building cars Americans want.” Sometimes there is no going back, because industry conditions and societal needs have forever shifted, requiring an organization to do things in fundamentally new ways. GM’s divisional structure of separate brands had helped the company break out from the pack, but it became a handicap over time as the divisions turned into hardened silos, each duplicating functions, proliferating products, and raising total costs. Drucker understood that industrial companies had to operate differently in the information age; in particular they needed to embrace ambiguity. Their challenge was to create an organization that could thrive in a rapidly changing world, where mixed signals make agility a minimum requirement and innovation a key to success.

The new economic powers. Drucker sounded early warnings that competition from emerging markets would eventually challenge the United States’ global economic dominance. He observed that newer economic powers were adopting American management lessons that

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Nonprofits need management even more than business does, precisely because they lack the discipline of the bottom line.—“What Business Can Learn from Nonprofits,” HBR July–August 1989

Americans were forgetting, as his own ideas spread widely and were consumed eagerly in countries with aspirations to grow their economies. I glimpsed just how far ahead he had seen when I went to Kyoto for research on the Japanese company Omron, which I had chosen as an exemplary model for *SuperCorp*. Omron’s leaders had their Drucker story. In 1959 Drucker visited Omron’s founder, Kazuma Tateisi, and was impressed with the values and principles he had created for the company. Tateisi emphasized a disciplined drive for constant innovation and continuous improvement from sensing the needs of society. Drucker wrote his wife that if Japan had other companies like Omron, then it would soon be a major industrial power.

Not surprisingly, Drucker is a hero in emerging countries, which are dotted with Drucker societies that study his work. He gave leaders in those nations the concepts and permission to move from tribalism to corporatism, and from family-based enterprises to professional management. This paved the way for companies that could grow and compete in international markets. The rise of effective, professionally run organizations helped create a middle class and transformed political regimes.

The third sector. Drucker was an Austrian who fled authoritarianism and became an American advocating voluntarism. He focused on how organizations could best achieve their purpose, not on business per se or on profit as the main indicator of success. He championed a robust civil society of voluntary nonprofit organizations as an essential foundation on which business could thrive and people could prosper, because this sector plays a vital role in promoting health, education, and well-being. The role of government is fuzzier in Drucker’s writings, although it is clear that he mistrusted centralization of power and saw bureaucracy as a source of rigidity rather than innovation. He believed in voluntary action by employees in companies—especially knowledge workers whose contributions could not be coerced—as well as by concerned citizens who form or participate in mission-driven nonprofit organizations to achieve a social goal. He felt that business could learn from the not-for-profit sector about sources of motivation that lay beyond a financial bottom line. He also felt that a country like America neglected at its

peril investment in not-for-profit organizations and community responsibilities.

What Was Heard

Drucker’s extraordinary ability to spot trends and foresee impending problems was not magic. He was more interested in finding stories than in testing hypotheses and thus could construct narratives of actions and reactions. He situated business in the context of society, and he saw society as increasingly composed of organizations with a wide range of goals. By looking at all types rather than specializing in a few, he could view the interdependencies and discover the implications of small changes in one area for activities in another area. He had the innovator’s knack of being sensitive to small perturbations that were the first indications of seismic shifts.

Drucker was the most-admired management guru of his time (he abhorred that label but lived with it); top leaders sought his advice and made best sellers of his books. If his ideas proved to be right, then what prevented timely action? When it comes down to it, the words “I told you so” are not very satisfying.

Certainly Drucker had blind spots. The rationality that makes his work so sensible is also a limitation. He seemed to feel that the force of logic would be enough to win arguments. He believed in objectivism. He assumed that managers would discover the right path once they’d identified their objectives. He believed that effort and merit would prevail, as though management by objectives equated to objectivity in management.

This perspective made him less attuned to the judgment-distorting role of biases and stereotypes, identity politics, lingering tribalism, power seeking, and pure greed. Although he applauded women who were effective nonprofit leaders, he downplayed the struggles of women and minorities for admission to leadership ranks in business and government and failed to see that elites often preferred social similarity over talent. He had little to say about religion as a source of tensions in society, including the partisan power of fundamentalism in American politics and the sometimes violent force of fundamentalism in Muslim nations. In Drucker’s world, emotions were crowded out by ideas, and so his legacy has little to teach us about politicized or emotion-laden circumstances.

Some leaders took the messages they wanted from Drucker's work and discarded the rest. His ideas about management by objectives were particularly popular. His simple questions about enterprise goals and what an organization should stop doing influenced the shedding of unpromising divisions and helped shape business portfolios. Another welcome call to action: making one's organization more effective by adding professional management tools like clear objectives and performance measurement.

But other equally important Druckerian wisdom failed to penetrate deeply enough in organizations. One such message was about taking responsibility beyond the business portfolio. Only a handful of executives listened to the full Drucker sermon or went beyond lip service. Drucker preached that management with its broader responsibilities was an honorable vocation. He always pointed to the underlying system as the source of problems and solutions rather than assigning managers accountability for challenging the system. He showed the rise of knowledge workers—who couldn't be commanded and controlled, who used their minds and spoke their minds, and whose organizations lacked sufficient guidelines on how best to manage them. He believed in change and warned of establishments that served to perpetuate their executives' tenures at the expense of sustaining the enterprise—a lesson that was lost on at least some of those overseeing the failures of the early 2000s.

Guidance for the Future

Drucker was an industrial-age intellectual who led the way toward the fluidity and rapid change of the information age. He saw people as assets to be empowered, not machines to be commanded. His bias was not blind market rationality but the "right thinking" that should follow from understanding purpose and setting objectives based on it. He espoused intentionality more than rationality.

Drucker began his career in a world in which organizational boundaries could be readily defined and maintained. The goal-setting and coordination tasks that he considered the essence of management were straightforward. In today's world of alliances, partnerships, self-conscious business ecosystems, and self-organizing networks, bound-

aries are increasingly blurred. The coordination problem has become vastly more difficult. But in a sense, that makes Drucker's perspective even more valuable. When things are in flux, a sense of purpose and a set of common values enable people to work together effectively. If the twentieth century gave rise to knowledge workers with deep expertise, the twenty-first century will require leaders who can foster integrative thinking and collaboration across fields and specialties. Collaboration, not coordination, will be the task of management.

What would Peter say about the path forward a century after his birth? He was not a passionate advocate for outcomes; he was a teacher of process. Still, we can extrapolate from his work to identify a way of thinking about current issues and future challenges.

To restore trust in business, he would call on managers to become self-regulating rather than stand by and risk over-regulation. (Drucker did not favor centralization of power in government or in business.) He would applaud the few courageous CEOs who are setting limits on their own pay. He would ask executives to join alliances and associations to reform the compensation system and create terms that the public would find fair. He would urge professionalism on the part of directors of public companies, replacing cronyism with clear, objective tools and methods for board service. I would like to think that he would be the first to tout the new MBA Oath that a group of Harvard Business School students recited at graduation in 2009, drawn largely from the work of professors Rakesh Khurana and Nitin Nohria (see "It's Time to Make Management a True Profession," HBR October 2008). The oath reminds managers of their responsibilities to ends larger than themselves.

For improvement in health care or education he would look at entire systems, including community organizations, and he would exhort government, business, and civil society to cooperate in change. For international collaboration on global warming and other environmental issues, he would ask government leaders to think beyond sovereignty to define a common sense of purpose. To ease tensions in trouble spots, he would argue for rich countries' governments to invest in entrepreneurs who could build the businesses

If I put a person into a job and he or she does not perform, I have made a mistake. I have no business blaming that person.—“How to Make People Decisions,” HBR July–August 1985

of the future and support the development of civil society. He would encourage innovation by social entrepreneurs who could stimulate voluntary action through not-for-profit organizations to build a base for hope and prosperity.

The essential Drucker can be summarized in three themes that he repeated and reinforced throughout his career:

- Management should be a profession, and executives and managers should remember that their primary job is to look out for the long-term health of their organizations. That means looking outside their walls at society and taking responsibility for well-being, not just wealth.

- Knowledge workers cannot be controlled; they must be motivated. Such employees must see a purpose more meaningful than personal profit. When the game is only about money, disparities in society get worse as the favored grab the largest share.

- Not-for-profit organizations are necessary ingredients in producing a good society, one in which businesses can thrive. Civil society works to complement government in meeting human needs.

Drucker was not a revolutionary. He merely asked that we constantly challenge assumptions. He preached steadiness and long-term vision. He recognized that leading in turbulent times requires foresight about where things are heading as well as judgment about what not to change. He would remind us that the best preparation for a smooth journey, even as we steer across troubled waters or leap across chasms, is a clear sense of meaningful purpose.

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