

1 Seeing things as they really are

2 <https://www.forbes.com/forbes/1997/0310/5905122a.html?sh=21df4c9224b9>

3 What does Harry Truman, the long-deceased 33rd US President, have in common with Jack Welch, the very much alive boss of General Electric Co.? ¶¶¶

4 They share the esteem, not lightly granted, of Peter F. Drucker, perhaps the most perceptive observer of the American scene since Alexis de Tocqueville.

5 Though he is 87, Drucker may be one of the youngest-thinking people in America, and certainly one of the clearest-thinking. ¶¶¶

6 Okay, but what do Jack Welch and Harry Truman have in common?

7 "They share a rare commodity intellectual integrity," in Drucker's words. ¶¶¶

8 Intellectual integrity?

9 A somewhat threadbare phrase.

10 It's used to describe all kinds of traits.

11 "I mean it as the ability to see the world as it is, not as you want it to be," Drucker elucidates. ¶¶¶

12 His point is that Welch and Truman both tackled their jobs in the same spirit of objectivity.

13 "They both understood executives are not their own masters.

14 They are servants of the organization whether elected or appointed, whether the organization is a government, a government agency, a business, a hospital, a diocese.

15 It's their duty to subordinate their likes, wishes, preferences to the welfare of the institution." ¶¶¶

16 How does one display that kind of integrity?

17 "By asking, especially when taking on office: *What is the foremost need of the institution and therefore my first task and duty?*" ¶¶¶

18 In short, ask not what the institution can do for you.

19 Ask what you can do for the institution.

20 Take the ego, the "I" out of decision making.

21 Drucker: "Truman knew this and acted on it; and that made him a great President. ¶¶¶

22 "So, by the way, did FDR.

23 John Kennedy clearly did not know this or paid no attention to the question.

24 That's why I've never considered him a good let alone a great President. ¶¶¶

25 "Harry Truman came back from Potsdam realizing that foreign affairs are the priority.

26 He was totally overwhelmed by Churchill and Stalin.

27 They knew so much more than he did.

28 So he organized his education.

29 He met often with General George Marshall, and spoke with the then-
Undersecretary of State Dean Acheson daily.” ¶¶¶

30 In Truman’s case, then, intellectual integrity was the strength to admit he
needed help. ¶¶¶

31 “I always vote for Harry Truman,” says Drucker.

32 He’s kidding a bit now.

33 What he means is Truman is the standard by which he judges other
politicians.

34 Clearly he finds most of them wanting. ¶¶¶

35 “Jack Welch as a young person looked at the situation [at GE] and
thought it through.

36 He, too, had the ability to ask ‘what needs to be done’ not ‘what do I want
to do.’” ¶¶¶

37 Of course Peter Drucker has intellectual integrity himself or so his
admirers say.

38 People swear by him.

39 Jack Welch returns his compliment: “My first central idea for GE back in
1981 came from Peter Drucker: It was my decision to be either number
one or number two in each of our businesses or get out of them
altogether.” ¶¶¶

40 Intel Corp.’s Andrew Grove, something of a business hero himself, says:
“Drucker is a hero of mine.

41 He writes and thinks with exquisite clarity a standout among a bunch of
muddled fad mongers.” ¶¶¶

42 Donald Keough, retired president of the Coca-Cola Co. and today
chairman of Allen & Co., Inc., testifies: “Drucker purified my mind.

43 He would tell me after each session don’t tell me you had a wonderful
meeting with me.

44 Tell me what you’re going to do on Monday that’s different.” ¶¶¶

45 “He makes you think,” says Welch of Drucker. ¶¶¶

46 What is remarkable is that Drucker, eight decades of age and counting, is
more than a monument.

47 Whether his mind is as alert and flexible as it was 50 years ago we can’t
tell.

48 This we do know: He seems to have lost none of his ability to see things
others don’t see and won’t recognize for years. ¶¶¶

49 With this in mind, we flew to Claremont, Calif. and spent ten hours
discussing with Drucker not the past but the future.

50 At a time when all seems to be going right for the US economy, he has some sobering visions. ¶¶¶

51 Reminding us that prosperity does not last forever, he warns: "In the next economic downturn there will be an outbreak of bitterness and contempt for the super-corporate chieftains who pay themselves millions.

52 In every major economic downturn in US history the 'villains' have been the 'heroes' during the preceding boom. ¶¶¶

53 "In the 1880s the American public fawned on the 'tycoons' the way we now fawn on the superrich.

54 In the depression of the 1890s they became what we now call the 'robber barons.' ¶¶¶

55 "In the 1920s the popular press fawned on Wall Street speculators," says Drucker.

56 He's referring to the way the public hung on every word from Charles Mitchell and groveled for hints from Jesse Livermore.

57 J.P. Morgan was almost a god.

58 In the Depression all these people became Roosevelt's "malefactors of great wealth." ¶¶¶

59 It disgusts Drucker that some of the media glorify people who get huge bonuses after laying off thousands of workers.

60 "Few top executives," he says, "can even imagine the hatred, contempt and fury that has been created not primarily among blue-collar workers who never had an exalted opinion of the 'bosses' but among their middle management and professional people. ¶¶¶

61 "General Motors could not function if every decision had to be approved by a few overworked men in New York or Detroit." ¶¶¶

62 "I don't know what form it will take, but the envy developing from their enormous wealth will cause trouble." ¶¶¶

63 Here Drucker distinguishes as perhaps the public will not between his breed of business heroes and the type represented by, say, Albert (Chainsaw) Dunlap.

64 Jack Welch, Andy Grove and people like them built businesses, not ego monuments.

65 Drucker also admires Morton Mandel, the former chairman of Premier Industrial Corp., a Cleveland, Ohio firm just acquired by Farnell Electronics Plc. for \$2.8 billion. ¶¶¶

66 "Mandel (Forbes, Oct. 14, 1996) only acquired companies that made sense and meshed with his product line," reports Drucker. ¶¶¶

67 This will surprise you: Drucker has no high regard for Microsoft's Bill Gates, dismissing him with these words: "I have no interest in celebrities."

68 Drucker added later, with a broader dismissal, "If all the superrich disappeared, the world economy would not even notice.

69 The superrich are irrelevant to the economy." ¶¶¶

70 But without the wealthy, who will finance economic growth and a better living standard for all?

71 Drucker: "The combined sources of money from retail investors, pension funds and retirement plans of all individuals is the fastest-growing source of money.

72 The most important source of capital is the average mutual fund transaction of \$10,000. ¶¶¶

73 "The retail unit of finance is the most important economic development.

74 My Japanese gardener asks me every day to save him the *Wall Street Journal* so he can check the market." ¶¶¶

75 For Drucker it makes sense that investment banker Morgan Stanley & Co. would want to merge with Dean Witter, Discover & Co., a people's broker.

76 "Morgan Stanley is irrelevant today," says Drucker.

77 "It can no longer really grow.

78 It needs the retail business.

79 Goldman, Sachs may well have to take the same route." ¶¶¶

80 Drucker goes against the grain of the current enthusiasm for computers in business.

81 He thinks it's somewhat overdone.

82 "Computers," he says, "have done a great deal of harm by making managers even more inwardly focused. ¶¶¶

83 "Executives are so enchanted by the internal data the computer generates and that's all it generates so far, by and large they have neither the mind nor the time for the outside.

84 Yet results are only on the outside. ¶¶¶

85 "I find more and more executives less and less well informed [about the outside world], if only because they believe that the data on the computer printouts are ipso facto information. ¶¶¶

86 "I tell all my clients that it is absolutely imperative that they spend a few weeks each year outside their own business and actively working in the marketplace, or in a university lab, in the case of technical people.

87 The best way is for the chief executive officer to take the place of a salesman twice a year for two weeks." ¶¶¶

88 Drucker has this warning for chief executives mesmerized by technology: All great change in business has come from outside the firm, not from inside. ¶¶¶

89 In this sense Drucker's model was Alfred Sloan Jr., the most famous General Motors chairman, who regularly visited car dealerships and service centers. ¶¶¶

90 Here's a Drucker prediction that will shake those of you who sit with gains from index funds and big blue chips: Giant companies, many of the outfits that dominate the S&P 500, are in for trouble.

91 They will no longer be able to attract the best and the brightest for their management ranks. ¶¶¶

92 "Most of my former students are bored working for large companies," Drucker says, "and they switch to medium-size and small companies after a few years.

93 The only reason they take jobs at large companies is they're the only ones recruiting on campus. ¶¶¶

94 "The manager is the dynamic, life-giving element in every business.

95 Without his leadership the 'resources of production' remain resources and never become production." ¶¶¶

96 "Every year I call a group of my former students to find what they're doing.

97 They have moved to smaller companies and are much happier." ¶¶¶

98 Another problem with these giant companies, in Drucker's view: They think of themselves as multinational, but they really are not.

99 "Many have autonomous foreign subsidiaries rather than central direction," says Drucker.

100 "Few have integrated currency management.

101 Being global and diversified don't mix," he says. ¶¶¶

102 Exceptions?

103 He cites Coca-Cola, which makes few pretensions to being transnational or diversified.

104 "It's far better to be in one market, like Coca-Cola, and be managed out of one place, like Atlanta," he says. ¶¶¶

105 If not the big S&P companies, which, then, will be the global outfits of the future?

106 Chinese clans. ¶¶¶

107 "The Chinese are likely to make the family into a modern corporation," he says.

108 He predicts this kind of organization will be built around family and regional relationships ties that are personal, rather than impersonal, as they are in US business. ¶¶¶

109 "The overseas Chinese have already become multinationals and are major factors in a lot of very important markets.

110 They really control mainland China's new industries and growing markets." ¶¶¶

111 We reminded Drucker that the Communist Party still rules in China and calls the system "a socialist market economy."

112 Drucker shrugged.

113 "They operate the way Chinese have always operated and always had to operate, given the Chinese governmental system and the total absence of a legal structure in China. ¶¶¶

114 "Everything is built around clans in which all positions of influence or authority are staffed with people whom you can trust because their grandparents came from the same obscure little villages and because they speak the same subdialect. ¶¶¶

115 "The businesses run by these clans are already multinationals with as many subsidiaries in the US or in Canada as they have in Indonesia or mainland China." ¶¶¶

116 Aren't there natural limits to this kind of growth?

117 How many family members can you muster?

118 "That's a challenge for them," replies Drucker.

119 "To bring non-clan members into the management structure, like the non-clan-member Chinese who knows metallurgy.

120 And with the same basis of trust, of intergroup loyalty.

121 So far they are trying to solve the problem through marriage.

122 But it isn't enough. ¶¶¶

123 "Short of that problem, however a problem not too different from the one all family companies face the clan structure works remarkably well, and it rests on trust and not on contract." ¶¶¶

124 Sounds kind of retrograde, almost medieval.

125 But who's to say that just because we do things one way that it's the only way to go.

126 Even if the Chinese don't come to dominate the international business scene, the power of their system is clearly evident today. ¶¶¶

127 Where does all this leave Japan, in Drucker's view?

128 Up the creek.

129 Drucker is bearish about Japanese multinationals.

130 The structure of the *keiretsu* the groupings of related companies is a drawback to modern management, Drucker points out. ¶¶¶

131 Drucker knows his Japan.

132 He is a distinguished collector of Japanese art.

133 He has been making regular trips there for decades.

134 The Japanese revere him.

135 His autobiographical collection of essays *Adventures of a Bystander* and even his little-known novels are big sellers there. ¶¶¶

136 "The top Japanese executives don't manage," he says.

137 "The chairman and president handle government and labor relations.

138 The executive vice president keeps an eye on human resources.

139 There is no direction down the line."

140 This lack of direction plays out abroad.

141 "The Japanese have a difficult time working with partners around the globe," Drucker says. ¶¶¶

142 Another Japanese weakness: "They hire only from four or five elite universities, rejecting the hundreds of other universities that have been created since World War II.

143 This is a serious mistake." ¶¶¶

144 Drucker does see a major business opportunity in Japan.

145 "When the totally antiquated financial system is finally reformed and retail investors are free of regulations, Japan should become the fastest-growing financial market in the world." ¶¶¶

146 We turned the talk to Europe, where Drucker was born, educated and lived until he was 28. He left in 1937 because, unlike many other European intellectuals, he took Hitler at his word.

147 ("I read *Mein Kampf*," he says.)

148 Another example of his clear-sightedness, his "intellectual integrity."

149 While others let wishful thinking lull them into a security that ended in concentration camps, Drucker saw what he saw and acted upon it. ¶¶¶

150 The Vienna native is not optimistic about the old continent.

151 "The main problem is Europe has outgrown its social structure.

152 I don't know any other reason there hasn't been an upsurge in vitality." ¶¶¶

153 MIT economist and liberal icon Lester Thurow predicted Europe would be the superpower of the 1990s.

154 This makes Drucker smile.

155 The problems go too deep for that.

156 For one thing he is alarmed that many European nations are experiencing population declines. ¶¶¶

157 "Every decision is like surgery.

158 It is an intervention into a system and therefore carries with it the risk of shock." ¶¶¶

159 "It's absolute nonsense that the population of the globe is going to double," Drucker says.

160 "The population is already peaking.

161 It's beginning to decline.

162 By the end of the next century there will be no Italians left.

163 Very few Spaniards and very few Japanese." ¶¶¶

164 This is not just Drucker saying this.

165 "These are the official forecasts, not mine.

166 The birthrate is not increasing.

167 The reproductive rate is down to almost 1 in southern Europe and about 1.5 in Japan," he says. ¶¶¶

168 He rattles off official population estimates.

169 The European Union forecasts say the Italian population, about 60 million today, will be down below 40 million by 2050.

170 Says Drucker: "That's an endangered species. ¶¶¶

171 "The official Japanese forecast is that unless the birthrate turns around very soon, the population could decline from 125 million to about half that by 2100. ¶¶¶

172 "There won't be enough people to work.

173 There'll only be older people.

174 There won't be enough producers. ¶¶¶

175 "The main reason for the decline in births is the enormous burden on people of working age supporting older people in retirement who are hale and hearty.

176 You cannot cut the [Social Security payments] of older people because that's the law. ¶¶¶

177 "So they [the Europeans] cut where they have control, which is having babies."

178 Darwinian survival tactics, one might say, without anyone even thinking about it as policy. ¶¶¶

179 While others fiddle with Social Security assumptions, tax rates and talk about investing the funds in stocks, Drucker goes right to the heart of the retirement problem: "The retirement age in all developed countries will have to go up to 75. Most people who reach 65 are perfectly capable of functioning.

180 All present talk of financing Social Security is beside the point.

181 The point is not money.

182 The point is production."

183 If the retirement age goes up, it would empty the golf courses in Japan and the beaches in Italy. ¶¶¶

184 Education.

185 Now there's a subject that interests everyone today.

186 President Clinton says we should pump more money into the present educational establishment.

187 Drucker says the current setup is doomed, at least so far as higher education is concerned. ¶¶¶

188 "Thirty years from now the big university campuses will be relics.

189 Universities won't survive.

190 It's as large a change as when we first got the printed book. ¶¶¶

191 "Do you realize that the cost of higher education has risen as fast as the cost of health care?

192 And for the middle-class family, college education for their children is as much of a necessity as is medical care without it the kids have no future. ¶¶¶

193 "Such totally uncontrollable expenditures, without any visible improvement in either the content or the quality of education, means that the system is rapidly becoming untenable.

194 Higher education is in deep crisis.” ¶¶¶

195 Crisis means that things will get either much better or much worse.

196 Things will get much different, Drucker says. ¶¶¶

197 “It took more than 200 years (1440 to the late 1600s) for the printed book to create the modern school.

198 It won’t take nearly that long for the big change. ¶¶¶

199 “The unsuccessful misfit of diversification should be put out of its misery as fast as possible.” ¶¶¶

200 “Already we are beginning to deliver more lectures and classes off campus via satellite or two-way video at a fraction of the cost.

201 The college won’t survive as a residential institution.

202 Today’s buildings are hopelessly unsuited and totally unneeded.” ¶¶¶

203 Drucker, though a lifelong academic, will shed no tears for the present system.

204 “High school graduates should work for at least five years before going on to college,” he recommends.

205 “Then it will be more than a prolongation of adolescence.” ¶¶¶

206 How does Drucker get the confidence to claim to see things others don’t yet see?

207 Clairvoyance?

208 No. “I never predict.

209 I just look out the window and see what’s visible but not yet seen,” he answers. ¶¶¶

210 A half-century back Drucker recognized the significance of the government guarantee of a college education for veterans of World War II: a vast expansion of higher education and a more literate population.

211 Sounds obvious now, but at the time nobody realized how far-reaching would be the consequences of the GI Bill of Rights. ¶¶¶

212 In 1959 he predicted that so-called knowledge workers would replace manual workers at the core of the workplace.

213 Andy Grove was one of the first to see the implications of that. ¶¶¶

214 Going back a quarter of a century, Drucker recognized that the spread of private retirement plans and corporate and public pension funds would become the dominant owners of American business.

215 He predicted the revolution in corporate governance that’s still evolving. ¶¶¶

216 Not all his predictions came to pass.

217 In 1949, he wrote that mass industrial production in the postwar period had “dethroned the ruling groups of bourgeois society itself: the merchants, bankers, capitalists.”

218 He predicted grass would grow on Wall Street and that the nation’s financial headquarters would move from New York to Washington.

219 Neither happened. ¶¶¶

220 According to Walter Wriston, former chairman of Citicorp, Drucker
"recommended that the bank abolish all stock options and profit-sharing,
and just pay its top executives plain salaries.

221 To put it mildly, this did not go over too well," says Wriston. ¶¶¶

222 No one gets it all right.

223 Still, Drucker is a wily student of human nature, often making eminent
good sense out of the obvious. ¶¶¶

224 In 1989 C. William Pollard, chairman of the ServiceMaster Co., took his
board of directors from Chicago to meet Drucker.

225 In a back room of Drucker's utterly unpretentious home, the sage of
Claremont opened the meeting by asking the group, "Can you tell me
what your business is?" ¶¶¶

226 Each director gave a different answer.

227 Housecleaning, said one.

228 Insect extermination, said another.

229 Lawn care, said a third. ¶¶¶

230 "You're all wrong," Drucker said.

231 "Gentlemen, you do not understand your business.

232 Your business is to train the least-skilled people and make them
functional." ¶¶¶

233 Drucker was right on: ServiceMaster provides services that people would
rather not do for themselves.

234 Since these often can be menial tasks, ServiceMaster must recruit, train
and motivate people who might not otherwise find a useful role in today's
society.

235 Pollard attributes much of his company's tremendous success it is now
\$3.5 billion in operating revenues to this insight. ¶¶¶

236 You don't have to agree with everything Peter Drucker says, but you can't
deny that he is a great teacher. ¶¶¶