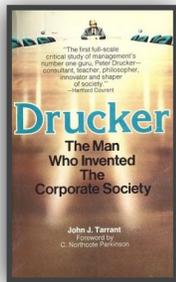


1 Interviews with Peter Drucker

2 by [Peter Drucker](#)



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How is it possible ↓

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to works toward horizons ↑ ↓

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that aren't on your mental radar –

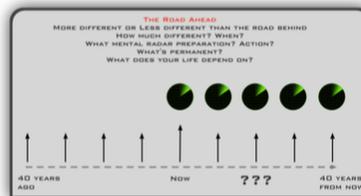
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at the right point in time? ↓

8



Navigating
a changing world



9

↑ [larger](#)

10

[Thinking Broad and Thinking Detailed](#) ↑ ↓

11

[Intelligence, Information, Thinking](#)

12

▪ “Most of the **mistakes in thinking** are **mistakes in perception**.

13

❖ Seeing only part of the situation – [broad](#)

14

❖ Jumping to conclusions

15

❖ Misinterpretation caused by feelings” – [Edward de Bono](#)

16

▪ Awareness without [action](#) is useless

17

The [MEMO](#) they – the [enemies of the future](#) – don't want you to [SEE](#)

18

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19

▪ [Interview: The Post-Capitalist Executive](#)

20

▪ [Interview: Managing in a Post-Capitalist Society](#)

21 ▪ [Moving Beyond Capitalism?](#)

22 ❖ [The Asian Crisis](#)

23 • [On Japan](#)

24 • [On China](#)

25 Interview: The Post-Capitalist Executive

26 A [version on steroids](#)

27 For half a century, [Peter F. Drucker](#) has been teacher and adviser to **senior managers** in **business, human service organizations, and government.**

28 Sometimes called the **godfather of modern management**, he combines an **acute understanding of socio-economic forces** with **practical insights** into how leaders can **turn turbulence into opportunity.**

29 With a **rare gift** for **synthesis**, Drucker nourishes his insatiable mind on a full range of intellectual disciplines, from Japanese art to network theory in higher mathematics.

30 Yet he learns most from in-depth conversations with clients and students: a **global network** of men and women who **draw their ideas from action** and **act on ideas.** ¶¶¶

31 Since 1946, when his book [Concept of the Corporation](#) redefined employees as a resource rather than a cost, Drucker works have become an ever-growing resource for leaders in **every major culture**, particularly among Japan s' top decision makers in the critical stages of their rise to world business leadership.

32 A goodly share of productive organizations worldwide are led by men and women who consider Drucker their intellectual guide, if not their personal [mentor.](#) ¶¶¶

33 Drucker most productive insights have often appeared first in the Harvard Business Review.

34 HBR editors sent [T George Harris](#) to the Drucker Management Center at the Claremont Graduate School in California for two days of intensive conversation about recent practical implications for today executives. ¶¶¶

35 Q: Peter, you always bring ideas down to the gut level where people work and live.

36 Now we need to know how managers can operate in the post-capitalist society. ¶¶¶

37 A: You have to learn to manage in situations where you don't have command authority, where you are neither controlled nor controlling.

38 That is the fundamental change.

39 Management textbooks still talk mainly about managing subordinates.

40 But you no longer evaluate an executive in terms of how many people report to him or her.

41 That standard doesn't mean as much as the complexity of the job, the

information it uses and generates, and the different kinds of relationships needed to do the work. ¶¶¶

42 Similarly, business news still refers to managing subsidiaries.

43 But this is the control approach of the 1950s or 1960s.

44 The reality is that the multinational corporation is rapidly becoming an endangered species.

45 Businesses used to grow in one of two ways: from grass-roots up or by acquisition.

46 In both cases, the manager had control.

47 Today businesses grow through alliances, all kinds of dangerous liaisons and joint ventures, which, by the way, very few people understand.

48 This new type of growth upsets the traditional manager, who believes he or she must own or control sources and markets. ¶¶¶

49 Q: How will the manager operate in a work environment free of the old hierarchies? ¶¶¶

50 A: Would you believe that you're going to work permanently with people who work for you but are not your employees?

51 Increasingly, for instance, you outsource when possible.

52 It is predictable, then, that ten years from now a company will outsource all work that does not have a career ladder up to senior management.

53 To get productivity, you have to outsource activities that have their own senior management.

54 Believe me, the trend toward outsourcing has very little to do with economizing and a great deal to do with quality. ¶¶¶

55 Q: Can you give an example? ¶¶¶

56 A: Take a hospital.

57 Everybody there knows how important cleanliness is, but doctors and nurses are never going to be very concerned with how you sweep in corners.

58 That's not part of their value system.

59 They need a hospital maintenance company.

60 One company I got to know in southern California had a cleaning woman who came in as an illiterate Latino immigrant.

61 She is brilliant.

62 She figured out how to split a bedsheet so that the bed of a very sick patient, no matter how heavy, could be changed.

63 Using her method, you have to move the patient about only six inches, and she cut the bed-making time from twelve minutes to two.

64 Now she's in charge of the cleaning operations, but she is not an employee of the hospital.

65 The hospital can't give her one single order.

66 It can only say, "We don't like this; we'll work it out." ¶¶¶

67 The point is, managers still talk about the people who "report" to them, but

that word should be stricken from management vocabulary.

68 Information is replacing authority.

69 A company treasurer with outsourced information technology, IT, may have only two assistants and a receptionist, but his decisions in foreign exchange can lose – or make – more money in a day than the rest of the company makes all year.

70 A scientist decides which research not to do in a big company lab.

71 He doesn't even have a secretary or a title, but his track record means that he is not apt to be overruled.

72 He may have more effect than the CEO.

73 In the military, a lieutenant colonel used to command a battalion, but today he may have only a receptionist and be in charge of liaisons with a major foreign country. ¶¶¶

74 Q: Amidst these new circumstances, everybody is trying to build the ideal organization, generally flat with few layers of bosses and driven directly by consumer satisfaction.

75 But how do managers gear up their lives for this new world? ¶¶¶

76 A: More than anything else, the individual has to take more responsibility for himself or herself, rather than depend on the company.

77 In this country, and increasingly in Europe and even Japan, you can't expect that if you've worked for a company for five years you'll be there when you retire forty years from now.

78 Nor can you expect that you will be able to do what you want to do at the company in forty years' time.

79 In fact, if you make a wager on any big company, the chances of it being split within the next ten years are better than the chances of it remaining the way it is. ¶¶¶

80 This is a new trend.

81 Big corporations became stable factors before World War I and in the 1920s were almost frozen.

82 Many survived the Depression without change.

83 Then there were thirty or forty years when additional stories were built onto skyscrapers or more wings added onto corporate centers.

84 But now they're not going to build corporate skyscrapers.

85 In fact, within the past ten years, the proportion of the workforce employed by Fortune 500 companies has fallen from 30 percent to 13 percent. ¶¶¶

86 Corporations once built to last like pyramids are now more like tents.

87 Tomorrow they're gone or in turmoil.

88 And this is true not only of companies in the headlines like Sears or GM or IBM.

89 Technology is changing very quickly, as are markets and structures.

90 You can't design your life around a temporary organization. ¶¶¶

91 Let me give you a simple example of the way assumptions are changing.

92 Most men and women in the executive program I teach are about forty-five years old and just below senior management in a big organization or running a midsize one.

93 When we began fifteen or twenty years ago, people at this stage were asking, "How can we prepare ourselves for the next promotion?"

94 Now they say, "What do I need to learn so that I can decide where to go next?" ¶¶¶

95 Q: If a young man in a gray flannel suit represented the lifelong corporate type, what's today's image? ¶¶¶

96 A: Taking individual responsibility and not depending on any particular company.

97 Equally important is managing your own career.

98 The stepladder is gone, and there's not even the implied structure of an industry's rope ladder.

99 It's more like vines, and you bring your own machete.

100 You don't know what you'll be doing next, or whether you'll work in a private office or one big amphitheater or even out of your home.

101 You have to take responsibility for knowing yourself, so you can find the right jobs as you develop and as your family becomes a factor in your values and choices. ¶¶¶

102 Q: That's a significant departure from what managers could expect in the past. ¶¶¶

103 A: Well, the changes in the manager's work are appearing everywhere, though on different timetables.

104 For instance, I see more career confusion among the many Japanese students I've had over the years.

105 They're totally bewildered.

106 Though the Japanese are more structured than we ever were, suddenly they are halfway between being totally managed and having to take responsibility for themselves.

107 What frightens them is that titles don't mean what they used to mean.

108 Whether you were in India or France, if you were an assistant director of market research, everybody used to know what you were doing.

109 That's not true anymore, as we found in one multinational.

110 A woman who had just completed a management course told me not long ago that in five years she would be an assistant vice president of her bank.

111 I'm afraid I had to tell her that she might indeed get the title, but it would no longer have the meaning she thought it did. ¶¶¶

112 Q: Another rung in the ladder? ¶¶¶

113 A: Yes.

114 The big company mentality.

115 Most people expect the personnel department to be Papa-or Ma Bell.

116 When the AT&T personnel department was at its high point thirty years ago,

it was the power behind the scenes.

117 With all their testing and career planning, they'd know that a particular twenty-seven-year-old would be, by age forty-five, an assistant operating manager and no more.

118 They didn't know whether he'd be in Nebraska or Florida.

119 But unless he did something quite extraordinary, his career path until retirement was set. ¶¶¶

120 Times have certainly changed.

121 And, in fact, the Bell people have done better than most, because they could see that change coming in the antitrust decision.

122 They couldn't ignore it.

123 But most people still have a big-company mentality buried in their assumptions.

124 If they lose a job with Sears, they hunt for one with Kmart, unaware that small companies create most of the new jobs and are about as secure as big companies. ¶¶¶

125 Even today, remarkably few Americans are prepared to select jobs for themselves.

126 When you ask, "Do you know what you are good at?

127 Do you know your limitations?" they look at you with a blank stare.

128 Or they often respond in terms of subject knowledge, which is the wrong answer.

129 When they prepare their resumes, they still try to list positions like steps up a ladder.

130 **It is time to give up thinking of jobs or career paths as we once did and think in terms of taking on assignments one after the other.** ¶¶¶

131 Q: How does one prepare for this new kind of managerial career? ¶¶¶

132 A: Being an educated person is no longer adequate, not even educated in management.

133 One hears that the government is doing research on new job descriptions based on subject knowledge.

134 But I think that we probably have to leap right over the search for objective criteria and get into the subjective – what I call competencies.

135 Do you really like pressure?

136 Can you be steady when things are rough and confused?

137 Do you absorb information better by reading, talking, or looking at graphs and numbers?

138 I asked one executive the other day, "When you sit down with a person, a subordinate, do you know what to say?"

139 Empathy is a practical competence.

140 I have been urging this kind of self-knowledge for years, but now it is essential for survival. ¶¶¶

141 People, especially the young, think that they want all the freedom they can get, but it is very demanding, very difficult to think through who you are and what you do best.

142 In helping people learn how to be responsible, our educational system is more and more counterproductive.

143 The longer you stay in school, the fewer decisions you have to make.

144 For instance, the decision whether to take French II or Art History is really based on whether one likes to get up early in the morning.

145 And graduate school is much worse. ¶¶¶

146 Do you know why most people start with big companies?

147 Because most graduates have not figured out where to place themselves, and companies send in the recruiters.

148 But as soon as the recruits get through training and into a job, they have to start making decisions about the future.

149 Nobody's going to do it for them. ¶¶¶

150 And once they start making decisions, many of the best move to mid-size companies in three to five years, because there they can break through to top management.

151 With less emphasis on seniority, a person can go upstairs and say, "I've been in accounting for three years, and I'm ready to go into marketing."

152 Each year I phone a list of my old students to see what's happening with them.

153 The second job used to be with another big company, often because people were beginning to have families and wanted security.

154 But with two-career families, a different problem emerges.

155 At a smaller organization, you can often work out arrangements for both the man and the woman to move to new jobs in the same city. ¶¶¶

156 Q: Some of the psychological tests being developed now are getting better at helping people figure out their competencies.

157 But if the world economy is shifting from a command model to a knowledge model, why shouldn't education determine who gets each job? ¶¶¶

158 A: Because of the enormous danger that we would not value the person in terms of performance, but in terms of credentials.

159 Strange as it may seem, a knowledge economy's greatest pitfall is in becoming a mandarin meritocracy.

160 You see creeping credentialism all around.

161 Why should people find it necessary to tell me so-and-so is really a good
researcher even though he or she doesn't have a Ph.D.?

162 It's easy to fall into the trap, because degrees are black-and-white.

163 But it takes judgment to weigh a person's contribution. ¶¶¶

164 The problem is becoming more serious in information-based organizations.

165 As Michael Hammer pointed out three years ago in HBR, when an
organization re-engineers itself around information, the majority of
management layers becomes redundant.

166 Most turn out to have been just information relays.

167 Now, each layer has much more information responsibility.

168 Most large companies have cut the number of layers by fifty percent, even in
Japan.

169 Toyota came down from twenty-odd to eleven.

170 GM has streamlined from twenty-eight to maybe nineteen, and even that
number is decreasing rapidly.

171 Organizations will become flatter and flatter. ¶¶¶

172 As a result, there's real panic in Japan, because it's a vertical society based on
subtle layers of status.

173 Everybody wants to become a kacho, a supervisor or section manager.

174 Still, the United States doesn't have the answer either.

175 We don't know how to use rewards and recognition to move the competent
people into the management positions that remain.

176 I don't care for the popular theory that a generation of entrepreneurs can
solve our problems.

177 Entrepreneurs are monomaniacs.

178 Managers are synthesizers who bring resources together and have that
ability to "smell" opportunity and timing.

179 Today perceptiveness is more important than analysis.

180 In the new society of organizations, you need to be able to recognize
patterns to see what is there rather than what you expect to see.

181 You need the invaluable listener who says, "I hear us all trying to kill the new
product to protect the old one." ¶¶¶

182 Q: How do you find these people? ¶¶¶

183 A: One way is to use small companies as farm clubs, as in baseball.

184 One of my ablest friends is buying minority stakes in small companies within
his industry.

185 When I said it didn't make sense, he said, "I'm buying farm teams.

186 I'm putting my bright young people in these companies so they have their
own commands.

187 They have to do everything a CEO does in a big company." ¶¶¶

188 And do you know the biggest thing these young executives have to learn in
their new positions?

189 My friend continued, "We have more Ph.D.'s in biology and chemistry than we have janitors, and they have to learn that their customers aren't Ph.D.'s, and the people who do the work aren't."

190 In other words, they must learn to speak English instead of putting formulas on the blackboard.

191 They must learn to listen to somebody who does not know what a regression analysis is.

192 Basically, they have to learn the meaning and importance of respect. ¶¶¶

193 Q: A difficult thing to learn, let alone teach. ¶¶¶

194 A: You have to focus on a person's performance.

195 The individual must shoulder the burden of defining what his or her own contribution will be.

196 We have to demand – and "demand" is the word, nothing permissive – that people think through what constitutes the greatest contribution that they can make to the company in the next eighteen months or two years.

197 Then they have to make sure that contribution is accepted and understood by the people they work with and for. ¶¶¶

198 Most people don't ask themselves this question, however obvious and essential it seems.

199 When I ask people what they contribute to an organization, they blossom and love to answer.

200 And when I follow with, "Have you told other people about it?" the answer often is "No, that would be silly, because they know."

201 But of course "they" don't.

202 We are one hundred years past the simple economy in which most people knew what others did at work.

203 Farmers knew what most farmers did, and industrial workers knew what other factory workers did.

204 Domestic servants understood each other's work, as did the fourth major group in that economy: small tradesmen.

205 No one needed to explain.

206 But now nobody knows what others do, even within the same organization.

207 Everybody you work with needs to know your priorities.

208 If you don't ask and don't tell, your peers and subordinates will guess incorrectly. ¶¶¶

209 Q: What's the result of this lack of communication? ¶¶¶

210 A: When you don't communicate, you don't get to do the things you are good at.

211 Let me give you an example.

212 The engineers in my class, without exception, say they spend more than half their time editing and polishing reports – in other words, what they are least qualified to do.

213 They don't even know that you have to write and rewrite and rewrite again.

214 But there are any number of English majors around for that assignment.

215 People seldom pay attention to their strengths.

216 For example, after thinking for a long time, an engineer told me he's really good at the first design, at the basic idea, but not at filling in the details for the final product.

217 Until then, he'd never told anybody, not even himself. ¶¶¶

218 Q: You're not advocating self-analysis alone, are you? ¶¶¶

219 A: No. Not only do you have to understand your own competencies, but you also have to learn the strengths of the men and women to whom you assign duties, as well as those of your peers and boss.

220 Too many managers still go by averages.

221 They still talk about "our engineers."

222 And I say, "Brother, you don't have 'engineers.'

223 You have Joe and Mary and Jim and Bob, and each is different."

224 You can no longer manage a workforce.

225 You manage individuals.

226 You have to know them so well you can go and say, "Mary, you think you ought to move up to this next job.

227 Well, then you have to learn not to have that chip on your shoulder.

228 Forget you are a woman; you are an engineer.

229 And you have to be a little considerate.

230 Do not come in at ten minutes to five on Friday afternoon to tell people they have to work overtime when you knew it at nine a.m." ¶¶¶

231 The key to the productivity of knowledge workers is to make them concentrate on the real assignment.

232 Do you know why most promotions now fail?

233 One-third are outright disasters, in my experience, while another third are a nagging backache.

234 Not more than one in three works out.

235 No fit.

236 The standard case, of course, is the star salesman promoted to sales manager.

237 That job can be any one of four things – a manager of salespeople, a market manager, a brand manager, or a super-salesman who opens up an entire new area.

238 But nobody figures out what it is, so the man or woman who got the promotion just tries to do more of whatever led to the promotion.

239 That's the surest way to be wrong. ¶¶¶

240 Q: Expand on your idea of information responsibility and how it fits into post-capitalist society. ¶¶¶

241 A: Far too many managers think computer specialists know what information they need to do their job and what information they owe to whom.

242 Computer information tends to focus too much on inside information, not the
outside sources and customers that count.

243 In today's organization, you have to take responsibility for information
because it is your main tool.

244 But most don't know how to use it.

245 Few are information-literate.

246 They can play "Mary Had a Little Lamb" but not Beethoven. ¶¶¶

247 I heard today about a brand manager in a major OTC drug company who
tried to get the scientific papers on the product he markets.

248 But the corporate librarian complained to his superior.

249 Under her rules, she gives hard science only to the company's scientists and
lawyers.

250 He had to get a consultant to go outside and use a computer database to
pull up about twenty journal articles on his product, so he'd know how to
develop honest advertising copy.

251 The point of the story is that this brand manager is way ahead of the parade:
ninety-nine out of a hundred brand managers don't know they need that
kind of information for today's consumers and haven't a clue how to get it.

252 The first step is to say, "I need it." ¶¶¶

253 And many people don't recognize the importance of this step.

254 I work with an information manager at a large financial institution that has
invested \$1.5 billion in information.

255 He and I talked all morning with his department's eight women and ten men.

256 Very intelligent, but not one began to think seriously about what information
they need in order to serve their customers.

257 When I pointed this out, they said, "Isn't the boss going to tell us?"

258 We finally had to agree to meet a month later so that they could go through
the hard work of figuring out what information they need and, more
important, what they do not need. ¶¶¶

259 Q: So a manager begins the road to information responsibility first by
identifying gaps in knowledge. ¶¶¶

260 A: Exactly.

261 To be information-literate, you begin with learning what it is you need to
know.

262 Too much talk focuses on the technology; even worse, on the speed of the
gadget – always faster, faster.

263 This kind of "techie" fixation causes us to lose track of the fundamental
nature of information in today's organization.

264 To organize the way work is done, you have to begin with the specific job,
then the information input, and finally the human relationships needed to get
the job done. ¶¶¶

265 The current emphasis on reengineering essentially means changing an
organization from the flow of things to the flow of information.

266 The computer is merely a tool in the process.

267 If you go to the hardware store to buy a hammer, you do not ask if you should do upholstery or fix the door.

268 To put it in editorial terms, knowing how a typewriter works does not make you a writer.

269 Now that knowledge is taking the place of capital as the driving force in organizations worldwide, it is all too easy to confuse data with knowledge and information technology with information. ¶¶¶

270 Q: What's the worst problem in managing knowledge specialists? ¶¶¶

271 A: One of the most degenerative tendencies of the last forty years is the belief that if you are understandable, you are vulgar.

272 When I was growing up, it was taken for granted that economists, physicists, psychologists – leaders in any discipline – would make themselves understood.

273 Einstein spent years with three different collaborators to make his theory of relativity accessible to the layman.

274 Even John Maynard Keynes tried hard to make his economics accessible.

275 But just the other day, I heard a senior scholar seriously reject a younger colleague's work because more than five people could understand what he's doing.

276 Literally. ¶¶¶

277 We cannot afford such arrogance.

278 Knowledge is power, which is why people who had it in the past often tried to make a secret of it.

279 In post-capitalism, power comes from transmitting information to make it productive, not from hiding it. ¶¶¶

280 That means you have to be intolerant of intellectual arrogance.

281 And I mean intolerant.

282 At whatever level, knowledge people must make themselves understood, and whatever field the manager comes from, he or she must be eager to understand others.

283 This may be the main job of the manager of technical people.

284 He or she must not only be an interpreter but also work out a balance between specialization and exposure. ¶¶¶

285 Exposure is an important technique.

286 For an exotic example, look at weather forecasting, where meteorologists and mathematicians and other specialists now work with teams of experts on satellite data.

287 Europeans, on the one hand, have tried to connect these different disciplines entirely through information managers.

288 On the other hand, Americans rotate people at an early stage.

289 Suppose you put a Ph.D. in meteorology on a team that is to work on the new mathematical model of hurricanes for three years.

290 He isn't a mathematician, but he gets exposed to what mathematicians
assume, what they eliminate, what their limitations are.

291 With the combination of exposure and translation, the American approach
yields forecasts that are about three times more accurate than the European,
I'm told.

292 And the exposure concept is useful in managing any group of specialists. ¶¶¶

293 Q: Is the fact that some teams provide exposure as well as interpreters a
reason why the team has become such a hot topic? ¶¶¶

294 A: There's a lot of nonsense in team talk, as if teams were something new.

295 We have always worked in teams, and while sports give us hundreds of team
styles, there are only a few basic models to choose from.

296 The critical decision is to select the right kind for the job.

297 You can't mix soccer and doubles tennis.

298 It's predictable that in a few years, the most traditional team will come back
in fashion, the one that does research first, then passes the idea to
engineering to develop, and then on to manufacturing to make.

299 It's like a baseball team, and you may know I have done a little work with
baseball-team management. ¶¶¶

300 The great strength of baseball teams is that you can concentrate.

301 You take Joe, who is a batter, and you work on batting.

302 There is almost no interaction, nothing at all like the soccer team or the jazz
combo, the implicit model of many teams today.

303 The soccer team moves in unison but everyone holds the same relative
position.

304 The jazz combo has incredible flexibility because everyone knows each other
so well that they all sense when the trumpet is about to solo.

305 The combo model takes great discipline and may eventually fall out of favor,
especially in Japanese car manufacturing, because we do not need to create
new car models as fast as we have been. ¶¶¶

306 I know several German companies that follow the baseball-team model,
whether they know it or not.

307 Their strength is clear: they are fantastic at exploiting and developing old
knowledge, and Germany's mid-size companies may be better than their big
ones simply because they concentrate better.

308 On the other hand, when it comes to the new, from electronics to biotech,
German scientists may do fine work, but their famous apprenticeship system
discourages innovation. ¶¶¶

309 Q: So, beyond all the hype, teams can help the executive navigate a post-
capitalist society? ¶¶¶

310 A: Thinking about teams helps us highlight the more general problem of
how to manage knowledge.

311 In the production of fundamental new knowledge, the British groups I run
into are way ahead of anybody.

312 But they have never done much with their expertise, in part because many

British companies don't value the technically oriented person enough.

313 I don't know of a single engineer in top management there.

314 My Japanese friends are just the opposite.

315 While they still do not specialize in scientific advances, they take knowledge and make it productive very fast.

316 In this country, on the other hand, we have not improved that much in existing industries.

317 The automobile business, until recently, was perfectly satisfied doing what it did in 1939.

318 But as we are discovering in computers and in biotech, we may be at our very best when it comes to groundbreaking technology. ¶¶¶

319 Q: Where is the lesson in all this for the manager? ¶¶¶

320 A: The lesson is that the productivity of knowledge has both a qualitative and a quantitative dimension.

321 Though we know very little about it, we do realize executives must be both managers of specialists and synthesizers of different fields of knowledge – really of knowledges, plural.

322 This situation is as threatening to the traditional manager, who worries about highfalutin highbrows, as it is to the intellectual, who worries about being too commercial to earn respect in his or her discipline.

323 But in the post-capitalist world, the highbrow and the lowbrow have to play on the same team. ¶¶¶

324 Q: That sounds pretty democratic.

325 Does a post-capitalist society based more on knowledge than capital become egalitarian? ¶¶¶

326 A: No. Both of these words miss the point.

327 Democratic bespeaks a narrow political and legal organization.

328 Nor do I use the buzzword participative.

329 Worse yet is the empowerment concept.

330 It is not a great step forward to take power out at the top and put it in at the bottom.

331 It's still power.

332 To build achieving organizations, you must replace power with responsibility. ¶¶¶

333 And while we're on the subject of words, I'm not comfortable with the word manager anymore, because it implies subordinates.

334 I find myself using executive more, because it implies responsibility for an area, not necessarily dominion over people.

335 The word boss, which emerged in World War II, is helpful in that it can be used to suggest a mentor's role, someone who can back you up on a decision.

336 The new organizations need to go beyond senior-junior polarities to a blend with sponsor and mentor relations.

- 337 In the traditional organization – the organization of the last one hundred years – the skeleton, or internal structure, was a combination of rank and power.
- 338 In the emerging organization, it has to be mutual understanding and responsibility.
- 339 [1993]

340 Interview: Managing in a Post-Capitalist Society

341 One of the downsides of what passes as contemporary management thinking is that too many managers venerate “newness” and nothing else.

342 The latest-fad authors, whether there substance to their claims or not, too often become the hot ticket for a month or two and then fade.

343 But then there’s Peter Drucker.

344 He wrote his first book, *The End of Economic Man*, in 1939 – and in more than half a century, the steady stream of rock-solid management books that he has written are, in and of themselves, a complete management library.

345 To meet him in his neighborly California home, to see him most comfortable in sport shirt and casual walking shoes, to hear him cite facts, figures, names, and anecdotes without strain, and to note that he shares his thinking with courtesy and good humor – this is the Peter Drucker that still remains in many ways hidden from even his most avid followers.

346 If there ever was a master of management, then Peter Drucker is the genuine article. ¶¶¶

347 Q: Peter, let me start this interview at a strange place – at the last chapter of your book, *Post-Capitalist Society*, in which you discuss “the educated person.”

348 Just how educated are most of us, in terms of being prepared to deal with the society and the workplace of the future? ¶¶¶

349 A: You know, we have a very peculiar situation.

350 Young people, when they are in school, are extremely excited by the humanities, even the most traditional subjects.

351 And five years after graduation, they will reject them, basically, and become totally vocational in their orientation.

352 This imbalance isn’t healthy in a long-range sense.

353 As I look at our executive-management people who started out 20 or 30 years ago, I thought that these just-turned – 45-or-50 – year-old managers would ultimately come back to their schools and say, “Now we need to understand a little bit about ourselves and about life!”

354 But the postgraduate education of our managers, from this perspective, has been a total flop. ¶¶¶

355 Q: A flop? ¶¶¶

356 A: Almost a total fizzle.

357 But more and more are coming back, and they always want to come back to vocational or their professional depth.

358 They start to see the humanities or the world of history as a way to reflect on their business experiences and to judge how they might have thought or acted differently, to look at their lives from whole new perspectives. ¶¶¶

359 Q: What does this mean, that too many of us blur the world of work and the world of “life”? ¶¶¶

360 A: It's deeper than just that.

361 For most of history, earning a living was something you had to do because, after all, you had to eat.

362 Life did not have that much leisure at all, in our sense of the word.

363 Now, many people allow their work to consume their lives totally: that's what they enjoy.

364 But in the past for people to admit that they enjoyed their work was simply – I wouldn't say it wasn't done – it wasn't expected

365 The idea that your work was supposed to be meaningful was not a topic of discussion in the past.

366 That's much different from today and even more different from the world of the future.

367 Today more and more people simply expect and demand that their work and their jobs should be meaningful.

368 I don't think it would ever have occurred to most people a hundred years ago. ¶¶¶

369 Q: So this, of course, has management and business implications, no? ¶¶¶

370 A: I think the growth industry in this country and the world will soon be continuing education of adults.

371 Nothing else is growing as fast, whether you are talking physicians, or engineers, or dentists.

372 This is happening in part because things are changing so fast in every field of every business or occupation. ¶¶¶

373 Let me personalize this for you.

374 There's a young man I know – at least he's a young man to me; he's in his forties – he's probably the leading radiologist on the East Coast.

375 I've known him since he was a child.

376 He heads up the radiology, now "imaging," department at a major medical school.

377 I was heading to the East Coast to do some speaking, so I called him up, to arrange a get-together.

378 His response: "Peter, I am sorry.

379 I'll be out of town that week.

380 I'm going to Minnesota for a course."

381 And I asked, "What are you teaching?"

382 And he said, "Peter, I'm not teaching.

383 I'm going for a week to study new aspects in ultrasound technology.

384 You know, I should have gone to study this last year, but I had some surgery, and I couldn't go.

385 Now I'm way behind." ¶¶¶

386 And so I think that the educated person of the future is somebody who realizes they need to continue to learn.

387 That is a new definition, and it is going to change the world we live and work
in. ¶¶¶

388 Q: That brings me to the management implications.

389 I had the feeling in your book that you felt that a lot of companies forced
people, or encouraged people, to be too narrowly focused. ¶¶¶

390 A: Not just companies.

391 Almost the only organization that is different is the military.

392 Check it out, and you'll see that practically all the senior military people have
been back to school numerous times.

393 Now when they go to the command and general staff school, that's very
narrow.

394 But when the Air Force or Army sends them to the university to get their
master's or Ph.D., then they've pushed them to be more broad, to get some
new perspectives. ¶¶¶

395 Q: So how does a company broaden its managers? ¶¶¶

396 A: A good many companies today are encouraging their people to work in
the community with nonprofit organizations, which is perhaps the best
educational experience I could advise for a thirty-five-year-old manager. ¶¶¶

397 Q: Peter, I felt that I'm almost grasping the significance of what you're driving
at.

398 Your book extols how the shrinking world will increasingly be the reality for
everyone in business.

399 Are you saying that we need to learn more about how the world works? ¶¶¶

400 A: One hundred years ago, people did not travel as much, but many talked
more to each other about the nature of being human and about life.

401 I can't explain to my children or my grandchildren, in a way that they can
appreciate, that when I was growing up, my father had a dinner party every
Monday.

402 There were often economists, ranking civil servants, even a major
international lawyer.

403 And about every week there were other dinners when my parents would
invite medical people.

404 My mother and father were very interested in mathematics and philosophy –
so they invited folks to dinner from these fields once a month.

405 This is unthinkable today. ¶¶¶

406 Q: The reason that your words are so important is that your book makes
many forceful points about the increasing importance of knowledge as a
commodity in and of itself.

407 You say that "knowledge is the only meaningful resource today."

408 You also state that "knowledge employees cannot, in effect, be supervised."

409 Will managers be needed in the future? ¶¶¶

410 A: Managers will still be needed.

411 But fewer will be needed than we see today.

412 A lot of people who now have the title manager don't manage a damn thing.
413 We have all these corporate layers for a variety of reasons.
414 One is that when big organizations came into existence, the only model we had was the army.
415 The Prussian army was at that time at the peak of its renown, right after 1870, and – like all armies – they had to have a lot of redundancy.
416 So corporations built in a lot of redundancy.
417 No one under sixty can possibly imagine how denuded we were of people after World War II.
418 As the economy began to expand right after the war, you needed people and you had none, because the baby boomers didn't join the workforce until twenty-five years later.
419 And so the available young people had to be promoted very fast.
420 Before 1929 you didn't become a full professor anyplace until you were fifty.
421 When I first taught in a business school, enrollments were exploding: for five years, we doubled each year.
422 When I joined it in '49, it had 600 students.
423 When I left, it had 6,500. And it reached that in ten years! ¶¶¶
424 During this time, I once studied the management of a bank, at one point reporting to the chief executive officer the average age of the bank's senior managers.
425 "Your vice presidents," I said, "have fewer years of age than your predecessor's vice presidents had years of seniority." It traditionally took thirty years to become a vice president at a bank.
426 Traditionally, you could come into a bank during this tough time, say at age twenty-one, and if you were very, very, very good, you became an assistant vice president in your mid-forties.
427 Then suddenly, because of manpower shortages, you had twenty-six-year-old vice presidents.
428 You had to!
429 And we made jobs very small. ¶¶¶
430 There will, to be sure, be less of a need for this many levels of management and for this many managers in the future.
431 The nature of work – and of workers – is such that over-supervision can become a drag on the productivity of the firm.
432 But as I say in the book, management is needed in all modern organizations; it's a generic function of all organizations, whatever their specific mission.
433 And you could say that management is the generic organ of the knowledge society. ¶¶¶
434 Q: Yet I noted the importance you attached to teams in your book – and how they can manage themselves.
435 It is one of the most powerful and useful parts of your book. ¶¶¶
436 A: A team is one of the most difficult things to run.

437 Look, I've done a lot of work with baseball teams.

438 They are very peculiar organizations.

439 They are among the most difficult things to run.

440 Very few coaches do a good job, precisely because you are dealing with a team, but your best pitcher is either a prima donna or he's no good.

441 In baseball, average pitchers need not apply. ¶¶¶

442 In corporations, you are also often dealing with prima donnas, yet it is a team where people often don't perceive that they have to work together.

443 Think of most any design team you know. ¶¶¶

444 I happen to know Toyota quite well.

445 A couple of years ago, I asked one of their senior executives, just retired, "How long did it take you before your design team performed well?"

446 He laughed and said, "In the first place, it doesn't perform yet.

447 And in the second place, we began in 1950."

448 Donald Petersen of Ford started in the early seventies and retired in the mid-eighties; he worked very hard to get teams going, but you hear constant complaints at Ford that their teams don't work. ¶¶¶

449 It takes a really superb manager to build that kind of team where people really work together and adjust and take their cues from the others and move ahead as a unit.

450 That's not easy.

451 That takes time and nerve and a very clear mission and a very skillful leader ... perhaps "skillful" isn't the right word.

452 You need a very focused, a very clear kind of leadership.

453 So what's needed in the future may not be "a manager" in the typical sense.

454 Many executives I meet are totally baffled by what I'm talking about.

455 They don't know how to build a team.

456 And not because they don't try it, but because it's got to be built.

457 You manage to build a team, and yet you work each day with individuals. ¶¶¶

458 Q: Peter, the time when I have seen managers get the most bothered by your writing is when you talk about the move to knowledge work as part of "a knowledge society," and they say – perhaps without reading you closely – "Does Drucker believe we in the United States won't manufacture things anymore, that our economy will be solid enough without a manufacturing base?"

459 How do you answer them? ¶¶¶

460 A: That's nonsense.

461 Look, most people believe that American manufacturing has been in decline.

462 There isn't the slightest reason for that belief.

463 Manufacturing has grown as fast as the economy, that is, very fast.

464 It has expanded two-and-a-half times in the last, well, since the late sixties – the last twenty, twenty-five years.

465 Same as GNP.

466 But people still identify manufacturing production with manufacturing and blue-collar employment.

467 Big mistake. ¶¶¶

468 Q: Explain, please. ¶¶¶

469 A: Blue-collar employment has grown less fast than manufacturing volume since 1900, which nobody seems to know, even though it's in every statistical yearbook.

470 It has been declining: the unit of blue-collar labor needed to make an additional unit of manufacturing has been going down at 1 percent compounded for more than ninety years – for almost a century! ¶¶¶

471 Manufacturing production has been going up steadily and shows every sign of continuing to grow, and the share of manufacturing in GNP has remained steady since about 1890 – for one hundred years – between 21 percent and 23 percent.

472 The entire growth of services is at the expense of agriculture.

473 Agriculture in 1900 was still more than 50 percent; it is now 3 percent.

474 Manufacturing has remained constant.

475 But blue-collar employment – not total employment – has come down and will continue to go down.

476 We are not at the bottom yet, though we are getting there.

477 We're down to 18 percent.

478 It'll bottom out at around 10 percent or 11 percent, which doesn't mean that you have another cut of 50 percent, because manufacturing production is steadily growing.

479 But you have another cut of maybe 2 percent to 4 percent of the present force.

480 But this trend represents an enormous shift. ¶¶¶

481 Q: What caused the shift? ¶¶¶

482 A: There are two or three key things we could talk about.

483 Let me talk about the biggest single factor: the emergence of new manufacturing industries that are not blue-collar labor-intensive, but knowledge-intensive! ¶¶¶

484 Q: So it's knowledge in the form of ... ¶¶¶

485 A: Reengineering!

486 It's the steady reengineering of the manufacturing process.

487 Most people think of automation as the reason for the lower demand for labor; automation is almost irrelevant.

488 Take, for example, making blue jeans.

489 That's a sewing operation.

490 Even thirty years ago, blue jeans came in three sizes – that was it – and in one color and in one style. ¶¶¶

491 Today, blue jeans come in about sixteen sizes and twice as many styles.

492 But the process has been organized so that the burden of adjustment is not at the beginning of the process, but at the end.

493 It's at the very end: you go right through to the final sewing stage with one length, one width, and maybe one color.

494 The burden of adjustment to styles and sizes is all at the end, the culmination of a continuous and uniform process.

495 It costs a little extra cloth to do it this way, but you basically have a flow process in which practically all the work can be programmed.

496 It's not machine work; there's still a lot of handwork, but it is programmed and very well engineered.

497 And so the labor needed is probably one-fifth of what you had even twenty years ago, but not just because they've automated anything.

498 We have cut cloth by machine for sixty years; this is nothing very new.

499 It's the reengineering. ¶¶¶

500 Q: That doesn't sound all that radical. ¶¶¶

501 A: It's not.

502 Any good engineer was probably taught to approach production this way since 1940.

503 But the last ones to actually do it will probably be the automobile manufacturers, because they had the fantastically efficient system based on a minimum number of models.

504 Once you have locked into a model for the year, you didn't do anything to it.

505 Well, that's gone.

506 So they have to relearn the process.

507 The Japanese have led the way, but there's still more to be learned. ¶¶¶

508 Q: So knowledge is absolutely key. ¶¶¶

509 A: It's as I say in the book: A country that has the knowledge workers to design products and to market them will have no difficulty getting those products made at low cost and high quality.

510 But narrow-mindedness and narrow perspectives are not going to make any business in any country more competitive in the future. ¶¶¶

511 Q: I was amazed at how I misunderstood F.W. Taylor, the pioneer business thinker of the early 1900s.

512 You have given me a new appreciation for him.

513 Do you think, given your awesome stretch of books, that you have been understood? ¶¶¶

514 A: I think I have been understood in different ways in different parts of the world.

515 For example, in Japan people seem to note that I made businesses and managers much more aware of the need to understand marketing in the truest sense: you have to let the market drive your business; you have to listen to customers and heed their wants and needs. ¶¶¶

516 The Japanese also seem to appreciate my words on price-controlled costing:
that you have to design products to the price that the marketplace is willing
to pay. ¶¶¶

517 I also believe the Japanese heeded first and best my point of view that
people must be viewed as your colleagues and one of your prime resources.

518 It is only through such respect of the workers that true productivity is
achieved. ¶¶¶

519 And, lastly, the Japanese seemed to take to heart that there really is such a
thing as a world economy and that trying to sell only within your national
borders is provincialism when it comes to business. ¶¶¶

520 Q: How about Europe? ¶¶¶

521 A: I think they see me as a pioneer of the counterculture.

522 During modern times, most of European management (and Europe is, after
all, where my own roots are) had what I would call a “Krupp” mentality,
where the manager projects the attitude that “I own everything” and that
everyone who works within a company is no more than a “helper.”

523 I’m afraid to think how many managers of this ilk are still around, all over the
world. ¶¶¶

524 The problems with this attitude are many.

525 It blocks out the kind of communication and dialogue that you need to run a
business.

526 It doesn’t allow for the possibility that lots of people need to make decisions
if a business is to be dynamic.

527 In fact, a lot of European managers were reduced to counting pencil stubs or
meaningless stuff like that. ¶¶¶

528 Well, European managers who have followed my books and my thinking
right away saw my advocacy of management as a profession, as something
that was a bit subversive, a bit revolutionary, and – in short – countercultural.

529 In fact, in this light my book *The Practice of Management* was, and is, a sort
of a manifesto in Europe. ¶¶¶

530 Q: What about the United States? ¶¶¶

531 A: My impression is that managers in the United States derived two major
points from my writing and my counsel.

532 First, they at least started to understand that people are a resource and not
just a cost.

533 I think that the most enlightened managers have started to understand what
could be realized by managing people toward a desired end or goal. ¶¶¶

534 Which raises the second major point that managers here seem to note about
my work, that I helped them start to see management.

535 In other words, for a long time, the impact – plus or minus – of management
was invisible to most Americans.

536 I think that many credit me with discovering the discipline and insisting that
businesses take management seriously – as a profession that can make a
difference in the life of the business. ¶¶¶

- 537 I would hope that American managers – indeed, managers worldwide – continue to appreciate what I have been saying almost since day one: that management is so much more than exercising rank and privilege; it's so much more than "making deals."
- 538 Management affects people and their lives, both in business and in many other aspects as well.
- 539 The practice of management deserves our utmost attention; it deserves to be studied. ¶¶¶
- 540 [1994]

541 Moving Beyond Capitalism?

542 This interview was conducted by Nathan Gardels, editor of New Perspectives
Quarterly, in the author's office in Claremont, California.

543 It was based on the author's specifying the topics and the interviewer's
questions.

544 The author himself edited the interviewer's draft into the final text.

545 The interview appeared in New Perspectives Quarterly in the spring 1998
issue

546 Of late, some of capitalism biggest boosters, people such as yourself and the
financier George Soros, have become its biggest critics.

547 What is your critique?

548 I am for the free market.

549 Even though it doesn't work too well, nothing else works at all.

550 But I have serious reservations about capitalism as a system because it
idolizes economics as the be-all and end-all of life.

551 It is one-dimensional. ¶¶¶

552 For example, I have often advised managers that a 20-1 salary ratio is the
limit beyond which they cannot go if they don't want resentment and falling
morale to hit their companies.

553 I worried back in the 1930s that the great inequality generated by the
Industrial Revolution would result in so much despair that something like
fascism would take hold.

554 Unfortunately, I was right. ¶¶¶

555 Today, I believe it is socially and morally unforgivable when managers reap
huge profits for themselves but fire workers.

556 As societies, we will pay a heavy price for the contempt this generates
among the middle managers and workers. ¶¶¶

557 In short, whole dimensions of what it means to be a human being and
treated as one are not incorporated into the economic calculus of capitalism.

558 For such a myopic system to dominate other aspects of life is not good for
any society. ¶¶¶

559 With regard to the market, there are several serious problems with the theory
itself. ¶¶¶

560 First of all, the theory assumes there is one homogeneous market.

561 In reality, there are three overlapping markets that, by and large, don't
interchange: an international market in money and information, national
markets, and local markets. ¶¶¶

562 Most of what passes for transnational economic money, of course, is only
virtual money. ¶¶¶

563 The London interbank market each day has a greater volume of activity in
dollar terms than the whole world would need for a year to finance all
economic transactions. ¶¶¶

564 This is functionless money.

565 It cannot possibly earn any return since it serves no function.

566 It has no purchasing power.

567 It is, therefore, totally speculative and prone to panics as it rushes here and there to earn that last 64th of 1 percent. ¶¶¶

568 Then, there is a large national economy which is not exposed to international commerce.

569 Some 24 percent of U.S. economic activity is exposed to trade.

570 In Japan, it is only 8 percent. ¶¶¶

571 Then there is the local economy.

572 The hospital near my home has very high-quality care and is very competitive.

573 But it does not compete with any hospital forty miles away in Los Angeles.

574 The effective market area for hospitals in the U.S. is about ten miles because, for some obscure reason no economist would be able to figure out, people like to be close to their sick mothers. ¶¶¶

575 Also, what drives markets has changed.

576 The economic center of gravity shifted sometime during this century.

577 In the nineteenth century, with steel and steam, supply generated demand.

578 Since the Great Depression, however, the tables have turned: In traditional products, from home construction to cars, demand must come before supply although this is not yet true today of information and electronics, which stimulate demand. ¶¶¶

579 Beyond this definition of markets, the truly profound issue is that market theory is based on an assumption of equilibrium and thus cannot accommodate change, let alone innovation. ¶¶¶

580 Rather, the real pattern of economic activity, as Joseph Schumpeter recognized as long ago as 1911, is "a moving disequilibrium" caused by the process of creative destruction as new markets with new products and new demand are made at the expense of old ones. ¶¶¶

581 Market outcomes cannot, therefore, be explained in terms of what the theory would have predicted.

582 The market is in fact not a predictable system, but inherently unstable.

583 And if it is not predictable, you cannot base your behavior on it.

584 That is a pretty serious limitation for a theory of human behavior. ¶¶¶

585 All we can say is that, in the end, any long-term equilibrium is the result of a lot of short-term adaptations to market signals. ¶¶¶

586 This, finally, is the strength of the market: It is a disciplinarian for the short term.

587 By providing feedback through prices, it discourages you from squandering time and resources going off in all directions like King Arthur's knights. ¶¶¶

588 The old idea was that if you rode on long enough you would run into something.

589 The market tells you that if you don't run into something in five weeks, you
better change course or do something else. ¶¶¶

590 Beyond the short term, the market is useless.

591 You know, I have sat in on more than my share of research planning for large
companies.

592 Fundamentally, this activity is an act of faith.

593 When the chief financial officer asks, as he always does, "What will be the
return?" on this or that project, the only answer is "We will know in ten
years."

594 Years ago you wrote about pension fund ownership of the American
economy, calling it "capitalism sans capitalists" where workers' retirement
funds own the means of production. ¶¶¶

595 Today, this dispersion of wealth has gone even further through the explosion
of mutual funds – more than 51 percent of Americans own shares of stock ¶¶¶

596 Have we arrived at mass capitalism or postcapitalism? ¶¶¶

597 Well, to call it postcapitalism is merely to say we don't know what to call it. ¶¶¶

598 You also can't call it economic democracy since there is no organized form of
governance associated with this mass ownership. ¶¶¶

599 What is certain is that it is a totally new phenomenon in history. ¶¶¶

600 My gardener, who is not a wealthy man, takes the "money markets" section
of the Wall Street Journal I put out for him at the back door every week to
guide his stock investments. ¶¶¶

601 A friend of mine who works with a regional financial service that has 2 million
accounts told me recently that his average investor has gone from putting
\$10,000 per year to \$25,000 per year in his mutual fund. ¶¶¶

602 Perhaps it is becoming true that capitalists don't matter anymore.

603 In earlier periods of the adoration of the rich, there were strongly voiced
opinions either that "we need the rich for capital formation" or "the rich are
just exploiting us all."

604 One doesn't hear either of these opinions anymore. ¶¶¶

605 J. P. Morgan once mattered to the American economy.

606 At his peak, he had enough liquid capital to finance all capital needs in
America for four months. ¶¶¶

607 Adjusting for inflation, J. P. Morgan probably had a little less than a third of
what Bill Gates has today.

608 Such wealth possessed by one man has not been seen in the world since the
time of the great Khan of China.

609 But Gates's \$40 billion could only finance the American economy for less
than one day. ¶¶¶

610 Bill Gates is important because of the Microsoft company he built and the
software we use.

611 As a rich man, he is totally irrelevant.

612 How he spends or wastes his money will have no impact on the American

economy.

- 613 It is a drop in the bucket. ¶¶¶
- 614 The wealth that makes the difference in America today is that held by tens of millions of small investors.
- 615 Historically, state socialism has failed to produce wealth or efficiently provide social services.
- 616 Yet capitalism ignores any other dimension of life besides economic exchange.
- 617 And, as you say, the market is only short-term.
- 618 How does society, then, manage in the long term? ¶¶¶
- 619 We now know that we need three sectors, not two.
- 620 Not just government and business, but what people now call the civil society or third sector in between. ¶¶¶
- 621 Indeed, I believe that the realistic alternative to the socialist delusion on one hand, and the pure market on the other, combines the dispersed ownership of the economy through pension and mutual funds with a "third" nonprofit sector to cope with community needs from health care to tutoring students. ¶¶¶
- 622 The idea that some of my Republican friends have that we can do without government is just silly.
- 623 It is an understandable reaction because of the postwar belief that government could take care of all community needs. ¶¶¶
- 624 But we have learned that government, like any other tool, is good for some things but not good for others.
- 625 It is important, for example, for collective defense and for raising the financial means for infrastructure through taxes. ¶¶¶
- 626 But, just as I am unlikely to do well trying to cut my toenails with a hammer, government is incompetent at fulfilling community needs.
- 627 Everything a state does, it has to do on a national level.
- 628 It cannot experiment or adapt to the local conditions of a community. ¶¶¶
- 629 The state tends to define a problem in a standard way and then monopolizes the solution.
- 630 But what works in St. Louis usually doesn't work even in Kansas City, let alone New York or Los Angeles. ¶¶¶
- 631 With its singular profit motive, of course, the market simply has no interest or capacity to cope with social problems. ¶¶¶
- 632 Though people think of me mainly as a management consultant for business, I have spent much of my time for fifty years consulting for nonprofit organizations.
- 633 Fifteen years ago, there were only three hundred thousand tax-exempt nonprofit groups registered with the IRS, including such well-known groups as the American Heart Association and the American Lung Association.
- 634 Now there are over 1 million. ¶¶¶
- 635 I also helped set up a foundation for nonprofit management, run by the

former national executive of the Girl Scouts.

636 The idea was simple: These organizations are not so much mismanaged as unmanaged.

637 Without market discipline, they need a focused mission and a results orientation as their bottom line. ¶¶¶

638 One of the problems our foundation has had is the overwhelming demand from countries as diverse as Japan, Brazil, Argentina, and Poland.

639 They all need social sector institutions desperately – from the establishment of nursing associations to battered women's shelters to crop education for peasants in places like Patagonia.

640 Why is the social sector growing in Japan, where the community has been so strong?

641 Well, two things are happening.

642 First, the traditional community structure is crumbling.

643 Second, educated women who have worked for a few years, then left work to have children, who then go off to school, are bored. ¶¶¶

644 What kind of social problems does Japan have?

645 When you reach fifty-five years of age in Japan, you are essentially thrown on the dung heap – even though you will probably live thirty years longer.

646 So, the elderly organize clubs, from sports to ikebana flower arranging, to keep themselves occupied. ¶¶¶

647 One of the most successful new social sector groups in Japan engages in that most unJapanese of activities: "meals on wheels" for the elderly who can't get out. ¶¶¶

648 Young people don't take care of the elderly anymore.

649 Yet, the government fought the establishment of the meals-on-wheels program because it meant they had to admit their old people were not doing so well.

650 Indeed, this is a blot on the Japanese honor.

651 But it is a fact. ¶¶¶

652 There is also a tremendous need among teenagers and school-age children to drive them to and from school, to supervise homework, and tutor those who do not make the top grades. ¶¶¶

653 Nobody outside Japan seems to know that while 20 percent of Japanese students excel, the rest who don't are simply forgotten.

654 The social sector tries to provide for these kids. ¶¶¶

655 There are also conversation and reading classes in English for Japanese women who learned a little in high school or at work and want to maintain it.

656 There are now over 185,000 of these circles, even in small towns. ¶¶¶

657 In Japan now there is even an Alcoholics Anonymous Association.

658 I don't know how big they are so far, but sometimes it seems every salaryman in the country could become a member.

659 In the U.S., though, the size of the social problems means they just can't be

taken care of by voluntary associations, can they?

660 Perhaps not entirely.

661 But the scope of activities is just tremendous.

662 More than 50 percent of Americans work at least four hours a week in a voluntary association of some sort, in the church or the community. ¶¶¶

663 And the solutions to community problems they come up with are highly creative.

664 I have come over the years to learn a very important lesson: Practical examples of how to solve social problems matter greatly because others will replicate them. ¶¶¶

665 To this end, each year the Drucker Foundation gives a prize to a voluntary association to highlight their example so they can be replicated. ¶¶¶

666 One year, we gave the prize to a very small group run by an immigrant who found a way to bring together the worst, most unproductive welfare mothers and the most seriously disabled children.

667 This led to a situation where the disabled were cared for and, in time, the welfare mothers became qualified to be fully employed and well paid. ¶¶¶

668 There is another project we highlighted by a Lutheran church in St. Louis.

669 In their area, they found that about two-fifths of the homeless, mostly families, need very little to get back on their feet. ¶¶¶

670 The first thing the church did was assess what homeless families needed most.

671 The answer was self-respect. ¶¶¶

672 So the members of the congregation would buy dilapidated houses and find volunteers to refurbish them into comfortable middle-class homes.

673 Then they moved the homeless family in.

674 That by itself changed their outlook on life.

675 Then designated church members would help the family with their bills and in finding work.

676 In the end, about 80 percent of the families in their program went permanently off any kind of assistance. ¶¶¶

677 Then there are organizations such as the Girl Scouts that are reaching new levels of participation.

678 A few years ago they were down to about five hundred thousand volunteers.

679 Today they are up to about nine hundred thousand. ¶¶¶

680 The old volunteer was usually a middle-class housewife bored at home.

681 The new volunteer is more often than not a professional woman who has postponed having children, but likes to be with girls on the weekend after having worked all week in a male environment. ¶¶¶

682 For most of the last twenty-five years, I have worked with the fast-growing Protestant megachurches in the U.S., which I believe are one of the most significant social phenomena in the world today.

683 They teach community activism and encourage people to live their faith by

taking action to improve the lives of others. ¶¶¶

684 While the traditional churches may be dying in some ways, in others they are being transformed. ¶¶¶

685 Take the Catholic Church in America.

686 Pope John Paul II has been very careful to place conservative bishops in the American church because it frightens him.

687 It is not so much the theological problems, married priests, and ordained women that bother him, but the enormous upsurge of activity in the dioceses that is lay-driven and not controlled by the bishop. ¶¶¶

688 In one of the larger Midwestern dioceses that I know, there used to be seven hundred priests; now there are barely more than two hundred and fifty.

689 There are almost no nuns now – but there are twenty-five hundred laywomen.

690 Every parish has a lay administrator who is a woman. ¶¶¶

691 All the priest does is say Mass and dispense the sacraments.

692 Women run the rest of the show entirely as volunteers.

693 That is a long way from the days of the altar girl.

694 Why does the U.S. have such a large and vital third sector when compared to other countries, including other Western countries?

695 No other country has anywhere near the scale of activity the U.S. has in the nonprofit sector because, elsewhere essentially, the civil servants of the modern national state destroyed the community sector. ¶¶¶

696 In France it is almost a crime to do anything in the community.

697 The voluntary sector in Victorian England was quite large.

698 It dealt with poverty, with crime, with prostitution, with housing.

699 But in the 20th century the welfare state almost destroyed it. ¶¶¶

700 In Europe the basic struggle was to free the state from the domination of the church, which explains why continental Europe has such an enormous anticlerical tradition. ¶¶¶

701 In the U.S., it was the other way around.

702 When Jonathan Edwards established the doctrine of separation of church and state around 1740, it was in order to free the church from the state.

703 Anticlericalism has never had a place in this country. ¶¶¶

704 Because of this freedom, the U.S. developed a tradition of religious pluralism and nongovernmental churches.

705 And with pluralism, there was competition among the denominations for members.

706 Out of that competition came a tradition of community involvement which doesn't exist in other countries. ¶¶¶

707 Aside from Jefferson's University of Virginia, all colleges in the U.S. were denominational until Oberlin was established in 1833.

708 ***The Asian Crisis***

- 709 The economic troubles in Asia don't really interest me all that much because what you can fix with money is unlikely to be much of a problem unless you are stupid. ¶¶¶
- 710 And Asians are not stupid.
- 711 Fundamentally, the Asian crisis is not economic, but social.
- 712 Across the entire region, the social tensions are so high that it reminds me of the Europe of my youth that descended into two world wars. ¶¶¶
- 713 In many ways, we see in Asia the same kind of tensions that arose in Europe as a result of the "great disturbance" of the mass Industrial Revolution and the rapid urbanization that accompanied it.
- 714 Only Asia's disturbance has taken place at a vastly accelerated pace. ¶¶¶
- 715 When I first came to know Korea in the 1950s, it was 80 percent rural and practically nobody had more than a high school education because the occupying Japanese hadn't allowed it. ¶¶¶
- 716 (Only the Christian missionary schools could function because they couldn't be suppressed by the Japanese, which explains why 30 percent of Koreans are Christians.) ¶¶¶
- 717 There was no industry because the Japanese didn't allow anyone to have more than a few employees. ¶¶¶
- 718 Today, Korea is almost 90 percent urban, an industrial powerhouse, and its population is highly educated.
- 719 All in forty years. ¶¶¶
- 720 The dislocations of this topsy-turvy development in only four decades have been explosive. ¶¶¶
- 721 Add to this the unrivaled stupidity of the Korean businessmen who learned nothing from the Japanese next door about how to treat their workers.
- 722 Japan learned the hard way – through two bloody strikes that almost overturned the government in 1948 and 1954 – to treat human beings like human beings. ¶¶¶
- 723 (Nobody seems to know that Japan had had the world's worst history of labor troubles dating back to 1700.) ¶¶¶
- 724 When foreigners would visit an electronics plant in Korea, if one of the assembly-line women so much as even looked up, she was taken out and beaten for not paying attention to her work. ¶¶¶
- 725 The autocrats of Korean business not only treated the workers horribly, but kept control of all the money and power in their companies.
- 726 They treated middle management like black Mississippi schoolteachers in the old days of segregation. ¶¶¶
- 727 The autocrats then worked hand in hand with the military to keep their power and keep the workers down. ¶¶¶
- 728 This is finally all changing now with Kim Dae Jung, but it has left a legacy of deep hatred between Korean business and its workers. ¶¶¶

729 In Malaysia, despite efforts over the years by the government, the tension between the Malays, who are 70 percent of the population, and the Chinese, who are 30 percent, remains high. ¶¶¶

730 Prime Minister Mohamad Mahathir once asked me to advise him on how to keep the Malays in school.

731 So, I visited some villages and found that everything grows there – plantains, bananas, coconuts, apples.

732 And they have pigs and chickens.

733 Nobody has to lift a finger to eat.

734 If they can make enough money for a TV set and a motorbike by working a few hours a year, what more would they want?

735 Why stay in school beyond the third grade? ¶¶¶

736 The Chinese in Malaysia, in contrast, not only stay beyond third grade but go to graduate school in the U.S.

737 They speak English as well as Malay.

738 They know three Chinese dialects. ¶¶¶

739 So, they control things more than Malaysia's leaders want to admit.

740 And they are resented as a result. ¶¶¶

741 It is usually reported that the ethnic Chinese constitute only about 3 percent of the 200 million people of Indonesia, 100 million of whom do not live on Java.

742 This is only true statistically, as the Chinese constitute more than 20 percent of the population in the three major cities, including Jakarta. ¶¶¶

743 In any event, since half a million Chinese were killed in the takeover in the 1960s, they knew they had to stand with the army and its boss, Suharto.

744 So, the Chinese made the money for the Suharto clan and the military and the Muslim population resents it deeply. ¶¶¶

745 Collectively, the "overseas Chinese" have become one of the world's great economic powers.

746 They own businesses wherever they are.

747 They often constitute the professional class wherever they are and are influential with the leadership group.

748 With the exception of Singapore, Taiwan, and Hong Kong – which are all Chinese – they are resented everywhere else. ¶¶¶

749 China itself has had a peasant rebellion every fifty years since 1700.

750 The last one, under Mao, succeeded in 1949. ¶¶¶

751 So, the time is due for another revolt.

752 The problem has always been the same, and it remains today: There are too many unemployed or unemployable peasants with no place to go. ¶¶¶

753 Some estimate that today as many as 200 million peasants constitute a "floating population" that wander around looking for work.

754 And they are not likely to find it.

- 755 If the Chinese government is serious about shutting down inefficient state industries, another 80 to 100 million people will be on the streets. ¶¶¶
- 756 Perhaps the history of fascism and war in Europe makes me oversensitive.
- 757 But I know from personal experience that when social tensions are high, it does not take much more than an accident to set things off. ¶¶¶
- 758 Therefore, I am afraid for Asia.

759 **On Japan**

760 The leading power in Asia is Japan.

761 But Japan is essentially a European country.

762 Worse, it is a traditional nineteenth-century European country.

763 And that is why it is mired in paralysis today. ¶¶¶

764 Like the Austria of my father's day or France in its heyday, Japan is a country run by a civil service bureaucracy.

765 Politicians don't matter and have always been suspect.

766 If they are incompetent or corrupt, it is to be expected.

767 But if the civil servants turn out to be corrupt and incompetent, it is a terrific shock.

768 Japan is in shock today. ¶¶¶

769 Just as in Japan, the senior civil servant in countries like Germany or France who oversees a certain sector of the economy would usually graduate at about age fifty-five to become a board member of the businesses he was regulating or the head of that sector's trade group at a very fat salary. ¶¶¶

770 Japan is only more organized.

771 The bureaucrat remains loyal to his ministry until the end and defends its turf against all intrusions – even at the cost, in the case of the finance ministry, of sinking the economy.

772 He is then placed by the ministry in a very lucrative "counselorship" in the industry. ¶¶¶

773 The idea that Japanese industry is efficient and competitive is total nonsense.

774 They still have the lowest per cent of their economy – about 8 percent and mostly in automobiles and electronics – exposed internationally. ¶¶¶

775 As a consequence, Japan has very little world economy experience.

776 Most of its industry is protected and grotesquely inefficient. ¶¶¶

777 If, for example, Japan were to open its paper industry to imports, the three big Japanese paper companies would be gone in forty-eight hours. ¶¶¶

778 Whenever there has been an opening in the Japanese economy in, Americans and other foreigners have taken over.

779 The foreign exchange business in Japan is completely in the hands of foreign companies. ¶¶¶

780 To be a foreign exchange trader, you need to be at least bilingual because you need to speak English.

781 Not much Japanese is spoken in Geneva. ¶¶¶

782 When a tiny opening in asset management was allowed, 100 percent of the business was taken over by foreign companies within six months.

783 There are few trained asset managers in Japan. ¶¶¶

784 When I look at a Japanese bank today, I see the same bank my father managed in Austria right after World War I.

785 There were four people to do what one could.

786 In 1923, they still didn't believe in typewriters.

787 They had no adding machines. 1111

788 Though woefully inefficient and overstaffed, the bank was profitable because the many craftsmen of the Austro-Hungarian empire didn't mind paying 5 percent to the bank.

789 They couldn't get any credit elsewhere. 1111

790 Then the world changed.

791 The empire was dismantled, loans went bad, customers stopped borrowing.

792 The already overstaffed bank had to take on employees sent back from Prague or Cracow.

793 The banks lost their profits and were eaten by their overhead costs. 1111

794 This is Japan today. 1111

795 Because of a practice dating to 1890 that obliges companies to hire from a list of universities to ensure a supply of graduates, businesses continued as recently as two years ago to hire even when business was declining.

796 They were afraid they would be cut off the list of companies that would receive graduates. 1111

797 I know one company that hired two hundred and eighty people from six universities, even though the company was shrinking. 1111

798 So, the new hires sit around all day with nothing to do.

799 In the evening they go out and get drunk with the boss.

800 This is work?

801 How can Japan as a nineteenth-century European state make it in the hypercompetitive twenty-first century? 1111

802 For all I have said, don't underrate the Japanese.

803 They have an incredible ability to make brutal, 180-degree radical changes overnight.

804 And since there is no tradition of compassion in Japan, the emotional scars of these changes are tremendous. 1111

805 Though for four hundred years no non-European country had anywhere near the level of international trade Japan had, in 1637 they closed to the outside world.

806 And they did it within six months.

807 The dislocation was unbelievable. 1111

808 In 1867, with the Meiji Restoration, they opened up again – overnight. 1111

809 Nineteen forty-five was obviously a different story, as they were defeated in war. 1111

810 When the dollar was devalued about ten years ago, the Japanese wasted no time moving manufacturing out of Japan to cheaper spots in Asia.

811 They established partnerships with overseas Chinese and gained an almost unbeatable lead as producers in mainland China. 1111

- 812 Japan is very capable of dramatic about-faces.
- 813 Once they reach a certain critical mass of consensus, the change is very swift.
¶¶¶
- 814 My guess is that it will take a major scandal to trigger change.
- 815 A banking collapse may provide this.
- 816 So far, they have been postponing tackling their weak financial system,
hoping the problem would go away or could be liquidated step by step.
- 817 But, as time goes on, it doesn't look like that is possible.

818 On China

- 819 Within the next ten years, China will have transformed itself.
- 820 If history is any guide, it will segment into some kind of regional decentralization. ¶¶¶
- 821 Today, we already have the so-called autonomous regions.
- 822 In the old days they were called territories controlled by warlords. ¶¶¶
- 823 Already, these regions pay more lip service than taxes to Beijing.
- 824 The only reason they don't openly break with the central government is because they want access to the huge subsidies for state industries. ¶¶¶
- 825 Overhauling these thoroughly inefficient industries without provoking social upheaval is China's greatest hurdle in the times ahead. ¶¶¶
- 826 The world's largest bicycle factory is in Xi'an.
- 827 But the quality of these bikes is so poor that they fall apart if you look at them.
- 828 So everyone in Xi'an rides Shanghai bicycles – even though their importation into Xi'an is supposedly forbidden. ¶¶¶
- 829 Already, there are 5 million bikes lying around unsold in Xi'an.
- 830 But they keep making more because 85,000 people are employed at the plant. ¶¶¶
- 831 Once I spoke with the director of the famous Beijing Truck Plant No. 2.
- 832 He told me that he had 115,000 people producing 45,000 trucks, but if he could only reduce his workforce to 45,000, he would be able to produce 115,000 trucks. ¶¶¶
- 833 I saw in that plant machine tools that Ford had shipped to Shanghai in 1926.
- 834 Then it had some unbelievably poor Russian equipment from the 1950s.
- 835 Then it had three warehouses full of computer programming equipment in crates. ¶¶¶
- 836 "Why don't you use these computers?"
- 837 I asked the director.
- 838 He told me that for six years he had requested money in his budget to translate the instructions into Chinese, but his request had not so far been granted. ¶¶¶
- 839 This is like Russia in 1929-30 when tractors stood idle in the fields because the ministry in charge didn't allow the import of spare parts such as fan belts. ¶¶¶
- 840 There are three answers for China.
- 841 The first answer is the official one: They will become efficient and modern.
- 842 There are a few examples of this, like the Shanghai bicycle plant, but not many. ¶¶¶
- 843 The second answer comes from an old Chinese saying, "To walk a straight line, fall off one side, then the other."
- 844 In practice, this is what China has been doing for the last seven years.

845 First, they finance their industries through inflationary subsidies until the danger of too much unemployment subsides.

846 Then they whittle down the workforce at the big state industries a little more until there is again too much unemployment, then inflate again.

847 Each time, they can cut back a little. ¶¶¶

848 The third answer, which in many ways is the most realistic one, is to concentrate on a few areas where they can set enough examples of well-performing enterprises so that they can attract foreign capital.

849 This has been the approach of the Shanghai region, and essentially, it has worked.

850 Overall, do you think the current crisis across Asia will result in a breakdown of the globalization process, or lead to its acceleration because of the need for foreign capital? ¶¶¶

851 In the midst of crisis, continued economic liberalization is a pipe dream – and not just in Asia.

852 Don't forget that economic liberalization means an immediate dislocation as against long-term improvement. ¶¶¶

853 Look at France today.

854 For 110 years, the unions have entertained the superstition that by cutting the workweek you will create more jobs.

855 It has never worked where it has been tried.

856 It is only going to make unemployment worse and no new jobs will be created. ¶¶¶

857 All the experience during the 1920s and the Great Depression points to one unfortunate reality: Under the pressure of unemployment, nations don't open up.

858 They close down.

859 If the mass production revolution of the twentieth century produced the basic disturbances that led to depression and war, will technological unemployment that comes as the result of the knowledge revolution be the basic disturbance of the twenty-first century? ¶¶¶

860 I see no evidence of this.

861 Since the advent of computers we have feared the unemployment effects of automation.

862 But they haven't materialized. ¶¶¶

863 In America, the land of Microsoft and Intel, unemployment has been at its lowest level in decades.

864 If anything, Europe has such high unemployment because it has not adequately integrated information technology into society and it has not adjusted its rigid labor markets to the flexible mode of the knowledge age.

865 What, then, will be the "basic disturbance" of the twenty-first century as you see it?

866 The demographic challenge.

867 In all the developed countries, the issue is not so much the one everybody

talks about – the aging of the population – but the shrinking of the young population. ¶¶¶

868 The U.S. is the only advanced country where there are enough babies – 2.2 per woman of reproductive age – to replace the population.

869 But only because of our high immigration.

870 Among immigrant Latinos four children is still the norm.

871 (1998)