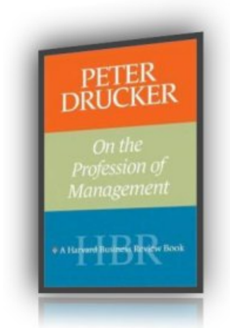
1 Management and the World’s Work

2 multiple broad thought-scapeS – awareness

3 It is impossible to work on things that aren’t your mental radar ↑ at a point in time

4 by Peter Drucker

5 The material below is contained in *Peter Drucker on the Profession of Management* published by *Harvard Business School Press*.

6 

7 ***Peter Drucker on the Profession of Management*** ::: Amazon.com

8 When Marx was beginning work on ***Das Kapital*** in the early 1850s, the phenomenon of management was unknown.

9 So were the enterprises that managers run.

10 The largest manufacturing company around was a Manchester, England cotton mill employing fewer than 300 people, owned by Marx’s friend and collaborator Friedrich Engels.

11 And in Engels’s mill—one of the most profitable businesses of its day there were no “managers,” only first-line supervisors, or charge hands, who were workers themselves, each enforcing discipline over a handful of fellow “proletarians.”

12 ¶¶¶

13 Rarely in human history has any institution emerged as fast as

management or had as **great an impact** as quickly.

14 In less than 150 years, management has **transformed the social and economic fabric of the world's developed countries**.

15 It has **created a global economy** and **set new rules** for **countries** that would **participate** in that economy as **equals**.

16 And it has **itself (management) been transformed**.

17 ¶¶¶

18 To be sure, the **fundamental task** of management remains the same: to **make people capable of joint performance** by giving them

19 - common goals,
20 - common values,
21 - the right structure, and
22 - the ongoing training and development they need to **perform** and to **respond to change**.

23 But the very **meaning** of this task has changed, if only because the **performance of management** has converted the **work force** from one **composed** largely of unskilled laborers to one of **highly educated knowledge workers**.

24 ¶¶¶

25 Few executives are aware of the **tremendous impact management** has had.

26 Indeed, a good many are like M. Jourdain, the character in Molière's *Le Bourgeois Gentilhomme*, who did not know that he spoke prose.

27 They barely realize that they practice—or mispractice—management.

28 As a result, they are **ill prepared** for **the tremendous challenges** that come upon them.

29 For the truly important problems managers face do not come from technology or politics.

30 They do not originate outside of management and enterprise.

31 They are problems caused by **the very success of management itself**.

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33 Eighty years ago, on the threshold of World War I, when a few people were just becoming aware of management's existence, most people in developed countries (perhaps four out of every five) earned their living in **three occupations**.

34 There were **domestic servants**—in Great Britain, the largest single occupation (a full third of all workers), but a very large group everywhere, even in the United States.

35 There were **farmers**—usually family farmers, who accounted for more than half the working population in every country except England and Belgium.

36 And finally, there were **blue-collar workers in manufacturing industries**—the fastest growing occupation and the one that by 1925 would embrace almost 40 percent of the U.S. labor force.

37 Today domestic servants have all but **disappeared**.

38 Full-time farmers account for only 3 percent to 5 percent of the working population in the non-Communist, developed countries, even though farm production is four to five times what it was 80 years ago.

39 Blue-collar manufacturing employment is **rapidly moving down**

the same path as farming.

40 Manual workers employed in manufacturing in the United States now make up only 18 percent of the total work force; by the end of the century, they are likely to account for 10 percent or so in the United States and elsewhere—with manufacturing production steadily rising and expected to be at least 50 percent higher.

41 The largest single group, more than one-third of the total, consists of workers whom the U.S. Bureau of the Census calls "managerial and professional."

42 And a larger proportion of the total adult population than ever before—almost two-thirds in the United States, for instance—is now gainfully employed in every developed, non-Communist country.

43 ¶¶¶

44 Management has been **the main agent** of this unprecedented **transformation**.

45 For it is management that explains why, **for the first time in human history**, we can employ large numbers of knowledgeable, skilled people in productive work.

46 No earlier society could do this.

47 Indeed, no earlier society could support more than a handful of such people because, until quite recently, no one knew how to put people with different skills and knowledge together to achieve common goals.

48 Eighteenth century China was the envy of contemporary Western intellectuals because it supplied more jobs for educated people than all of Europe did—some 20,000 per year.

49 Yet today, the United States with a roughly comparable population produces nearly one million college graduates a year, most of whom have little difficulty finding well-paid employment.

50 **What enables us to employ them is management**.

51 ¶¶¶

52 Knowledge, especially advanced knowledge, is always **highly specialized**.

53 By itself it **produces nothing**.

54 Yet a modern large business can usefully employ up to 10,000 highly knowledgeable people who possess up to 60 different fields of knowledge.

55 Engineers of all sorts, designers, marketing experts, economists, statisticians, psychologists, planners, accountants, human resources people—all work together in **a joint venture**, and none would be effective without **the managed enterprise** that is business.

56 ¶¶¶

57 The question of which came first—the educational explosion of the last 100 years or the management that could put this knowledge to productive use—is moot.

58 Modern management and modern enterprise clearly could not exist without the knowledge base that developed societies have built.

59 But equally, it is **management and management alone that makes all this knowledge and these knowledgeable people effective**.

60 The emergence of management has **converted** knowledge from **a social ornament and luxury** into what we now know to be **the true capital of any economy**.

61 ¶¶¶

62 And knowledge, in turn—instead of bricks and mortar—has become the **center of capital investment**.

63 Japan invests a record 8 percent of its annual GNP in plant and equipment.

64 But Japan invests at least twice as much in education, two-thirds in schools for the young, the rest in the training and teaching of adults

(largely in the organizations that employ them).

65 And the United States puts an even larger share roughly 20 percent—of its much larger GNP into education and training.

66 In the modern society of enterprise and management, knowledge is **the primary resource and society's true wealth**.

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68 Not many business leaders could have predicted this development back in 1870, when large enterprises like those we know today were beginning to take shape.

69 The reason was not so much lack of foresight as lack of precedent.

70 At that time, the only large permanent organization around was the army.

71 Not surprisingly, therefore, its command-and-control structure became the model for the men who were putting together transcontinental railroads, steel mills, modern banks, and department stores.

72 ¶¶¶

73 The command model, with a very few at the top giving orders and a great many at the bottom obeying them, remained the norm for nearly 100 years.

74 But it was never as static as its longevity might suggest.

75 On the contrary, it began to change almost at once, as specialized knowledge of all sorts poured into enterprise.

76 The first university-trained engineer in manufacturing industry was hired in Germany in 1867, and within five years he had built a research department.

77 Other specialties followed suit, and by **World War I** the familiar typical functions of a manufacturer had been developed:

78 research and engineering,

79 manufacturing,

80 sales,

81 finance and accounting,

82 and a little later, human resources.

83 ¶¶¶

84 **Even more important** for its **impact on enterprise**—and on the **world economy in general**—was another management-directed development that took place at this time.

85 That was the **application of management** to **manual work** in the form of **training**.

86 The **child of wartime necessity**, training has **propelled** the **transformation** of the **world economy** in the last 30 years because it allows low-wage countries to do something that traditional economic theory had said could never be done: to become **efficient—and yet still low-wage competitors almost overnight**.

87 ¶¶¶

88 Until World War I, it was axiomatic that it took a long time (Adam Smith said several hundred years) for a country or region to develop a tradition of labor and the expertise in manual and organizational skills needed to produce and market a given product, whether cotton textiles or violins.

89 But during World War I, **large numbers of totally unskilled, preindustrial people had to be made productive workers in practically no time**.

90 To meet this need, businesses in the United States and the United Kingdom began to apply **Frederick Taylor's principles of "scientific management,"** developed between 1885 and 1910, to the systematic training of blue-collar workers on a large scale.

91 They analyzed tasks and broke them down into individual, unskilled operations that could then be learned quite quickly.

92 Further developed in World War II, training was then picked up by the

Japanese and, 20 years later, by the South Koreans, who made it the **basis** for their countries' **phenomenal development**.

93 ¶¶¶

94 During the 1920s and 1930s, management was **applied to many more areas and aspects of manufacturing business**.

95 Decentralization, for instance, arose to combine the advantages of bigness and the advantages of smallness within one enterprise.

96 Accounting went from "bookkeeping" to analysis and control.

97 Planning grew out of the "Gantt charts" designed in 1917 and 1918 to plan war production, and so did the use of analytical logic and statistics, which used quantification to convert experience and intuition into definitions, information, and diagnosis.

98 Marketing similarly evolved as a result of **applying management concepts** to distribution and selling.

99 ¶¶¶

100 Moreover, as early as the mid-1920s and early 1930s, some management pioneers (Thomas Watson, Sr. at the fledgling IBM, General Robert E. Wood at Sears, Roebuck, and Elton Mayo at the Harvard Business School among them) began to question the way that manufacturing was organized.

101 Eventually, they concluded that the assembly line was a short-term compromise despite its tremendous productivity: poor economics because of its inflexibility, poor use of human resources, even poor engineering.

102 And so they began the thinking that eventually led to "automation" as the way to organize the manufacturing process, and to "Theory Y," teamwork, quality circles, and the information-based organization as the way to manage human resources.

103 Every one of these **managerial innovations** represented **the application of knowledge to work**, the **substitution of system and information for guesswork, brawn, and toil**.

104 Every one, to use Frederick Taylor's terms, **replaced** "working harder" with "working smarter."

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106 The powerful effect of these changes became apparent during World War II.

107 To the very end, the Germans were by far the better strategists.

108 And because they had the benefit of much shorter interior lines, they needed far fewer support troops and could match their opponents in combat strength.

109 Yet the Allies won—**their victory achieved by management**.

110 ¶¶¶

111 The United States, with one-fifth the population, had almost as many men in uniform as all the other belligerents together.

112 Yet it still produced more war material than all the others taken together.

113 And it managed to get that material to fighting fronts as far apart as China, Russia, India, Africa, and Western Europe.

114 No wonder, then, that by the war's end almost all the world had become **management conscious**.

115 Or that management emerged as a recognizably **distinct kind of work**, one that could be studied and developed into a discipline—as happened in each of the countries that has exercised **economic leadership** during the postwar period.

116 ¶¶¶

117 But also, after World War II we began slowly to see that **management is not *business* management**.

118 It **pertains to every human effort that brings together in one organization people of diverse knowledge and skills**.

119 And it can be powerfully applied in hospitals, universities, churches, arts organizations, and social service agencies of all kinds.

120 These "third sector" institutions have **grown faster** than either business or government in the developed countries since World War II.

121 The social sector

122 And their leaders are **becoming more and more management conscious**.

123 For even though the need to manage volunteers or raise funds may differentiate nonprofit managers from their for-profit peers, many more of their **responsibilities** are the same—among them, defining the right strategy and goals, developing people, measuring performance, and marketing the organization's services.

124 ¶¶¶

125 ***THIS IS NOT TO SAY THAT OUR KNOWLEDGE OF MANAGEMENT IS COMPLETE***.

126 Management education today is on the receiving end of a great deal of **criticism**, much of it justified.

127 What we knew about management 40 years ago—and have **codified in our systems** of **organized management education**—does not necessarily help managers meet **the challenges they face**

today.

128 Nevertheless, that knowledge was the **foundation** for the **spectacular expansion** the world economy has undergone since 1950, in developed and developing countries alike.

129 And **what has made that knowledge obsolete is, in large measure, its own success in hastening the shift from manual work to knowledge work in business organizations**.

130 ¶¶¶

131 To take just one **example**, we now have a great need for **new accounting concepts and methods**.

132 Experts like Robert Kaplan have pointed out that many of the assumptions on which our system is based are no longer valid.

133 For example, accounting conventions assume that manufacturing industry is central; in fact, service and information industries are now more important in all developed countries.

134 They also assume that a business produces just one product, whereas practically all modern businesses produce a great many different products.

135 But above all, cost accounting, that proud invention of the mid-1920s, assumes that 80 percent of all costs are attributable to direct manual labor.

136 In reality, manual labor in advanced manufacturing industries today accounts for no more than 8 percent to 12 percent of all costs.

137 And the processes used in industries like automobiles and steel, in which labor costs are higher, are *distinctly antiquated*.

138 ¶¶¶

139 Efforts to devise accounting systems that will reflect changes like these—and provide accurate managerial information—are under way.

140 But they are still in the early stages.

141 So are our efforts to find solutions to other **important management challenges**:

142 - structures that work for information-based organizations;

143 - ways to raise the productivity of knowledge workers;

144 - techniques for managing existing businesses and developing new and very different ones at the same time;

145 - ways to build and manage truly global businesses;

146 - and many more.

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148 Management arose in developed countries.

149 How does its rise **affect the developing world**?

150 Perhaps the best way to answer this question is to start with the obvious: **management and large enterprise**, together with our **new communications capacity**, have created a truly global economy.

151 In the process, they have changed **what countries must do** to **participate** effectively in that economy and to achieve economic success.

152 ¶¶¶

153 In the past, starring roles in the world's economy were always based on leadership in technological innovation.

154 Great Britain became an economic power in the late eighteenth and early nineteenth centuries through innovation in the steam engine, machine tools, textiles, railroads, iron making, insurance, and international banking.

155 Germany's economic star rose in the second half of the nineteenth century on innovation in chemistry, electricity, electronics, optics, steel, and the invention of the modern bank.

156 The United States emerged as an economic power at the same time through innovative leadership in steel, electricity, telecommunications, electronics, automobiles, agronomy, office equipment, agricultural implements, and aviation.

157 ¶¶¶

158 But the one great economic power to emerge in this century Japan–has not been a technological pioneer in any area.

159 Its ascendancy rests squarely on **leadership in management.**

160 The Japanese understood the lessons of America's managerial achievement during World War II more clearly than we did ourselves especially with respect to **managing people as a resource rather than as a cost**.

161 As a result, they adapted the West's new "social technology" management—to make it fit their own values and traditions.

162 They adopted (and adapted) **organization theory** to become the **most thorough practitioners of decentralization** in the world.

163 (Pre-World War II Japan had been completely centralized.)

164 And they began to **practice marketing** when most American companies were still only preaching it. (about marketing)

165 ¶¶¶

166 Japan also understood sooner than other countries that management and technology together had **changed the economic landscape**.

167 The **mechanical model of organization and technology**, which came into being at, the end of the seventeenth century when an

obscure French physicist, Denis Papin, designed a prototypical steam engine, came to an end in 1945, when the first atomic bomb exploded and the first computer went on line.

168 Since then, the model for both technology and organizations has been a **biological one interdependent, knowledge intensive, and organized by the flow of information**. (From Analysis to Perception – The New Worldview)

169 ¶¶¶

170 One consequence of this change is that the industries that have been the carriers of enterprise for the last 100 years—industries like automobiles, steel, consumer electronics, and appliances—are in crisis.

171 And this is true even where demographics seem to be in their favor.

172 For example, countries like Mexico and Brazil have an abundant supply of young people who can be trained easily for semiskilled manual work.

173 The mechanical industries would seem to be a perfect match.

174 But as competitors in every industrial nation have found, **mechanical production is antiquated unless it becomes automated**—that is, unless it is **restructured around information**.

175 For that reason alone, education is perhaps the greatest "management" challenge developing countries face.

176 ¶¶¶

177 Another way to arrive at the same conclusion is to look at a second fact with which developing countries must reckon: the developed countries **no longer need them** as they did during the nineteenth century.

178 It may be hyperbole to say, as Japan's leading management consultant, Kenichi Ohmae, has said, that Japan, North America, and Western Europe **can exist by themselves** without **the two-thirds of humanity** who live in developing countries.

179 But it is a fact that during the last 40 years the countries of this so called triad have become essentially self-sufficient except for petroleum.

180 They produce more food than they can consume—in glaring contrast to the nineteenth century.

181 They produce something like three-fourths of all the world's manufactured goods and services.

182 And they provide the market for an equal proportion.

183 ¶¶¶

184 This poses an acute problem for developing countries, even very big ones like China and India.

185 They cannot hope to become important economic powers by tracking the evolution of enterprise and management—that is, by starting with nineteenth and early twentieth century industries and productive processes based mainly on a manual work force.

186 Demographically they may have no choice, of course.

187 And maybe they can even begin to catch up.

188 But can they ever get ahead?

189 I doubt it.

190 ¶¶¶

191 During the last 200 years, **no country has become a major economic power by following in the footsteps of earlier leaders**.

192 Each started out with what were, at the time, advanced industries and advanced production and distribution processes.

193 And each, very fast, became a leader in management.

194 Today, however, in part because of automation information and advanced technology, but in much larger part because of the demand for trained people in all areas of management, development requires a knowledge base that few developing countries possess or can afford.

195 **How to create an adequate managerial knowledge base fast is the critical question in economic development today**.

196 It is also one for which we have no answer so far.

197 §§§

198 The problems and challenges discussed so far are largely internal to management and enterprise.

199 But the **most important challenge ahead** for management in developed countries is the result of an external change that I first called "**pension fund socialism**" in my 1976 book, ***The Unseen Revolution: How Pension Fund Socialism Came to America***.

200 I am referring, of course, to the shift of the titles of ownership of public companies to the institutional trustees of the country's employees, chiefly through their pension funds.

201 ¶¶¶

202 **Socially this is the most positive development** of the twentieth century because it resolves the "social question" that vexed the nineteenth century—the conflict between "capital" and "labor"—by merging the two.

203 But it has also created the most violent turbulence for management and managers since they arose a century ago.

204 For pension funds are the ultimate cause of the explosion of hostile takeovers in the last few years; and nothing has so disturbed and demoralized managers as the hostile takeover.

205 In this sense, takeovers are only a symptom of the fundamental questions pension fund socialism raises about **the legitimacy of management**:

206 To whom are managers accountable?

207 For what?

208 **What is the purpose and rationale of large,**

publicly owned enterprises?

209 ¶¶¶

210 In 1986, the last year for which we have figures, the pension funds of America’s employees owned more than 40 percent of U.S. companies’ equity capital and more than two-thirds of the equity capital of the 1,000 largest companies.

211 The funds of large institutions (businesses, states, cities, public service and nonprofit institutions like universities, school districts, and hospitals) accounted for three-quarters of these holdings.

212 The funds of individuals (employees of small businesses and the self-employed) accounted for the other fourth.

213 (Mutual funds, which also represent the savings of wage earners rather than of “capitalists,” hold another 5 percent to 10 percent of the country’s equity capital.)

214 ¶¶¶

215 These figures mean that pension funds are already the primary suppliers of capital in the United States.

216 Indeed, it is almost impossible to build a new business or expand an existing one unless pension-fund money is available.

217 In the next few years, the funds’ holdings will become even larger, if only because federal government employees now have a pension fund that invests in equity shares.

218 Thus, by the year 2000, pension funds will hold at least two thirds of the share capital of all U.S. businesses except the smallest.

219 Through their pension funds, U.S. employees will be the true owners of the country’s means of production.

220 ¶¶¶

221 The same development, with a lag of about ten years, is taking place in Great Britain, Japan, West Germany, and Sweden.

222 It is also starting to appear in France, Italy, and the Netherlands.

223 ¶¶¶

224 This startling development was not foreseen, but it was inevitable the result of several interdependent factors.

225 First is the shift in income distribution that directs 90 percent or so of the GNP in non-Communist, developed countries into the wage fund.

226 (The figure varies from 85 percent in the United States to 95 percent or more in the Netherlands and Denmark.)

227 Indeed, **economically** the "**rich**" have become **irrelevant** in developed countries, however much they dominate the society pages and titillate TV viewers.

228 Even the very rich have actually become much poorer in this century if their incomes are adjusted for inflation and taxation.

229 To be in the same league as the "tycoon" of 1900, today's "super-rich" person would need a net worth of at least $50 billion—perhaps even $100 billion and income to match.

230 A few Arab sheiks may qualify, but surely no one in a developed country.

231 ¶¶¶

232 At the same time, wage earners' real incomes have risen dramatically.

233 Few employees in turn-of-the century America could lay aside anything beyond their mortgage payments or the premiums on funeral insurance.

234 But since then, the American industrial worker's real income and purchasing power have grown more than 20 times larger, even though the number of hours worked has dropped by 50 percent.

235 The same has occurred in all the other industrially developed countries.

236 And it has happened fastest in Japan, where the real income of industrial workers may now be as much as 30 times what it was 80 years ago.

237 ¶¶¶

238 Demand for this income is essentially limitless because we are again in the midst of **an intensively creative period**.

239 In the 60 years between 1856 and World War I, a technical or social innovation that led almost immediately to **a new industry appeared, on average, once every 14 months**.

240 And this entrepreneurial explosion underlay the rise of the tycoons.

241 We needed people like J.P. Morgan, John D. Rockefeller, Sr., Andrew Carnegie, Friedrich Krupp, and the Mitsui family who could finance whole industries out of their private pockets.

242 **Technical and social innovations are coming just as fast today**.

243 And the effect of all this energy is that companies and countries require enormous amounts of capital just to keep up, let alone move ahead amounts that are several orders of magnitude larger than those the tycoons had to supply 80 years ago.

244 ¶¶¶

245 Indeed, the total pretax incomes of America's 1,000 highest income earners would be barely adequate to cover **the capital needs** of the country's private industry for more than three or four days.

246 This holds true for all developed countries.

247 In Japan, for instance, the pretax incomes of the country's 2,000 highest income earners just about equals what the country's private industry invests every two or three days.

248 ¶¶¶

249 These economic developments would have forced us in any event to make workers into "capitalists" and owners of productive resources.

250 That pension funds became the vehicle—rather than mutual funds or direct individual investments in equity as everyone expected 30 years ago—is the result of the demographic shift that has raised life expectancies in developed countries from age 40 to the mid and late-70s.

251 The number of older people is much too large, and the years during

which they need an income too many, for them to depend on support from their children.

252 They must rely on monies they themselves have put aside during their earning years—and these funds have to be invested for long stretches of time.

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254 That modern society requires an identity of interest between enterprise and employee was seen very early, not only by pre-Marxist socialists like Saint-Simon and Fourier in France and Robert Owen in Scotland but also by classical economists like Adam Smith and David Ricardo.

255 Attempts to satisfy this need through worker ownership of business thus go back more than 150 years.

256 Without exception, **they have failed**.

257 ¶¶¶

258 In the first place, worker ownership does not satisfy the workers' basic financial and economic needs.

259 It puts all the workers' financial resources into the business that employs them.

260 But the workers' needs are primarily long-term, particularly the need for retirement income many years hence.

261 So to be a sound investment for its worker-owners, a business has to prosper for a very long time—and only one business out of every 40 or 50 ever does.

262 Indeed, few even survive long enough.

263 But worker ownership also ***destroys*** companies in the end because it always leads to inadequate capital formation, inadequate investment in research and development, and stubborn resistance to abandonment of outmoded, unproductive, and obsolete products, processes, plants, jobs, and work rules.

264 ¶¶¶

265 Zeiss Optical Works, the oldest worker-owned business around, lost its

leadership position in consumer optics to the Americans and the Japanese for just this reason.

266 Time and again, Zeiss's worker owners preferred immediate satisfaction—higher wages, bonuses, benefits—to investing in research, new products, and new markets.

267 Worker ownership underlies the near collapse of industry in contemporary Yugoslavia.

268 And its shortcomings are so greatly hampering industry in China that the country's leaders are trying to shift to "contract management," which will expand managerial autonomy and check the power of "work councils" and worker-owners.

269 ¶¶¶

270 And yet, worker ownership of the means of production is not only a sound concept, it is also inevitable.

271 **Power follows property**, says the old axiom.

272 Both James Madison, in the *Federalist Papers*, and Karl Marx took it from the seventeenth century English philosopher, James Harrington, who in turn took it from Aristotle.

273 It can be found in early Confucian writings as well.

274 And since property has shifted to the wage earners in all developed countries, power has to follow.

275 Yet unlike any other worker ownership of the means of production, pension fund socialism maintains the autonomy and accountability of enterprise and management, market freedom, competition, and the ability to change and to innovate.

276 ¶¶¶

277 But **pension fund socialism does not function fully as yet**.

278 We can solve the financial and economic problems it presents.

279 We know, for instance, that a pension fund must invest no more than a small fraction of its assets, 5 percent perhaps, in the shares of its own company or of any one company altogether.

280 We know quite a bit, though not nearly enough, about how to invest pension fund money.

281 But we still have to solve the **basic sociopolitical problem**:

282
> **how to build the accomplished fact of employee ownership into the governance of both pension funds and businesses**.

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284 Pension funds are the legal owners of the companies in which they invest.

285 But they not only have no “ownership interest”; as trustees for the ultimate beneficiaries, the employees, they also are legally obligated to be nothing but “investors,” and short-term investors at that.

286 That is why it is worker ownership that has made the hostile takeover possible.

287 For as trustees, the pension funds must sell if someone bids more than the market price.

288 ¶¶¶

289 Whether hostile takeovers benefit shareholders is a hotly debated issue.

290 That they have serious economic side effects is beyond question.

291 The fear of a hostile takeover may not be the only reason American managements tend to subordinate everything—market standing, research, product development, service, quality, innovation—to the short term.

292 But it is surely a major reason.

293 Moreover, the hostile takeover is a frontal attack on management and managers.

294 Indeed, what makes the mere threat of a takeover so demoralizing to managers (especially the middle managers and professionals on whom a business depends for its performance) is the raiders’ barely concealed contempt, which management sees as contempt for wealth-

producing work, and their work's subordination to financial manipulation.

295 ¶¶¶

296 For their part, the raiders and their financial backers maintain that management is solely accountable to the shareholders whatever their wishes, even if those represent nothing more than short-term speculative gains and asset stripping.

297 This is indeed what the law says.

298 But the law was written for early nineteenth century business conditions, well before large enterprise and management came into being.

299 And while every free-market country has similar laws, not all countries hold to them.

300 In Japan, for instance, custom dictates that larger companies exist mainly for the sake of their employees except in the event of bankruptcy; and Japanese economic performance and even Japanese shareholders have surely not suffered as a result.

301 In West Germany too, large enterprises are seen as "going concerns," whose preservation is in the national interest and comes before shareholders' gains.

302 ¶¶¶

303 Both Japan and Germany have organized an extra-legal but highly effective way to hold business managements accountable, however, in the form of the voting control exercised by the big commercial banks of both countries.

304 No such system exists in the United States (or the United Kingdom), nor could it possibly be constructed.

305 And even in Japan and Germany, the hold of the banks is weakening fast.

306 ¶¶¶

307 So we must think through **what management should be accountable for**; and

308 how and through whom its accountability can be discharged.

309 The stockholders' interest, both short and long-term, is one of the areas, to be sure.

310 But it is only one.

311 ¶¶¶

312 One thing is clear to anyone with the **slightest knowledge of political or economic history**: the present day assertion of "absolute shareholder sovereignty" (of which the boom in takeovers is the most spectacular manifestation) is **the last hurrah of nineteenth century, basically preindustrial capitalism**.

313 It violates many people's **sense of justice**—as the upsurge of "populism" and anti-Wall Street rhetoric in the 1988 presidential campaign attest.

314 ¶¶¶

315 But even more important, no economy can perform if it puts what Thorstein Veblen, some 70 years ago, called "the acquisitive instinct" ahead of the "instinct of workmanship."

316 Modern enterprise, especially large enterprise, can do its economic job—including making profits for the shareholders—only if it is being **managed for the long run**.

317 **Investments, whether in people, in products, in plants, in processing, in technology, or in markets, require several years of gestation before there is even a "baby," let alone full-grown results**.

318 **Altogether far too much in society—jobs, careers, communities depends on the economic fortunes of large enterprises to subordinate them completely to the interests of any one group, including shareholders**.

319 ¶¶¶

320 How to make the interests of shareholders—and this means pension funds—compatible with the **needs** of the economy and society is thus the big issue **pension fund socialism** has to resolve.

321 And it has to be done in a way that makes managements accountable, especially for **economic and financial performance**, and yet allows them to **manage for the long term**.

322 **How we answer this challenge** will decide both the shape and place of management and the structure, if not the **survival**, of the free-market economy.

323 It will also determine America's ability to compete in a world economy in which competitive long-range strategies are more and more the norm.

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325 Finally, what is management?

326 Is it a bag of techniques and tricks?

327 A bundle of analytical tools like those taught in **business schools**?

328 These are important, to be sure, just as the thermometer and a knowledge of anatomy are important to the physician.

329 But what the evolution and history of management—its successes as well as its problems—teach is that management is, above all else, a very few, essential principles.

330 To be specific:

331 1. Management is about **human beings**.

332 Its **task** is to make people **capable of joint performance**, to make their **strengths effective** and their **weaknesses irrelevant**.

333 This is **what organization is all about**, and it is the reason that MANAGEMENT IS THE CRITICAL, **DETERMINING** FACTOR.

334 These days, practically all of us are employed by managed institutions, large and small, business and nonbusiness—and that is especially true for educated people.

335 We depend on management for our **livelihoods** and our **ability to contribute and achieve**.

336 Indeed, our ability to **contribute to society** at all usually **depends** as much on the management of the enterprises in which we work as it does on our own skills, dedication, and effort.

337 2. Because management deals with the **integration of people** in a common venture, it is **deeply embedded in culture**.

338 **What managers do** in West Germany, in Britain, in the United States, in Japan, or in Brazil is exactly the same.

339 **How they do it** may be quite different.

340 Thus one of the basic challenges managers in a **developing country** face is to find and identify those parts of their own tradition, history, and culture that can be used as **building blocks**.

341 The difference between Japan's economic success and India's relative backwardness, for instance, is largely explained by the fact that Japanese managers were able to plant imported management concepts in their own cultural soil and make them grow.

342 Whether China's leaders can do the same—or whether their great tradition will become an impediment to the country's development remains to be seen.

343 3. Every enterprise requires **simple, clear, and unifying objectives**.

344 Its **mission** has to be clear enough and big enough to provide a common vision.

345 The **goals** that embody it have to be clear, public, and often reaffirmed.

346 We hear a great deal of talk these days about the "culture" of an organization.

347 But what we really mean by this is the **commitment** throughout an enterprise to some **common** objectives and common values.

348 Without such commitment there is no enterprise–, there is **only a mob**.

349 **Management's job** is to **think** **THROUGH**, **set**, and **exemplify** those objectives, values, and goals.

350 4. It is also management's job to **enable** the enterprise and each of its members to **grow** and **develop** as **needs** and **opportunities change**.

351 This means that every enterprise is a **learning and teaching institution**.

352 Training and development must be built into it on all levels– training and development that **never stop**.

353 5. Every enterprise is composed of people with **different skills and knowledge** doing many **different kinds of work**.

354 For that reason, it must be built on **communication** and on **individual responsibility**.

355 • Each member has to **think through** what he or she aims to accomplish—and **make sure** that associates **know and understand** that aim.

356 • Each has to think through what he or she **owes to others**—and make sure that others **understand and approve**.

357 • Each has to think through **what is needed from others**—and make sure that others know **what is expected of them**.

358 6. Neither the **quantity of output** nor **the bottom line** is by itself an adequate **measure of the performance of management and enterprise**.

359 Market standing, innovation, productivity, development of people, quality, financial results—all are **crucial** to a company's performance and indeed to its survival.

360 In this respect, an enterprise is **like a human being**.

361 Just as we need a diversity of measures to **assess the health and performance** of a person, we need a **diversity of measures** for an enterprise.

362 Performance has to be **built into the enterprise and its management**; it has to be measured—or at least judged—and it has to be **continuously improved**.

363 7. Finally, the **SINGLE MOST IMPORTANT THING** to remember about any enterprise is that **there are no results inside its walls**.

364 1. The result of a business is a satisfied customer.

365 2. The result of a hospital is a healed patient.

366 3. The result of a school is a student who has learned something and **puts it to work** ten years later.

367 Inside an enterprise, **there are only** cost centers.

368 Results exist only on the outside.

369 About management, as about any other area of human work, much more could be said.

370 - Tools must be acquired and used.

371 - Techniques and any number of processes and procedures must be learned.

372 But managers who **truly understand** the **principles** outlined above and **truly manage themselves in their light** will be **achieving, accomplished managers**—the kind of managers who **build** successful, productive, and achieving **enterprises** all over the world and who **establish standards**, **set examples,** and **leave as a legacy** both **greater capacity to produce wealth** and **greater human vision**.

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374 The management revolution

375 The application of knowledge

376 The social sector

377 What do these issues ↑, these challenges ↑ mean for me & … – an alternative

378 What actions are suggested by the concepts and information in these thought-scapes ↑ ? continue

379 Dense reading accompanied by thinking broad and detailed is needed in creating an effective action approach

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381 rlaexp.com start → The memo THEY don’t want you to SEE because they want you beholden to them – their prisoner of yesterday.

382 They ↑ are the organization and political power structures trying to extrapolate yesterday – the antithesis of the manager who **truly understand** (mentioned in paragraph 371)