

# 1 The Dimensions of Management

## 2 [Institutions and Management Are Organs of Society]

3 Business enterprises and public-service institutions as well are organs of society.

4 They do not exist for their own sake, but to fulfill a specific social purpose and to satisfy a specific need of society, community, or individual.

5 They are not ends in themselves, but means.

6 The right question to ask in respect to them is not What are they? but What are they supposed to be doing and what are their tasks? ¶¶¶

7 Management, in turn, is the organ of the institution.

## 8 [Defining Management Through its Tasks]

9 The question What is management? comes second.

10 First we have to define management in and through its tasks. ¶¶¶

11 There are three tasks – equally important but essentially different – that face the management of every institution:

- 12 ■ To think through and define the *specific purpose and mission* of the institution, whether business enterprise, hospital, or university
- 13 ■ To make *work productive* and the *worker achieving*
- 14 ■ To manage *social impacts* and *social responsibilities*

15 These might be called the dimensions of management.

## 16 **Mission**

17 An institution exists for a specific purpose and mission, a specific social function.

18 In the business enterprise, this means economic performance. ¶¶¶

19 With respect to this first task, the task of specific performance, business and nonbusiness institutions differ.

20 In respect to every other task, they are similar.

21 But only business has economic performance as its specific mission.

22 It is the definition of a business that it exists for the sake of economic performance.

23 In all other institutions – hospital, church, university, or armed services – economics is a restraint.

24 In those institutions, the budget sets limits to what the institution and the manager can do.

25 In business enterprise, economic performance is the rationale and purpose. ¶¶¶

26 Business management must always, in every decision and action, put economic performance first.

27 It can justify its existence and its authority only by the economic results it produces.

28 A business management has failed if it fails to produce economic results.

29 It has failed if it does not supply goods and services desired by the consumer at a price the consumer is willing to pay.

30 It has failed if it does not improve, or at least maintain, the wealth-producing capacity of the economic resources entrusted to it.

31 And this, whatever the economic or political structure or ideology of a society, means responsibility for profitability. ¶¶¶

32 But business management is no different from the management of other institutions in one crucial respect:

33 it has to *manage*.

34 And managing is not just passive, adaptive behavior; it means taking action to make the desired results come to pass. ¶¶¶

35 The early economist conceived of the businessman's behavior as purely passive; success in business meant rapid and intelligent adaptation to events occurring outside, in an economy shaped by impersonal, objective forces that were neither controlled by the businessman nor influenced by his reaction to them.

36 We may call this the concept of the "trader."

37 Even if he was not considered a parasite, his contributions were seen as purely mechanical:

38 the shifting of resources to more productive use.

39 Today's economist sees the businessman as choosing rationally between alternatives of action.

40 This is no longer a mechanistic concept; obviously the choice has a real impact on the economy.

41 But still, the economist's "businessman" – the picture that underlies the prevailing economic "theory of the firm" and the theorem of the "maximization of profits" – reacts to economic developments.

42 The businessperson is still passive, still adaptive – though with a choice among various ways to adapt.

43 Basically, this is a concept of the "investor" or the "financier" rather than of the *manager*. ¶¶¶

44 Of course, it is always important to adapt to economic changes rapidly, intelligently, and rationally.

45 But managing implies responsibility

- 46 ■ for attempting to *shape* the economic environment;
- 47 ■ for planning, initiating, and carrying through changes in that economic environment;
- 48 ■ for constantly pushing back the limitations of economic circumstances on the enterprise's ability to contribute.

49 What is possible – the economist’s “economic conditions” – is therefore only one pole in managing a business.

50 What is desirable in the interest of economy and enterprise is the other.

51 And while humanity can never really “master” the environment, while we are always held within a tight vise of possibilities, it is management’s specific job to make what is desirable first possible and then actual.

52 Management is not just a creature of the economy; it is a creator as well.

53 And only to the extent to which it masters the economic circumstances, and alters them by consciously directed action, does it really manage.

54 To manage a business means, therefore, to *manage by objectives*

## 55 ***Productive Work And Worker Achievement***

56 The second task of management is to make work productive and the worker achieving.

57 Business enterprise (or any other institution) has only one true resource:

58 *people*.

59 It performs by making human resources productive.

60 It accomplishes its performance through work.

61 To make work productive is, therefore, an essential function.

62 But at the same time, these institutions in today’s society are increasingly the means through which individual human beings find their livelihood, find their access to social status, to community, and to individual achievement and satisfaction.

63 To make the worker achieving is, therefore, more and more important and is a measure of the performance of an institution.

64 It is increasingly a task of management. ¶¶¶

65 Organizing work according to its own logic is only the first step.

66 The second and far more difficult one is making work suitable for human beings – and their logic is radically different from the logic of work.

67 Making the worker achieving implies consideration of the human being as an organism having peculiar physiological and psychological properties, abilities, and limitations. ¶¶¶

68 The enterprise, by definition, must be capable of producing more or better than all the resources that comprise it.

69 It must be a genuine whole:

70 greater than – or at least different from – the sum of its parts, with its output larger than the sum of all inputs. ¶¶¶

71 The enterprise cannot, therefore, be a mechanical assemblage of resources.

72 To make an enterprise out of resources it is not enough to put them together in logical order and then throw the switch of capital, as the

nineteenth-century economists firmly believed (and as many of their successors among academic economists still believe).

73 What is needed is a change of the resources into a more productive form.

74 This requires management. ¶¶¶

75 But it is also clear that the “resources” capable of enlargement can only be human resources.

76 All other resources stand under the laws of mechanics.

77 They can be better utilized or worse utilized, but they can never have an output greater than the sum of the inputs.

78 People, alone of all resources, can grow and develop.

79 Only the directed, focused, united effort of free human beings can produce a real whole.

80 When we speak of growth and development, we imply that the human being himself determines what he contributes. ¶¶¶

81 Yet, we habitually define rank-and-file workers – as distinguished from managers – as people who do as they are directed, without responsibility or share in the decisions concerning their own work.

82 This indicates that we consider workers in the same light as other material resources and, as far as their contribution to the enterprise is concerned, as standing under the laws of mechanics.

83 This is a serious misunderstanding.

84 The misunderstanding, however, is not in the definition of rank-and-file work, but rather in the failure to see that rank-and-file jobs are potentially managerial, or would be more productive if made so. ¶¶¶

85 Human resources acquire the capacity to grow, to develop, to contribute through management.

86 We speak of “organization” – the formal structure of the enterprise.

87 But what we mean is the organization of managers and of the functions they manage; neither brick and mortar nor rank-and-file workers are the stuff of organization structure.

88 We speak of “leadership” and of the “spirit” of an organization.

89 But leadership is given by managers and effective primarily within management; and the spirit is made by the spirit within the management group.

90 We talk of “objectives” for the company and of its performance.

91 But the objectives are goals for management people; the performance is management performance.

92 And if an enterprise fails to perform, we rightly hire not different workers but a new president.

## 93 ***Social Responsibilities***

94 The third task of management is managing the social impacts and the social responsibilities of the enterprise.

- 95 None of our institutions exists by itself and as an end in itself.
- 96 Every one is an organ of society and exists for the sake of society.
- 97 Business is no exception.
- 98 "Free enterprise" cannot be justified as being good for business.
- 99 It can be justified only as being good for society. ¶¶¶
- 100 Every one of our institutions today exists to contribute outside of itself, to supply and satisfy nonmembers.
- 101 Business exists to supply goods and services to customers and economic surplus to society, rather than to supply jobs to workers and managers, or even dividends to shareholders.
- 102 Jobs and dividends are necessary means but not ends.
- 103 The hospital exists not for the sake of doctors and nurses, but for the sake of the patients whose one and only desire is to leave the hospital cured and never come back.
- 104 The school exists not for the sake of teachers, but for the students.
- 105 For a management to forget this is mismanagement. ¶¶¶
- 106 To discharge its job, to produce economic goods and services, the business enterprise has to have impacts on people, on communities, and on society.
- 107 It has to have power and authority over people, for example, employees, whose own ends and purposes are not defined by and within the enterprise.
- 108 It has to have impact on the community as a neighbor, as the source of jobs and tax revenue but also of waste products and pollutants.
- 109 And, increasingly, in our pluralist society of organizations, it has to add to its fundamental concern for the quantities of life (economic goods and services) a concern for the quality of life, for the physical, human, and social environment of modern man and modern community.

## 110 **Which Task Is Most Important?**

- 111 Managing these three tasks always has to be done at the same time and within the same managerial action.
- 112 It cannot even be said that one of the three tasks predominates or requires greater skill or competence.
- 113 True, economic performance comes first – it is the aim of the enterprise and the reason for its existence.
- 114 But if work and worker are grossly mismanaged, there will be no economic performance, no matter how good the chief executive may be in managing the business.
- 115 Economic performance achieved by mismanaging work and workers is illusory and actually destructive of capital, even in the fairly short run.
- 116 Such performance will raise costs to the point where the enterprise ceases to be competitive.

- 117 It will, by creating class hatred and class warfare, make it impossible in the end for the enterprise to operate at all.
- 118 And mismanaging social impacts eventually will destroy society's support for the enterprise – and with it the enterprise as well. ¶¶¶
- 119 Each of these three dimensions has a primacy of its own.
- 120 Managing a business has primacy because the enterprise is an economic institution; but making work productive and workers achieving has importance precisely because society is not an economic institution and looks to management for the realization of basic beliefs and values.
- 121 Managing the enterprise's social impacts has importance because no organ can survive the body that it serves; and the enterprise is an organ of society and community.

## 122 **The Time Dimension**

- 123 One complexity is ever present in every management problem, every decision, every action – not, properly speaking, a fourth task of management, and yet an additional dimension:
- 124 time. ¶¶¶
- 125 Management always has to consider both; the present and the future; both the short run and the long run.
- 126 A management problem is not solved if immediate profits are purchased by endangering the long-range health, perhaps even the survival, of the company.
- 127 A management decision is irresponsible if it risks disaster this year for the sake of a grandiose future.
- 128 The all too common case of the great man in management who produces startling economic results as long as he runs the company but leaves behind nothing but a sinking hulk is an example of irresponsible managerial action and of failure to balance present and future.
- 129 The immediate economic results are actually fictitious and are achieved by destroying capital.
- 130 In every case where present and future are not both satisfied, where their requirements are not harmonized, or at least balanced, capital – that is, wealth-producing resource – is endangered, damaged, or destroyed. ¶¶¶
- 131 There are two reasons why the time dimension is of particular importance in management's job, and of particular difficulty.
- 132 In the first place, through economic and technological progress, the time span for the fruition and proving out of a decision is steadily lengthening.
- 133 Thomas Edison, in the 1880s, needed two years or so between the start of laboratory work on an idea and the start of pilot-plant operations.
- 134 Today it may well take Edison's successors fifteen years.
- 135 A human organization, such as a sales force or a management group, may take even longer to build and to pay for itself. ¶¶¶

136 The second peculiar characteristic of the time dimension is that  
management has to live always in both present and future.

137 It must keep the enterprise performing in the present – or else there will  
be no enterprise capable of performing in the future.

138 And it has to make the enterprise capable of performance, growth, and  
change in the future.

139 Otherwise it has destroyed capital – that is, the capacity of resources to  
produce wealth tomorrow. ¶¶¶

140 For the manager the future is *discontinuity*.

141 And yet the future, however different, can be reached only from the  
present.

142 The greater the leap into the unknown, the stronger the foundation for  
the takeoff has to be.

143 The time dimension gives the managerial decision its special  
characteristics.

## 144 Administration And Entrepreneurship

145 Managers always have to administer, to manage and improve, what  
already exists and is already known.

146 But there is another dimension to managerial performance.

147 Managers also have to be entrepreneurs.

148 They have to redirect resources from areas of low or diminishing results to  
areas of high or increasing results.

149 They have to slough off yesterday and to make obsolete what already  
exists and is already known.

150 They have to create tomorrow. ¶¶¶

151 In the ongoing business markets, technologies, products, and services  
exist.

152 Facilities and equipment are in place.

153 Capital has been invested and has to be serviced.

154 People are employed and are in specific jobs, and so on.

155 The administrative job of the manager is to *optimize the yield from these  
resources*. ¶¶¶

156 This, we are usually told, especially by economists,<sup>1</sup> means *efficiency*, that  
is, doing better what is already being done.

157 It means focus on costs.

158 But the optimizing approach should focus on *effectiveness*.

159 It focuses on opportunities to produce revenue, to create markets, and to  
change the economic characteristics of existing products and markets.

160 It asks not, How do we do this or that better?

161 It asks, Which of the products really produce extraordinary economic  
results or are capable of producing them?

162 Which of the markets and/or end uses are capable of producing extraordinary results?

163 It then asks, To what results should, therefore, the resources and efforts of the business be allocated so as to produce extraordinary results rather than the "ordinary" ones, which is all efficiency can possibly produce? ¶¶¶

164 Of course efficiency is important.

165 Even the healthiest business, the business with the greatest effectiveness, can die of poor efficiency.

166 But even the most efficient business cannot survive, let alone succeed, if it is efficient in doing the wrong things, that is, if it lacks effectiveness.

167 No amount of efficiency would have enabled the manufacturer of buggy whips to survive. ¶¶¶

168 Effectiveness is the foundation of success – efficiency is a minimum condition for survival after success has been achieved.

169 *Efficiency is concerned with doing things right.*

170 *Effectiveness is doing the right things.* ¶¶¶

171 Efficiency concerns itself with the input of effort into all areas of activity.

172 Effectiveness, however, starts out with the realization that in business, as in any other social organism, 10 or 15 percent of the phenomena – such as products, orders, customers, markets, or people – produce 80 to 90 percent of the results.

173 The other 85 to 90 percent of the phenomena, no matter how efficiently taken care of produce nothing but costs. ¶¶¶

174 The first administrative job of the manager is, therefore, to make effective the very small core of worthwhile activities that is capable of being effective.

175 At the same time, he or she neutralizes (or abandons) the very large number of ordinary transactions – products or staff activities, research work or sales efforts – that, no matter how well done, will not yield extraordinarily high results. ¶¶¶

176 The second administrative task is to bring the business all the time a little closer to the full realization of its potential.

177 Even the most successful business works at a low performance as measured against its potential – the economic results that could be obtained were efforts and resources marshaled to produce the maximum yield they are inherently capable of. ¶¶¶

178 This task is not innovation; it actually takes the business as it is today and asks, What is its theoretical optimum?

179 What prevents us from attaining it?

180 Where (in other words) are the limiting and restraining factors that hold back the business and deprive it of the full return on its resources and efforts? ¶¶¶

181 At the same time, inherent in the managerial task is entrepreneurship:

182 making the business of tomorrow.

183 Inherent in this task is innovation. ¶¶¶

184 Making the business of tomorrow starts out with the conviction that the  
business of tomorrow will be and must be different.

185 But it also starts out – of necessity – with the business of today.

186 Making the business of tomorrow cannot be a flash of genius.

187 It requires systematic analysis and hard, rigorous work today – and that  
means by people in today’s business and operating within it. ¶¶¶

188 Success cannot, one might say, be continued forever.

189 Businesses are, after all, human creations, which have no true  
permanence.

190 Even the oldest businesses are creations of recent centuries.

191 But a business enterprise must continue beyond the lifetime of the  
individual or of the generation to be capable of producing its  
contributions to economy and to society.

192 The perpetuation of a business is a central entrepreneurial task – and  
ability to do so may well be the most definitive test of a management.

## 193 ***Summary – The Dimensions of Management***

194 There are three basic tasks – they might be called dimensions – in  
management.

195 There is the first task of thinking through and defining the specific  
purpose and mission of the organization – whether business enterprise,  
hospital, school, or government agency.

196 There is the second task of making work productive and the worker  
achieving.

197 There is finally the task of managing social impacts and social  
responsibilities.

198 In respect to the second and third tasks, all institutions are alike.

199 It is the first task that distinguishes the business from the hospital, school,  
or government agency.

200 And the specific purpose and mission of business enterprise is economic  
performance.

201 To discharge it, managers always have to balance the present against an  
uncertain and risky future, have to perform for the short run and make  
their business capable of performance over the long run.

202 Managers always have to be stewards of what already exists; they have to  
be administrators.

203 They also have to create what is to be; they have to be entrepreneurs, risk  
takers, and innovators.

204 For a modern business can produce results, both for society and for its  
own people, only if it can survive beyond the life span of a person and  
perform in a new and different future.