

Part One: The Tasks

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2 Management is an organ of an institution;
3 and the institution, whether a business or a public service, is in turn an
4 organ of society,
5 existing
6 to make specific contributions
7 and to discharge specific social functions.

7 Management, therefore, cannot be defined or understood – let alone
practiced – except in terms of its performance dimensions and of the
demands of performance on it.

8 The tasks of management are
9 the reason for its existence,
10 the determinants of its work,
11 and the grounds of its authority and legitimacy

12 4. The Dimensions of Management

13 Management Is an Organ

14 It Exists Only in Contemplation of Performance

15 The Three Primary Tasks:

16 Economic Performance;

17 Making Work Productive

18 and the Worker Achieving;

19 Managing Social Impacts and Social Responsibilities

20 The Time Dimensions

21 Administration and Entrepreneurship

22 Efficiency and Effectiveness

23 Optimization and Innovation

24 The Specific Work of Management: Managing Managers

25 Focus on Tasks

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

27 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.

28 They are not ends in themselves, but means.

29 The right question to ask in respect to them is not, What are they?

30 but, What are they supposed to be doing and what are their tasks? ¶¶¶

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

32 It has no function in itself, indeed, no existence in itself.

33 Management divorced from the institution it serves is not management.
¶¶¶

34 What people mean by bureaucracy, and rightly condemn, is a
management that has come to misconceive itself as an end and the
institution as a means.

35 This is the degenerative disease to which managements are prone, and
especially those managements that do not stand under the discipline of
the market test.

36 To prevent this disease, to arrest it, and, if possible, to cure it, must be a
first purpose of any effective manager-but also of an effective book on
management. ¶¶¶

37 The question, What is management? comes second.

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

39 There are three tasks, equally important but essentially different, which
management has to perform to enable the institution in its charge to
function and to make its contribution:

40 ▪ the specific purpose and mission of the institution, whether business
enterprise, hospital, or university;

41 ▪ making work productive and the worker achieving;

42 ▪ managing social impacts and social responsibilities.

43 ***1. Purpose and Mission***

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

45 In the business enterprise this means economic performance.

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

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

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

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

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

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

52 A whole section of this book (Chapters 11, 12, 13 and 14) is devoted to
the performance of the nonbusiness, the public-service, institutions.

53 But the emphasis of this book is on business enterprise and the task of
economic performance.

- 54 While by no means the only task to be discharged in society, it is a priority task, because all other social tasks-education, health care, defense, and the advancement of knowledge-depend on the surplus of economic resources, i.e., profits and other savings, which only successful economic performance can produce.
- 55 The more of these other satisfactions we want, and the more highly we value them, the more we depend on economic performance of business enterprise. ¶¶¶
- 56 Business management must always, in every decision and action, put economic performance first.
- 57 It can justify its existence and its authority only by the economic results it produces.
- 58 A business management has failed if it fails to produce economic results.
- 59 It has failed if it does not supply goods and services desired by the consumer at a price the consumer is willing to pay.
- 60 It has failed if it does not improve, or at least maintain, the wealth-producing capacity of the economic resources entrusted to it.
- 61 And this, whatever the economic or political structure or ideology of a society, means responsibility for profitability.
- 62 (On the functions of profit see Chapter 6, p. 71.) ¶¶¶
- 63 The first definition of business management is that it is an economic organ, the specifically economic organ of an industrial society.
- 64 Every act, every decision, every deliberation of management, has economic performance as its first dimension.

65 ***2. Productive Work and Worker Achievement***

- 66 The second task of management is to make work productive and the worker achieving.
- 67 Business enterprise (or any other institution) has only one true resource: man.
- 68 It performs by making human resources productive.
- 69 It accomplishes its performance through work.
- 70 To make work productive is, therefore, an essential function.
- 71 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.
- 72 To make the worker achieving is, therefore, more and more important and is a measure of the performance of an institution.
- 73 It is increasingly a task of management. ¶¶¶
- 74 Organizing work according to its own logic is only the first step.
- 75 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.

- 76 Making the worker achieving implies consideration of the human being as an organism having peculiar physiological and psychological properties, abilities, and limitations, and a distinct mode of action.
- 77 It implies consideration of the human resource as human beings and not as things, and as having-unlike any other resource-personality, citizenship, control over whether they work, how much and how well, and thus requiring responsibility, motivation, participation, satisfaction, incentives and rewards, leadership, status, and function. ¶¶¶
- 78 Management, and management alone, can satisfy these requirements.
- 79 For workers, whether machine tenders or executive vice-presidents, must be satisfied through their achievement in work and job-that is, within the enterprise; and management is the activating organ of the enterprise.

80 ***3. Social Impacts and Social Responsibilities***

- 81 The third task of management is managing the social impacts and the social responsibilities of the enterprise.
- 82 None of our institutions exists by itself and is an end in itself.
- 83 Every one is an organ of society and exists for the sake of society.
- 84 Business is no exception.
- 85 Free enterprise cannot be justified as being good for business.
- 86 It can be justified only as being good for society. ¶¶¶
- 87 The first new institution to emerge after antiquity, the first institution of the West, was the Benedictine monastery of the sixth century.
- 88 It was not founded to serve community and society, however.
- 89 On the contrary, it was founded to serve exclusively its own members and to help them toward their own salvation.
- 90 Therefore, Saint Benedict removed his monastery from human society and into the wilderness.
- 91 He was not particularly afraid that his monks would yield to the temptations of the world.
- 92 He saw a greater danger: that they would be concerned with the world, take responsibility for it, try to do good, and be forced to take leadership. ¶¶¶
- 93 Unlike the Benedictine monastery, every one of our institutions today exists to contribute outside of itself, to supply and satisfy nonmembers.
- 94 Business exists to supply goods and services to customers, rather than to supply jobs to workers and managers, or even dividends to stockholders.
- 95 The hospital does not exist for the sake of doctors and nurses, but for the sake of patients whose one and only desire is to leave the hospital cured and never come back.
- 96 The school does not exist for the sake of teachers, but for the students.
- 97 For a management to forget this is mismanagement. ¶¶¶
- 98 No institution can, therefore, exist outside of community and society as

- the Benedictine monastery, unsuccessfully, tried.
- 99 Psychologically, geographically, culturally, and socially, institutions must be part of the community. ¶¶¶
- 100 To discharge its job, to produce economic goods and services, the business enterprise has to have impacts on people, on communities, and on society.
- 101 It has to have power and authority over people, e.g., employees, whose own ends and purposes are not defined by and within the enterprise.
- 102 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.
- 103 And, increasingly, in our pluralist society of organizations, it has to add to its fundamental concern for the quantities of life, i.e., economic goods and services, concern for the quality of life, that is, for the physical, human, and social environment of modern man and modern community. ¶¶¶
- 104 This dimension of management is inherent in the work of managers of all institutions.
- 105 University, hospital, and government agency equally have impacts, equally have responsibilities-and by and large have been far less aware of them, far less concerned with their human, social, and community responsibilities than business has.
- 106 Yet, more and more, we look to business management for leadership with regard to the quality of life.
- 107 Managing social impacts is, therefore, becoming a third major task and a third major dimension of management. ¶¶¶
- 108 These three tasks always have to be done at the same time and within the same managerial action.
- 109 It cannot even be said that one task predominates or requires greater skill or competence.
- 110 True, business performance comes first-it is the aim of the enterprise and the reason for its existence.
- 111 But if work and worker are mismanaged there will be no business performance, no matter how good the chief executive may be in managing the business.
- 112 Economic performance achieved by mismanaging work and workers is illusory and actually destructive of capital even in the fairly short run.
- 113 Such performance will raise costs to the point where the enterprise ceases to be competitive; it will, by creating class hatred and class warfare, make it impossible in the end for the enterprise to operate at all.
- 114 And, mismanaging social impacts eventually will destroy society's support for the enterprise and with it the enterprise as well. ¶¶¶
- 115 Each of these three tasks has a primacy of its own.
- 116 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.
- 117 Managing the enterprise's social impacts has importance because no organ can survive the body which it serves; and the enterprise is an organ of society and community. ¶¶¶
- 118 In these areas also, there are neither actions nor results except of the entire business (or university, or hospital, or government agency).
- 119 There are no "functional" results and no "functional" decisions.
- 120 There is only business investment and business risk, business profit and business loss, business action or business inaction, business decision and business information.
- 121 It is not a plant that pollutes; it is Consolidated Edison of New York, the Union Carbide Corporation, the paper industry, or the city's sewers. ¶¶¶
- 122 Yet, work and effort are always specific.
- 123 There is tension, therefore, between two realities: that of performance and that of work.
- 124 To resolve this tension, or at least to make it productive, is the constant managerial task.

125 ***The Time Dimension***

- 126 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: time. ¶¶¶
- 127 Management always has to consider both the present and the future; both the short run and the long run.
- 128 A management problem is not solved if immediate profits are purchased by endangering the long-range health, perhaps even the survival, of the company.
- 129 A management decision is irresponsible if it risks disaster this year for the sake of a grandiose future.
- 130 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.
- 131 The immediate economic results are actually fictitious and are achieved by paying out capital.
- 132 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. ¶¶¶
- 133 Today we are particularly conscious of the time dimension in respect to the long-range impact of short-run economic decisions on the environment and on natural resources.
- 134 But the same problem of harmonizing today and tomorrow exists in all areas, and especially with respect to people. ¶¶¶
- 135 The time dimension is inherent in management because management is

concerned with decisions for action.

136 And action always aims at results in the future.

137 Anybody whose responsibility it is to act-rather than to think or to know-commits himself to the future. ¶¶¶

138 There are two reasons why the time dimension is of particular importance in management's job, and of particular difficulty.

139 In the first place, it is the essence of economic and technological progress that the time span for the fruition and proving out of a decision is steadily lengthening.

140 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.

141 Today it may well take Edison's successors fifteen years.

142 A half century ago a new plant was expected to pay itself in two or three years; today, with capital investment per worker twenty times that of 1900, the payoff period often runs to ten or twelve years.

143 A human organization, such as a sales force or a management group, may take even longer to build and to pay for itself. ¶¶¶

144 The second peculiar characteristic of the time dimension is that management – almost alone – has to live always in both present and future. ¶¶¶

145 A military leader, too, knows both times.

146 But traditionally he rarely had live in both at the same time.

147 During peace he knew no "present"; the present was only a preparation for the future war.

148 During war he knew only most short-lived "future"; he was concerned with winning the war at hand.

149 Everything else he left to the politicians.

150 That this is no longer true an era of cold wars, near wars, and police actions may be the single most important reason for the crisis of military leadership and morale that afflicts med services today.

151 Neither preparation for the future nor winning the war at hand will do any longer; and as a result, the military man has lost bearings. ¶¶¶

152 But management always must do both.

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

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

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

156 The only thing we know about the future is that it is going to be different.

157 There may be great laws of history, great currents of continuity operating for whole epochs.

- 158 But within time spans of conscious decision and action – time spans of years rather than centuries – in which the managers of any institution operate, the uncertainty of the future is what matters.
- 159 The long-run continuity is not relevant; and anyhow, it can be discerned only in retrospect and only in contemplation of history, of how it came out. ¶¶¶
- 160 For the manager the future is discontinuity.
- 161 And yet the future, however different, can be reached only from the present.
- 162 The greater the leap into the unknown, the stronger the foundation for the takeoff has to be.
- 163 The time dimension endows the managerial decision with its special characteristics.
- 164 It is the act in which the manager integrates present and future.

165 ***Administration and Entrepreneurship***

- 166 There is another dimension to managerial performance.
- 167 The manager always has to administer.
- 168 He has to manage and improve what already exists and is already known.
- 169 But he also has to be an entrepreneur.
- 170 He has to redirect resources from areas of low or diminishing results to areas of high or increasing results.
- 171 He has to slough off yesterday and to render obsolete what already exists and is already known.
- 172 He has to create tomorrow. ¶¶¶
- 173 In the ongoing business markets, technologies, products, and services exist.
- 174 Facilities and equipment are in place.
- 175 Capital has been invested and has to be serviced.
- 176 People are employed and are in specific jobs, and so on.
- 177 The administrative job of the manager is to optimize the yield from these resources. ¶¶¶
- 178 This, we are usually told, especially by economists, means efficiency, that is, doing better what is already being done.
- 179 It means focus on costs.
- 180 But the optimizing approach should focus on effectiveness.
- 181 It focuses on opportunities to produce revenue, to create markets, and to change the economic characteristics of existing products and markets.
- 182 It asks not, How do we do this or that better?
- 183 It asks, Which of the products really produce extraordinary economic results or are capable of producing them?

- 184 Which of the markets and/or end uses are capable of producing extraordinary results?
- 185 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? ¶¶¶
- 186 This does not deprecate efficiency.
- 187 Even the healthiest business, the business with the greatest effectiveness, can well die of poor efficiency.
- 188 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.
- 189 No amount of efficiency would have enabled the manufacturer of buggy whips to survive. ¶¶¶
- 190 Effectiveness is the foundation of success-efficiency is a minimum condition for survival after success has been achieved.
- 191 Efficiency is concerned with doing things right.
- 192 Effectiveness is doing the right things. ¶¶¶
- 193 Efficiency concerns itself with the input of effort into all areas of activity.
- 194 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.
- 195 The other 85 to 90 percent of the phenomena, no matter how efficiently taken care of, produce nothing but costs (which are always proportionate to transactions, that is, to busy-ness). ¶¶¶
- 196 The first administrative job of the manager is, therefore, to make effective the very small core of worthwhile activities which is capable of being effective.
- 197 At the same time, he neutralizes (if he does not abandon) the very large penumbra of transactions: products or staff activities, research work or sales efforts, which, no matter how well done, will not yield extraordinarily high results (whether they represent the realized opportunities of the past, mere busy-ness, or unfulfilled hopes and expectations of the past, that is, the mistakes of yesterday). ¶¶¶
- 198 The second administrative task is to bring the business all the time a little closer to the full realization of its potential.
- 199 Even the most successful business works at a low coefficient of 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. ¶¶¶
- 200 This task is not innovation; it actually takes the business as it is today and asks,
- 201 What is its theoretical optimum?
- 202 What inhibits attainment thereof?
- 203 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? ¶¶¶
- 204 One basic approach-offered here by way of illustration only – is to ask the question What relatively minor changes in product, technology, process, market, and so on, would significantly improve or alter the economic characteristics and results of this business?
- 205 (This is similar to the vulnerability analysis of the modern systems engineers.) ¶¶¶
- 206 In making steel these vulnerabilities-the factors that hold the economic results of the steel industry way below the theoretical potential of industry and process-might, for instance, be the need, in present steel technology, to create high heats three times, only to quench them three times.
- 207 For the most expensive thing to produce are temperatures, whether heat or cold.
- 208 In the electrical apparatus business one vulnerability might well be the habit of public-utility customers to have each generating turbine designed as if it were a unique product rather than assembled as one of a large number and according to standard performance specifications.
- 209 Another vulnerability might be the habit of the public-utility customers to order turbines when money-market rates are low, which then creates expensive fluctuations in demand and production schedules.
- 210 If these two habits could be changed, large generating turbines might well come down 40 to 50 percent in cost.
- 211 In life insurance, to give one more example, a central vulnerability might be the high cost of the individual sale.
- 212 A way to overcome this vulnerability and to realize the potential of the business somewhat more fully might be either statistical selling-elimination of the expensive personal selling efforts – or enrichment of the sales channel, for instance, by selling financial planning (including all other investment instruments, such as investment trust certificates), rather than only life insurance. ¶¶¶
- 213 These examples are cited to show that a relatively minor change does not necessarily have to be easy to make.
- 214 In fact, we may not know how to do it.
- 215 But it is still minor, for the business would remain essentially as it is now, yet would have different economic results.
- 216 And while the illustrations show clearly that these changes may require innovation, they are not, in themselves, innovations.
- 217 They are primarily modifications of the existing business. ¶¶¶
- 218 At the same time, inherent in the managerial task is entrepreneurship:
- 219 making the business of tomorrow.
- 220 Inherent in the task is innovation. ¶¶¶
- 221 Making the business of tomorrow starts out with the conviction that the business of tomorrow will be and must be different.

- 222 But it also starts out – of necessity – with the business of today.
- 223 Making the business of tomorrow cannot be a flash of genius.
- 224 It requires systematic analysis and hard, rigorous work today – and that means by people in today’s business and operating within it. ¶¶¶
- 225 The specific job of entrepreneurship in business enterprise is to make today’s business capable of making the future, of making itself into a different business.
- 226 It is the specific job of entrepreneurship in the going business to enable today’s already existing-and especially today’s already successful – business to remain existing and to remain successful in the future. ¶¶¶
- 227 Success cannot, one might say, be continued forever.
- 228 Businesses are, after all, creations of man which have no true permanence.
- 229 Even the oldest businesses are creations of recent centuries.
- 230 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.
- 231 The perpetuation of a business is a central entrepreneurial task – and ability to do so may well be the most trenchant and definitive test of a management. ¶¶¶

232 ***The Work of the Manager***

- 233 Each of these tasks and dimensions has its own skills, its own tools, its own requirements.
- 234 But the total management task requires their integration.
- 235 And this too requires specific work and its specific tool.
- 236 The tool is management; and the work is managing managers. ¶¶¶
- 237 The tasks – economic performance; making work productive and the worker achieving; managing social impact and social responsibilities; and doing all this in a balance between the demands of today and the demands of tomorrow – are the things in which the public at large has a stake.
- 238 The public has no concern with – and only mild interest in – what managers have to do to accomplish their tasks.
- 239 It rightly is concerned with performance.
- 240 But managers must be concerned with the means to the accomplishment of their tasks.
- 241 They must be concerned with managerial jobs, with the work of the manager, with the skills he needs, and with his organization. ¶¶¶
- 242 Any book of management that does not begin with the tasks to be performed misconceives management.
- 243 Such a book sees management as something in itself, rather than as a means to an end.

- 244 It fails to understand that management exists only in contemplation of performance.
- 245 It treats management as an independent reality, whereas management is an organ which derives existence, identity, and justification from the function it serves.
- 246 The focus must be on the tasks. ۱۱۱۱
- 247 To start out discussing management with the work of the manager or with managerial organization-as most books on management do-is the approach of the technocrat, who soon degenerates into a bureaucrat.
- 248 But it is even poor technocracy.
- 249 For, as will be stressed again and again in this book, management work, management jobs, and management organization are not absolutes, but are determined and shaped by the tasks to be performed.
- 250 "Structure follows strategy" is one of the fundamental insights we have acquired in the last twenty years.
- 251 Without understanding the mission, the objectives, and the strategy of the enterprise, managers cannot be managed, organizations cannot be designed, managerial jobs cannot be made productive.