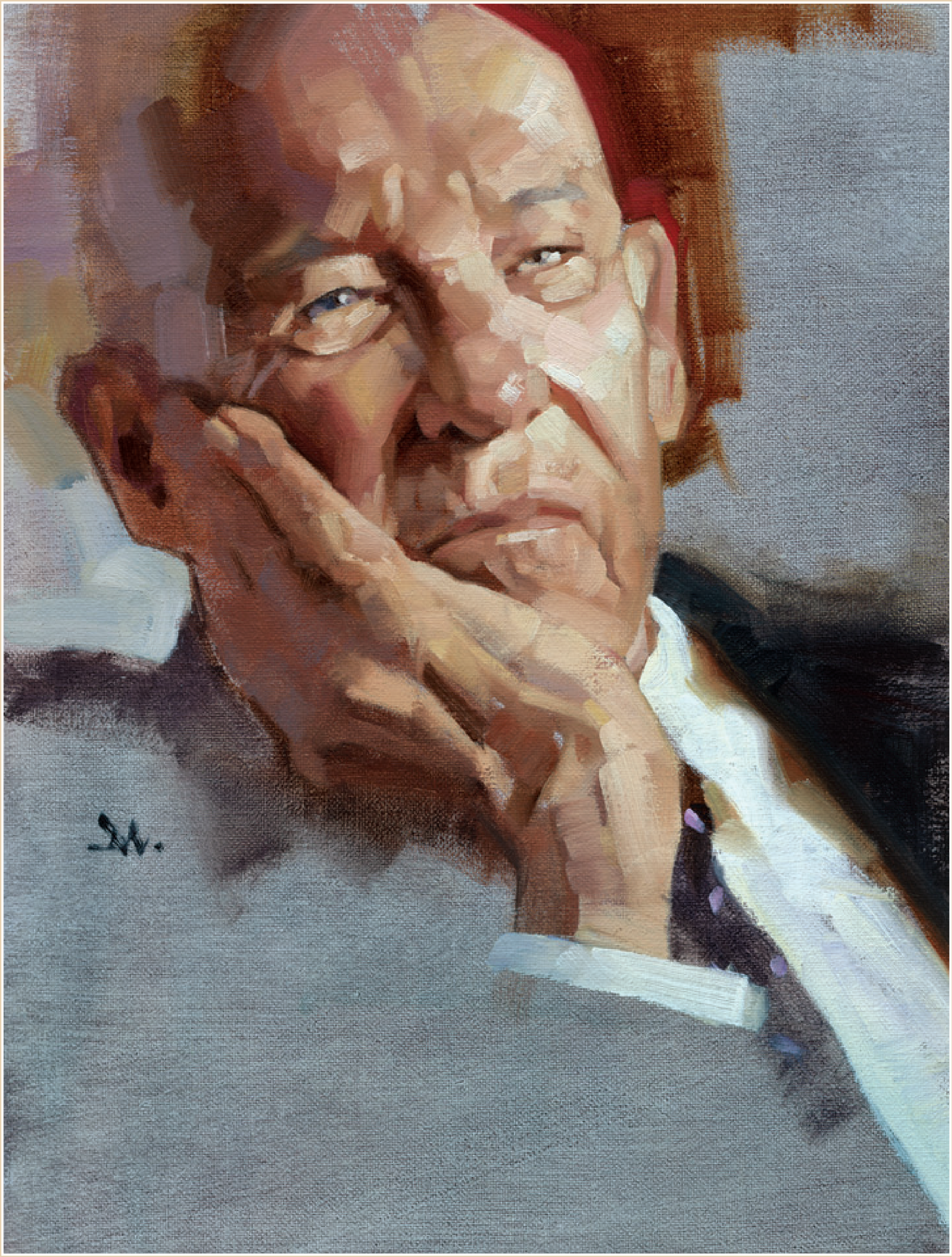

PETER F. DRUCKER, 1909–2005

GREGORY MANCHESS

WHAT EXECUTIVES SHOULD REMEMBER

by Peter F. Drucker

No management thinker was as prolific or as profound as Peter Drucker. Here is some of the savviest advice he offered executives.

EDITORS' NOTE: Peter Drucker flourished in what is often called the information age, but his writings offered far more thinking than data. In dozens of sharply written essays for *Harvard Business Review* and other publications, he delved into executives' basic challenges and opportunities. The payoff in his articles rarely came from a research finding or little-known fact. Instead, it came from his ideas, which confronted common assumptions about business and people. And he urged readers to follow his lead and take on the hard work of thinking – always combined, he insisted, with decisive action.

Peter Ferdinand Drucker was born in Vienna in 1909, the son of a high-level civil servant in the Hapsburg empire. World War I left Vienna with little opportunity to offer him, so after he finished school, he worked in Germany, first in banking and then in journalism. While he was there, he also earned a doctorate in international law. The rise of Nazism forced him to leave Germany in 1933; after four years in London, he moved for good to the United States, where he became a professor as well as a freelance writer.

His career as a business thinker took off in the 1940s, when his initial writings on politics and society won him access to the internal workings of General Motors, then one of the largest companies in the world. His experiences in Europe had left him fascinated with the problem of authority, a fascination shared by Donaldson Brown, the mastermind behind the administrative controls at GM. Brown invited him in to conduct what might be called a political audit. The resulting *Concept of the Corporation* popularized GM's multidivisional structure and led to numerous articles, consulting engagements, and additional books.

A knowledge worker himself, Drucker was particularly interested in the growing importance of people who worked with their minds rather than their hands. He was intrigued by employees who knew more about certain subjects than their bosses or colleagues but who still had to cooperate with others in a large organization. Rather than simply glorify the phenomenon as the epitome of human progress, Drucker analyzed it and explained how it challenged the common thinking about how organizations should be run.

His approach worked well in the increasingly mature business world of the second half of the twentieth century. By that time, large corporations had developed the basic manufacturing efficiencies and managerial hierarchies of mass production. Executives had come to think they knew how to run companies, and Drucker took it upon himself to poke holes in their beliefs, lest organizations become stale. But he did so in a sympathetic way. He assumed that his readers were intelligent, rational, hardworking people of goodwill. If their organizations struggled, he believed it was usually because of outdated ideas, a narrow conception of a problem, or internal misunderstandings. His insights were well suited to *Harvard Business Review*'s format – practical, idea-based essays for executives – and his clear-eyed, humanistic writing enriched the magazine time and again. He helped us all think broadly and deeply.

The Theory of the Business

>> Excerpted from September–October 1994

The root cause of nearly every one of these [business] crises is not that things are being done poorly. It is not even that the wrong things are being done. Indeed, in most cases, the *right* things are being done – but fruitlessly. What accounts for this apparent paradox? The assumptions on which the organization has been built and is being run no longer fit reality. These are the assumptions that shape any organization's behavior, dictate its decisions about what to do and what not to do, and define what the organization considers meaningful results. These assumptions are about markets. They are about identifying customers and competitors, their values and behavior. They are about technology and its dynamics, about a company's strengths and weaknesses. These assumptions are about what a company gets paid for. They are what I call a company's *theory of the business….*

Whenever a big organization gets into trouble – and especially if it has been successful for many years – people blame sluggishness, complacency, arrogance, mammoth bureaucracies. A plausible explanation? Yes. But rarely the relevant or correct one….

For 70 years, [General Motors' theory of the business] worked like a charm. Even in the depths of the Depression, GM never suffered a loss while steadily gaining market share. But in the late 1970s, its assumptions about the market and about production became invalid. The market was fragmenting into highly volatile "lifestyle" segments. Income became one factor among many in the buying decision, not the only one. At the same time, lean manufacturing created an economics of small scale. It made short runs and variations in models less costly and more profitable than long runs of uniform products.

GM knew all this but simply could not believe it. (GM's union still doesn't.) Instead, the company tried to patch things over. It maintained the existing divisions based on income segmentation, but each division now offered a "car for every purse." It tried to compete with lean manufacturing's economics of small scale by automating the large-scale, long-run mass production (losing some $30 billion in the process). Contrary to popular belief, GM patched things over with prodigious energy, hard work, and lavish investments of time and money. But patching only confused the customer, the dealer, and the employees and management of GM itself. In the meantime, GM neglected its *real* growth market, where it had leadership and would have been almost unbeatable: light trucks and minivans….

…Traditionally, we have searched for the miracle worker with a magic wand to turn an ailing organization around. To establish, maintain, and restore a theory, however, does not require a Genghis Khan or a Leonardo da Vinci in the executive suite. It is not genius; it is hard work. It is not being clever; it is being conscientious. It is what CEOs are paid for.

There are indeed quite a few CEOs who have successfully changed their theory of the business. The CEO who built Merck into the world's most successful pharmaceutical business by focusing solely on the research and development of patented, high-margin breakthrough drugs radically changed the company's theory by acquiring a large distributor of generic and nonprescription drugs. He did so without a "crisis," while Merck was ostensibly doing very well. Similarly, a few years ago, the new CEO of Sony, the world's best-known manufacturer of consumer electronic hardware, changed the company's theory of the business. He acquired a Hollywood movie production company and, with that acquisition, shifted the organization's center of gravity from being a hardware manufacturer in search of software to being a software producer that creates a market demand for hardware.

But for every one of these apparent miracle workers, there are scores of equally capable CEOs whose organizations stumble. We can't rely on miracle workers to rejuvenate an obsolete theory of the business any more than we

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A DEGENERATIVE DISEASE WILL NOT BE CURED BY PROCRASTINATION. IT REQUIRES DECISIVE ACTION.

can rely on them to cure other types of serious illness. And when one talks to these supposed miracle workers, they deny vehemently that they act by charisma, vision, or, for that matter, the laying on of hands. They start out with diagnosis and analysis. They accept that attaining objectives and rapid growth demand a serious rethinking of the theory of the business. They do not dismiss unexpected failure as the result of a subordinate's incompetence or as an accident but treat it as a symptom of "systems failure." They do not take credit for unexpected success but treat it as a challenge to their assumptions.

They accept that a theory's obsolescence is a degenerative and, indeed, life-threatening disease. And they know and accept the surgeon's time-tested principle, the oldest principle of effective decision making: A degenerative disease will not be cured by procrastination. It requires decisive action.

Managing for Business Effectiveness

>> Excerpted from May–June 1963

I do not propose to give here a full-blown "science of management economics," if only because I have none to give. Even less do I intend to present a magic formula, a "checklist" or "procedure" which will do the job for the manager. For his job is *work* – very hard, demanding, risk-taking work. And while there is plenty of laborsaving machinery around, no one has yet invented a "work-saving" machine, let alone a "think-saving" one.

But I do claim that we know how to organize the job of managing for economic effectiveness and how to do it with both direction and results. The answers to the [following] three key questions…are known, and have been known for such a long time that they should not surprise anyone.

1. What is the manager's job? It is to direct the resources and the efforts of the business toward opportunities for economically significant results. This sounds trite – and it is. But every analysis of actual allocation of resources and efforts in business that I have ever seen or made showed clearly that *the bulk of time, work, attention, and money first goes to "problems" rather than to opportunities, and, secondly, to areas where even extraordinarily successful performance will have minimal impact on results.*

2. What is the major problem? It is fundamentally the confusion between effectiveness and efficiency that stands between doing the right things and doing things right. *There is surely nothing quite so useless as doing with great efficiency what should not be done at all.* Yet our tools – especially our accounting concepts and data – all focus on efficiency. What we need is (1) a way to identify the areas of effectiveness (of possible significant results), and (2) a method for concentrating on them.

3. What is the principle? That, too, is well-known – at least as a general proposition. Business enterprise is not a phenomenon of nature but one of society. In a social situation, however, events are not distributed according to the "normal distribution" of a natural universe (that is, they are not distributed according to the U-shaped Gaussian curve). *In a social situation a very small number of events – 10% to 20% at most – account for 90% of all results, whereas the great majority of events account for 10% or less of the results.*

This is true in the marketplace. A handful of customers out of many thousands produce the bulk of the orders; a handful of products out of hundreds of items in the line produce the bulk of the volume; and so on. This is true of markets, end uses, and distributive channels. It is equally true of sales efforts: a few salesmen, out of several hundred, always produce two-thirds or more of all new business. It is true in the plant: a handful of production runs account for most of the tonnage. It is true of research: a few men in the laboratory produce all the important innovations, as a rule….

UNFORTUNATELY I KNOW OF NO PROCEDURE OR CHECKLIST FOR MANAGERIAL COURAGE.

This is part of the last and most crucial "how to do it" requirement: the courage to go through with logical decisions – despite all pleas to give this or that product another chance, and despite all such specious alibis as the accountant's "it absorbs overhead" or the sales manager's "we need a full product line." (Of course, these are not always unfounded alibis, but the burden of proof of every alibi rests with those that plead it.) It would be nice if I did, but unfortunately I know of no procedure or checklist for managerial courage.

What I have sketched out in this article is the manager's real work. As such it requires that he attack the problem of increasing business effectiveness systematically – with a plan of action, with a method of analysis, and with an understanding of the tools he needs.

And while the job to be done may look different in every individual company, one basic truth will always be present: every product and every activity of a business begins to obsolesce as soon as it is started. Every product, every operation, and every activity in a business should, therefore, be put on trial for its life every two or three years. Each should be considered the way we consider a proposal to go into a *new* product, a new operation or activity – complete with budget, capital appropriations request, and so on. One question should be asked of each: "If we were not in this already, would we now go into it?" And if the answer is "no," the next question should be: "How do we get out and how fast?"

What Business Can Learn from Nonprofits

>> Excerpted from July–August 1989

Starting with the mission and its requirements may be the first lesson business can learn from successful nonprofits. It focuses the organization on action. It defines the specific strategies needed to attain the crucial goals. It creates a disciplined organization. It alone can prevent the most common degenerative disease of organizations, especially large ones: splintering their always limited resources on things that are "interesting" or look "profitable" rather than concentrating them on a very small number of productive efforts.

The best nonprofits devote a great deal of thought to defining their organization's mission. They avoid sweeping statements full of good intentions and focus, instead, on objectives that have clear-cut implications for the work their members perform – staff and volunteers both. The Salvation Army's goal, for example, is to turn society's rejects – alcoholics, criminals, derelicts – into citizens. The Girl Scouts help youngsters become confident, capable young women who respect themselves and other people. The Nature Conservancy preserves the diversity of nature's fauna and flora. Nonprofits also start with the environment, the community, the "customers" to be; they do not, as American businesses tend to do, start with the inside, that is, with the organization or with financial returns....

A well-defined mission serves as a constant reminder of the need to look outside the organization not only for "customers" but also for measures of success. The temptation to content oneself with the "goodness of our cause" – and thus to substitute good intentions for results – always exists in nonprofit organizations. It is precisely because of this that the successful and performing nonprofits have learned to define clearly what changes *outside* the organization constitute "results" and to focus on them.

The experience of one large Catholic hospital chain in the Southwest shows how productive a clear sense of mission and a focus on results can be. Despite the sharp cuts in Medicare payments and hospital stays during the past eight years, this chain has increased revenues by 15% (thereby managing to break even) while greatly expanding its services and raising both patient-care and medical standards. It has done so because the nun who is its CEO understood that she and her staff are in the business of delivering health care (especially to the poor), not running hospitals.

As a result, when health care delivery began moving out of hospitals for medical rather than economic reasons about ten years ago, the chain promoted the trend instead of fighting it. It founded ambulatory surgery centers, rehabilitation centers, X-ray and lab networks, HMOs, and so on. The chain's motto was: "If it's in the patient's interest, we have to promote it; it's then our job to make it pay." Paradoxically, the policy has filled the chain's hospitals; the freestanding facilities are so popular they generate a steady stream of referrals....

Many nonprofits now have what is still the exception in business – a functioning board. They also have something even rarer: a CEO who is clearly accountable to the board and whose performance is reviewed annually by a board committee. And they have what is rarer still: a board whose performance is reviewed annually against preset performance objectives. Effective use of the board is thus a second area in which business can learn from the nonprofit sector....

...[H]owever common professional management becomes – and professional CEOs are now found in most nonprofits and all the bigger ones – nonprofit boards cannot, as a rule, be rendered impotent the way so many business boards have been. No matter how much nonprofit CEOs would welcome it – and quite a few surely would – nonprofit boards cannot become their rubber stamp. Money is one reason. Few directors in publicly held corporations are substantial shareholders, whereas directors on nonprofit boards very often contribute large sums themselves, and are expected to bring in donors as well. But also, nonprofit directors tend to have a personal commitment to the organization's cause. Few people sit on a church vestry or on a school board unless they deeply care about religion or education. Moreover, nonprofit board members typically have served as volunteers themselves for a good many years and are deeply knowledgeable about the organization, unlike outside directors in a business.

MANY NONPROFITS NOW HAVE WHAT IS STILL THE EXCEPTION IN BUSINESS – A FUNCTIONING BOARD.

Precisely because the nonprofit board is so committed and active, its relationship with the CEO tends to be highly contentious and full of potential for friction. Nonprofit CEOs complain that their board "meddles." The directors, in turn, complain that management "usurps" the board's function. This has forced an increasing number of nonprofits to realize that neither board nor CEO is "the boss." They are colleagues, working for the same goal but each having a different task. And they have learned that it is the CEO's responsibility to define the tasks of each, the board's and his or her own….

The weakening of the large corporation's board would, many of us predicted (beginning with Myles Mace), weaken management rather than strengthen it. It would diffuse management's accountability for performance and results; and indeed, it is the rare big-company board that reviews the CEO's performance against preset business objectives. Weakening the board would also, we predicted, deprive top management of effective and credible support if it were attacked. These predictions have been borne out amply in the recent rash of hostile takeovers.

The New Society of Organizations

>> Excerpted from September–October 1992

Society, community, and family are all conserving institutions. They try to maintain stability and to prevent, or at least to slow, change. But the modern organization is a destabilizer. It must be organized for innovation and innovation, as the great Austro-American economist Joseph Schumpeter said, is "creative destruction." And it must be organized for the systematic abandonment of whatever is established, customary, familiar, and comfortable, whether that is a product, service, or process; a set of skills; human and social relationships; or the organization itself. In short, it must be organized for constant change. The organization's function is to put knowledge to work – on tools, products, and processes; on the design of work; on knowledge itself. It is the nature of knowledge that it changes fast and that today's certainties always become tomorrow's absurdities….

Unlike "community," "society," or "family," organizations are purposefully designed and always specialized. Community and society are defined by the bonds that hold their members together, whether they be language, culture, history, or locality. An organization is defined by its task. The symphony orchestra does not attempt to cure the sick; it plays music. The hospital takes care of the sick but does not attempt to play Beethoven.

Indeed, an organization is effective only if it concentrates on one task. Diversification destroys the performance capacity of an organization, whether it is a business, a labor union, a school, a hospital, a community service, or a house of worship. Society and community must be multidimensional; they are environments. An organization is a tool. And as with any other tool, the more specialized it is, the greater its capacity to perform its given task.

Because the modern organization is composed of specialists, each with his or her own narrow area of expertise, its mission must be crystal clear. The organization must be single-minded, or its members will become confused. They will follow their own specialty rather than apply it to the common task. They will each define "results" in terms of their own specialty and impose its values on the organization. Only a focused and common mission will hold the organization together and enable it to produce. Without such a mission, the organization will soon lose credibility and, with it, its ability to attract the very people it needs to perform….

The diversity that is characteristic of a developed society and that provides its great strength is only possible because of the specialized, single-task organizations that we have developed since the Industrial Revolution and, especially, during the last 50 years. But the feature that gives them the capacity to perform is precisely that each is autonomous and specialized, informed only by its own narrow mission and vision, its own narrow values, and not by any consideration of society and community.

Therefore, we come back to the old – and never resolved – problem of the pluralistic society: Who takes care of the Common Good? Who defines it? Who balances the separate and often competing goals and values of society's institutions? Who makes the trade-off decisions and on what basis should they be made?

Medieval feudalism was replaced by the unitary sovereign state precisely because it could not answer these questions. But the unitary sovereign state has now itself been replaced by a new pluralism – a pluralism of function rather than one of political power – because it could neither satisfy the needs of society nor perform the necessary tasks of community. That, in the final analysis, is the most fundamental lesson to be learned from the failure of socialism, the failure of the belief in the all-embracing and all-powerful state. The challenge that faces us now, and especially in the developed,

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free-market democracies such as the United States, is to make the pluralism of autonomous, knowledge-based organizations redound both to economic performance and to political and social cohesion.

The Information Executives Truly Need

>> Excerpted from January–February 1995

Ever since the new data processing tools first emerged 30 or 40 years ago, businesspeople have both overrated and underrated the importance of information in the organization. We – and I include myself – overrated the possibilities to the point where we talked of computer-generated "business models" that could make decisions and might even be able to run much of the business. But we also grossly underrated the new tools; we saw in them the means to do better what executives were already doing to manage their organizations.

Nobody talks of business models making economic decisions anymore. The greatest contribution of our data processing capacity so far has not even been to management. It has been to operations – for example, computer-assisted design or the marvelous software that architects now use to solve structural problems in the buildings they design.

Yet even as we both overestimated and underestimated the new tools, we failed to realize that they would drastically change the *tasks* to be tackled. Concepts and tools, history teaches again and again, are mutually interdependent and interactive. One changes the other. That is now happening to the concept we call a business and to the tools we call information. The new tools enable us – indeed, may force us – to see our businesses differently….

Traditional cost accounting measures what it costs to *do* a task, for example, to cut a screw thread. Activity-based costing also records the cost of *not doing,* such as the cost of machine downtime, the cost of waiting for a needed part or tool, the cost of inventory waiting to be shipped, and the cost of reworking or scrapping a defective part. The costs of not doing, which traditional cost accounting cannot and does not record, often equal and sometimes even exceed the costs of doing. Activity-based costing therefore gives not only much better cost control, but increasingly, it also gives *result control….*

Whichever way we satisfy it, the need for information on the environment where the major threats and opportunities are likely to arise will become increasingly urgent.

It may be argued that few of those information needs are new, and that is largely true. Conceptually, many of the new measurements have been discussed for many years and in many places. What is new is the technical data processing ability. It enables us to do quickly and cheaply what, only a few short years ago, would have been laborious and very expensive. Seventy years ago, the time-and-motion study made traditional cost accounting possible. Computers have now made activity-based cost accounting possible; without them, it would be practically impossible.

But that argument misses the point. What is important is not the tools. It is the concepts behind them. They convert what were always seen as discrete techniques to be used in isolation and for separate purposes into one integrated information system. That system then makes possible business diagnosis, business strategy, and business decisions. That is a new and radically different view of the meaning and purpose of information: as a measurement on which to base future action rather than as a postmortem and a record of what has already happened.

The command-and-control organization that first emerged in the 1870s might be compared to an organism held together by its shell. The corporation that is now emerging is being designed

around a skeleton: *information,* both the corporation's new integrating system and its articulation.

Our traditional mind-set – even if we use sophisticated mathematical techniques and impenetrable sociological jargon – has always somehow perceived business as buying cheap and selling dear. The new approach defines a business as the organization that adds value and creates wealth.

Managing Oneself

>> Excerpted from March–April 1999

Amazingly few people know *how* they get things done. Indeed, most of us do not even know that different people work and perform differently. Too many people work in ways that are not their ways, and that almost guarantees nonperformance. For knowledge workers, How do I perform?

may be an even more important question than What are my strengths?

Like one's strengths, how one performs is unique. It is a matter of personality. Whether personality be a matter of nature or nurture, it surely is formed long before a person goes to work. And *how* a person performs is a given, just as *what* a person is good at or not good at is a given. A person's way of performing can be slightly modified, but it is unlikely to be completely changed – and certainly not easily. Just as people achieve results by doing what they are good at, they also achieve results by working in ways that they best perform. A few common personality traits usually determine how a person performs.

The first thing to know is whether you are a reader or a listener. Far too few people even know that there are readers and listeners and that people are rarely both. Even fewer know which of the two they themselves are....

...Lyndon Johnson destroyed his presidency, in large measure, by not knowing that he was a listener. His predecessor, John Kennedy, was a reader who had assembled a brilliant group of writers as his assistants, making sure that they wrote to him before discussing their memos in person. Johnson kept these people on his staff – and they kept on writing. He never, apparently, understood one word of what they wrote. Yet as a senator, Johnson had been superb; for parliamentarians have to be, above all, listeners....

...Whenever I, or any other consultant, start to work with an organization, the first thing I hear about are all the personality conflicts. Most of these arise from the fact that people do not know what other people are doing and how they do their work, or what contribution the other people are concentrating on and what results they expect. And the reason they do not know is that they have not asked and therefore have not been told.

This failure to ask reflects human stupidity less than it reflects human history. Until recently, it was unnecessary to tell any of these things to anybody. In the medieval city, everyone in a district plied the same trade. In the countryside, everyone in a valley planted the same crop as soon as the frost was out of the ground. Even those few people who did things that were not "common" worked alone, so they did not have to tell anyone what they were doing.

Today the great majority of people work with others who have different tasks and responsibilities. The marketing vice president may have come out of sales and know everything about sales, but she knows nothing about the things she has never done – pricing, advertising, packaging, and the like. So the people who do these things must make sure that the marketing vice president understands what they are trying to do, why they are trying to do it, how they are going to do it, and what results to expect.

If the marketing vice president does not understand what these high-grade knowledge specialists are doing, it is primarily their fault, not hers. They have not educated her. Conversely, it is the marketing vice president's responsibility to make sure that all of her coworkers understand how she looks at marketing: what her goals are, how she works, and what she expects of herself and of each one of them.

Even people who understand the importance of taking responsibility for relationships often do not communicate sufficiently with their associates. They are afraid of being thought presumptuous or inquisitive or stupid. They are wrong. Whenever someone goes to his or her associates and says, "This is what I am good at. This is how I work. These are my values. This is the contribution I plan to concentrate on and the results I should be expected to deliver," the response is always, "This is most helpful. But why didn't you tell me earlier?"

And one gets the same reaction – without exception, in my experience – if one continues by asking, "And what do I need to know about your strengths, how you perform, your values, and your proposed contribution?" In fact, knowledge workers should request this of

TRUST BETWEEN PEOPLE DOES NOT NECESSARILY MEAN THAT THEY LIKE ONE ANOTHER. IT MEANS THAT THEY UNDERSTAND ONE ANOTHER.

everyone with whom they work, whether as subordinate, superior, colleague, or team member. And again, whenever this is done, the reaction is always, "Thanks for asking me. But why didn't you ask me earlier?"

Organizations are no longer built on force but on trust. The existence of trust between people does not necessarily mean that they like one another. It means that they understand one another. Taking responsibility for relationships is therefore an absolute necessity. It is a duty. Whether one is a member of the organization, a consultant to it, a supplier, or a distributor, one owes that responsibility to all one's coworkers: those whose work one depends on as well as those who depend on one's own work.

They're Not Employees, They're People

>> Excerpted from February 2002

A knowledge-based workforce is qualitatively different from a less-skilled one. True, knowledge workers are a minority of the total workforce and are unlikely ever to be more than that. But they have become the major creators of wealth and jobs. Increasingly, the success – indeed, the survival – of every business will depend on the performance of its knowledge workforce. And since it is impossible, according to the laws of statistics, for an organization to hire more than a handful of "better people," the only way that it can excel in a knowledge-based economy and society is by getting more out of the same kind of people – that is, by managing its knowledge workers for greater productivity. The challenge, to repeat an old saying, is "to make ordinary people do extraordinary things…."

Temps and especially PEOs [professional employee organizations] free up managers to focus on the business rather than on employment-related rules, regulations, and paperwork. To spend up to one-quarter of one's time on employment-related paperwork is indeed a waste of precious, expensive, scarce resources. It is boring. It demeans and corrupts, and the only thing it can possibly teach is greater skill in cheating.

Companies thus have ample reason to try to do away with the routine chores of employee relations – whether by systematizing employee management in-house or by outsourcing it to temps or to a PEO. But they need to be careful that they don't damage or destroy their relationships with people in the process. Indeed, the main benefit of decreasing paperwork may be to gain more time for people relations. Executives will have to learn what the effective department head in the university or the successful conductor of the symphony orchestra have long known: The key to greatness is to look for people's potential and spend time developing it. To build an outstanding university department requires spending time with the promising young postdocs and assistant professors until they excel in their work. To build a world-class orchestra requires rehearsing the same passage in the symphony again and again until the first clarinet plays it the way the conductor hears it. This principle is also what makes a research director in an industry lab successful.

Similarly, leaders in knowledge-based businesses must spend time with promising professionals: Get to know them and be known by them; mentor them and listen to them; challenge them and encourage them. Even if these people are not traditional – read, legal – employees, they are still a capital resource for the organization and critical to its business performance. The administrative tasks that are involved with employee relations can, and should, be systematized – and that means they can, perhaps should, become impersonal. But if employee relations are being outsourced, executives need to work closely with their PEO counterparts on the professional development, motivation, satisfaction, and productivity of the knowledge workers on whose performance their own results depend.

What Makes an Effective Executive

>> Excerpted from June 2004

An effective executive does not need to be a leader in the sense that the term is now most commonly used. Harry Truman did not have one ounce of charisma, for example, yet he was among the most effective chief executives in U.S. history. Similarly, some of the best business leaders and nonprofit CEOs I've worked with over a 65-year consulting career were not stereotypical leaders. They were all over the map in terms of their personalities, attitudes, values, strengths, and weaknesses. They ranged from extroverted to nearly reclusive, from easygoing to controlling, from generous to parsimonious.

What made them all effective is that they followed the same eight practices:

- They asked, "What needs to be done?"
- They asked, "What is right for the enterprise?"
- They developed action plans.
- They took responsibility for decisions.
- They took responsibility for communicating.
- They were focused on opportunities rather than problems.
- They ran productive meetings.
- They thought and said "we" rather than "I…."

We've just reviewed eight practices of effective executives. I'm going to throw in one final, bonus practice. This one's so important that I'll elevate it to the level of a rule: *Listen first, speak last.*

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