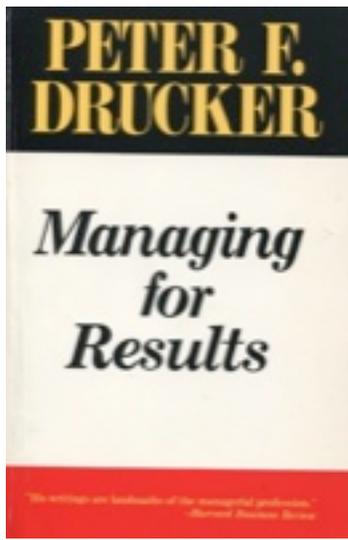


Managing for Results (by Peter Drucker)



▼The Business Realities

- **The dimensions of the economic task**

There are three different dimensions to the economic task

The present business must be made effective.

The present business's potential must be identified and realized.

It must be made into a different business for a different future.

Each task requires a distinct approach.

Each task asks different questions.

Each comes out with different conclusions.

Yet they are inseparable.

All three have to be done at the same time: today

All three have to be carried out...

with the same organization

with the same resources

men

knowledge

money

and in the same entrepreneurial process

The future is not going to be made tomorrow
It is being made today
and largely by the decisions and actions
taken with respect to the tasks of today.
What is being done to bring about the future
directly affects the present.
The tasks overlap.
They require one unified strategy.
Otherwise, they cannot really get done at all.

▼ **To tackle any one of these dimensions,**
let alone all three together,
requires an understanding of the true realities
of the business as an economic system
of its capacity for economic performance and
of the relationship between available resources and
possible results

Otherwise, there is no alternative to the "rat race"

This understanding never comes ready made
It has to be developed separately for each business.
Yet the assumptions and expectations that underlie it
are largely common.

Businesses are different
but business is much the same regardless of
size and structure
products
technology
markets
culture and managerial competence.

There is a common business reality
There are actually

two sets of generalizations
that apply to most businesses
most of the time.

Together they lead to
a number of conclusions
regarding the nature and direction
of the entrepreneurial job.

▼The generalizations regarding results and resources

- Results and Resources exist outside the business.

There are no profit centers within the business;
there are only cost centers.

The only thing
one can say with certainty
about any business activity
is that it consumes effort and
thereby incurs cost.

Results depend
not on anybody within the business
nor on anything within the control of the
business.

They depend on the customer
who decides
whether the efforts of a business become
economic results or
whether they become so much waste and scrap.

The same is true
of the one and only distinct resource
of any business: knowledge.

Other resources,
money or physical equipment, for instance,
do not confer any distinction.

What does make a business distinct and

what is its peculiar resource
is its ability to use knowledge of all kinds—
scientific, technical, social, economic, and
managerial.

It is only in respect to knowledge
that a business can be distinct,
can therefore produce something
that has value in the market place.
Yet knowledge is not a business resource.
It is a universal social resource.
It cannot be kept secret
for any length of time.

Business can be defined as
a process
that converts an outside resource,
namely knowledge,
into outside results,
namely economic values.

- Results are obtained by exploiting opportunities,
not by solving problems.

Resources, to produce results,
must be allocated to opportunities
rather than to problems.

One cannot shrug off all problems,
but they can and should be minimized.

The "maximization of opportunities"
is a meaningful, indeed a precise,
definition of the entrepreneurial job.
It implies that effectiveness

rather than efficiency
is essential in business.

The pertinent question
is not how to do things right
but how to find
the right things to do,
and to concentrate
resources and efforts on them.

▼ Economic results are earned only by leadership, not
by mere competence.

- Leadership and profits

Profits are the rewards
for making a unique, or
at least distinct, contribution
in a meaningful area;
and what is meaningful
is decided by market and customer.

Profit can only be earned
by providing something
the market accepts as value
and is willing to pay for as such.
And value always implies
the differentiation of leadership.

- Leadership and market standing

This does not mean
that a business
has to be the giant
of its industry
nor that it has to be first
in every single
product line,

market, or
technology
in which it is engaged.

To be big
is not identical with leadership.
In many industries
the largest company
is by no means
the most profitable one,
since it has to
carry product lines,
supply markets, or
apply technologies
where it cannot do a distinct,
let alone a unique job.

The second spot, or
even the third spot
is often preferable,
for it may make possible
that concentration
on one segment of the market,
on one class of customer,
on one application of the technology,
in which genuine leadership often lies.

In fact, the belief of so many companies
that they could—or should—have leadership
in everything within their market or industry
is a major obstacle to achieving it.

- To have leadership
But a company which wants
economic results

has to have leadership
in something of real value
to a customer or market.

It may be in
one narrow but important aspect of the
product line,
its service,
its distribution or
its ability to convert ideas into salable
products on the market
speedily and
at low cost.

- On being marginal
Unless it has such a leadership position,
a business, a product, a service,
becomes marginal.
It may seem to be a leader,
may supply a large share of the market,
may have the full weight of
momentum, history, and tradition behind it.
But the marginal is incapable of survival
in the long run, let alone of producing profits.
It lives on borrowed time.
It exists on sufferance and through the inertia
of others.
Sooner or later,
whenever boom conditions abate,
it will be squeezed out.

▼The implications for business strategy.

- Playing catch up with a competitor.
- Defensive research trying to slow down
obsolescence
- Any leadership position is transitory and likely to be

short-lived.

No business is ever secure
in its leadership position.

The market in which the results exist,
and the knowledge which is the resource
are both generally accessible.

No leadership position is more than
a temporary advantage.

In business
energy always tends toward diffusion.
Business tends to
drift from leadership to mediocrity.
And the mediocre is
three quarters down the road to being marginal.
Results always drift from
earning a profit
toward earning, at best, a fee
which is all competence is worth.

It is the executive's job
to reverse the normal drift.

It is his job to
focus the business on opportunity and
away from problems,
re-create leadership and
counteract the trend toward mediocrity,
replace inertia and its momentum
by new energy and new direction.

▼The generalizations regarding efforts within the
business and their cost.

▼What exists is getting old.

- Executive spend most of their time on the
problems of yesterday.

Trying to unmake the past.

- What exists today is of necessity the product of yesterday.

The business itself—

its present resources,
its efforts and their allocation,
its organization as well as
its products,
its markets and
its customers—

express necessarily decisions and actions taken
in the past.

Its people, in the great majority,
grew up in the business of yesterday.
Their attitudes, expectations, and values
were formed at an earlier time;
they tend to apply the lessons of the past
to the present.

Indeed, every business regards what happened
in the past
as normal,
with a strong inclination
to reject as abnormal
whatever does not fit the pattern.

No matter how
wise,
forward-looking, or
courageous
the decisions and actions were
when first made,
they will have been overtaken by events

by the time they become
normal behavior and the routine of a business.

No matter how appropriate
the attitudes were
when formed,
by the time their holders
have moved into senior, policy-making
positions,
the world that made them no longer exists.

Any human decision or action
starts to get old the moment it has been made.

It is always futile to restore "normality".
"Normality" is only the reality of yesterday.

- The job

Is not to impose yesterday's normal on a
changed today;

but to change
the business,
its behavior,
its attitudes,
its expectations
—as well as its
products,
its markets, and
its distributive channels—
to fit the new realities.

▼What exists is likely to be misallocated.

▼Business enterprise is not a phenomenon of

nature but one of society.

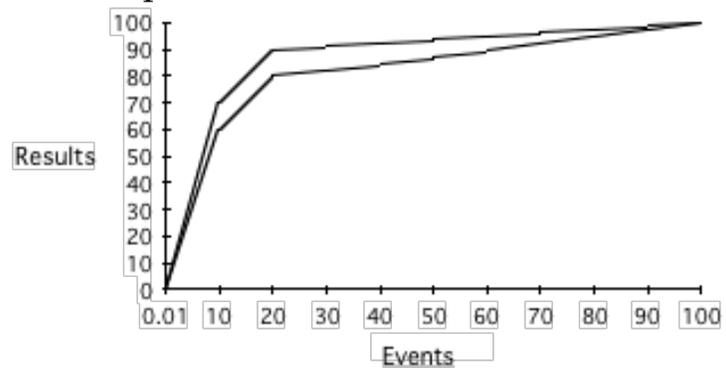
In social situations
events are not distributed
according to the "normal distribution"
of a natural universe.

In a social situation
a very small number of events
at one extreme—the first 10 per cent or 20 per
cent at most—
account for 90 per cent of all results.

Products
Orders
Customers
Markets
People

The other 85-90% of the phenomena produce
nothing but costs.

- Relationship between Result and Events



Customers, products, sales effort, production runs,
research efforts, personnel problems

- ▼ The implications

- ▼ Results and costs stand in inverse relationship
to each other.

While 90 per cent of the results
are being produced by the first 10 per cent
of events,

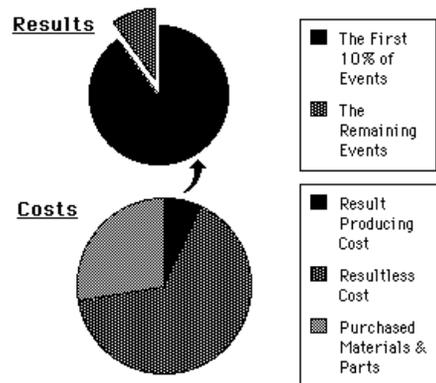
90 percent of the costs
are incurred by the remaining and resultless
90 per cent of events.

Economic results are directly proportionate
to revenue

while costs are directly proportionate to the
number of transactions.

Except for purchased materials and parts

- The inverse relationship between results & costs



- ▼ Resources and efforts will normally allocate themselves to ...

90 percent of the events that produce
practically no results.

They will allocate themselves to
the number of events rather than to results.

- ▼ Highly trained people will tend to
misallocate themselves the worst.

- Pride in doing the difficult.

- ▼ Examples

- ▼ Technical Service Group

- Work on
- While ignoring

- ▼Salesmen
 - Work on
 - While ignoring
 - Research departments, design staffs, market development efforts
 - Advertising effort
- ▼The way in which these efforts tend to be allocated
 - by transactions rather than by results
 - by what is difficult rather than by what is productive
 - by yesterday's problems rather than by today's and tomorrow's opportunities.
- ▼Revenue money and cost money are rarely the same money stream.

Most businessmen see in the mind's eye—
and most accounting presentations
assume—
that the revenue stream
feeds back into the cost stream
which then, in turn, feeds back into the
revenue stream.
But the loop is not a closed one.

Revenues obviously produce the
wherewithal for the costs.
But unless management
constantly works at directing efforts
into revenue-producing activities,
the costs will tend to allocate themselves
by drifting into nothing-producing
activities, into sheer busyness.

- The need for constant reappraisal and

redirection

There is a need for
constant reappraisal and redirection
and the need is greatest
where it is least expected:
in making the present business effective.

It is the present
in which a business first has to
perform with effectiveness.

It is the present
where both the keenest analysis and
the greatest energy are required.

Yet it is dangerously tempting
to keep on patching yesterday's
garment
rather than working on designing
tomorrow's pattern.

- The need for real understanding and an overall view

A piecemeal approach will not suffice.
To have real understanding of the
business,
the executive must be able to see it in its
entirety.

Its resources and efforts as a whole.
their allocation to

products and services
markets, customers, end-

uses

distributive channels

Which efforts go into problems and

which onto opportunities.
The executive must be able to weigh
alternatives of
direction and
allocation.

Partial analysis is likely to misinform and
misdirect.

Only the over-all view
of the entire business
as an economic system
can give real knowledge.

▼ Concentration is the key to economic results.

▼ The concentration requirements

- Concentration on result areas

Economic results require that
managers concentrate their effort on
the smallest number of
products, product lines, services,
customers, markets, end-uses
that will produce the largest amount of
revenue.

Managers must minimize
the amount of attention
devoted to products which
produce primarily cost
because, for instance, their volume is too
small or too splintered.

- Concentration of staff efforts

Economic results require that
staff efforts be concentrated

on the few activities
that are capable of producing significant
business results.

- Concentration of cost control efforts
Effective cost control requires
a similar concentration of work and effort
on those few areas where
improvement in cost performance
will have significant impact on business
performance and results—
that is, on areas where
a relatively minor increase in efficiency
will produce a major increase in
economic effectiveness.

- Concentration of human resources
Human resources must be concentrated on a
few major opportunities.

- We need "deadening standardization" and
"planned obsolescence"



▼ **The Market Realities** part of **Results and Resources** exist
outside the business.

- **Only the customer "knows"**
What business people think they know
about the customer and market
is more likely to be wrong than right.

There is only one person
who really knows: the customer.

Only

by asking the customer,

by watching him,

by trying to understand his behavior

can one find out

who he is,

what he does,

how he buys what he buys,

what he expects,

what he values,

and so on.

- **The customer buys satisfaction not a product.**
Nobody can make or supply satisfactions as such—
at best, only the means to attaining them can be sold and delivered.
- **Competition is rarely adequately defined.**
Competition is really the alternative means of obtaining the same satisfaction.
- **Quality is defined by the consumer**
not by the difficulty or expense of the producer.
The customer wants to know:
What does this do for me?
- **The customer's rationality is defined by**
the customer's situation
not the producer's.
The customer makes the most of its economic conditions.
- **Customers don't see or care about the company.**
The market is a harsh employer
who will dismiss

even the most faithful servant
without a penny of severance pay.

- **The customer is the one who determines the buying decision.**

Ultimate buyer.

Distribution channel.

What if no identifiable customer
can be found

for a business or an industry?

Then the starting point is markets and end-uses.

- **Needs change in the act of being satisfied.**
(not part of the original list).

▼ **The Knowledge Realities (part of Results and Resources exist outside the business)**

Knowledge is the business
fully as much as
the customer is the business.

Physical goods and services
are only the vehicle
for the exchange
of customer purchasing-power
against business knowledge.

Business is a human organization,
made or broken
by the quality of its people.
Labor might one day be done
by machines to the point where
it is fully automated.
But knowledge is a

specifically human resource.
It is not found in books.
Books contain information.

Whereas knowledge is the ability
to apply information
to specific work and performance
through
use of the brain and
skill of the hands.

- **For business success it must be meaningful to customers.**

Knowledge must first be meaningful to customers
in terms of satisfaction and value.

Knowledge per se is useless;
it is only effective through
the contribution it makes
outside of the business—
to customers, markets, and end-uses.

- **For business success it must be excellent.**

To be able to do something
as well as others
is not enough either.

It does not give the leadership position
without which a business is doomed.

Only excellence earns a profit;
the only genuine profit is that of the innovator.

- **For business success it must be different.**

Economic results
are the results
of differentiation.

The source of this specific differentiation,
and with it
of business survival and growth,
is a specific, distinct knowledge
possessed by a group of people in the business.

- **The distinction between knowledge and technology**

Technology—that is, the application
of the physical sciences to work—
is one form of knowledge.

In no business
is it the only necessary knowledge.
There are many successful businesses
in highly technological fields
that do not excel in technology.
They have to be
technologically competent, of course.
But their specific strength lies elsewhere.

- ▼ **Five fundamentals**

- A valid definition sounds simple.
A valid definition
of the specific knowledge
of a business sounds simple—deceptively so.

One always excels
at doing something
one considers so obvious
that everybody else
must be able to do it too.

- It takes practice to do a knowledge analysis well.
The first analysis
may come up with embarrassing generalities.

Or the other extreme,
one may come up with

a twenty four volume encyclopedia
of the physical sciences.

No one can excel at
universal knowledge—
one probably cannot even
do moderately well
at universal information.

- Knowledge is a perishable commodity.

It has to be

reaffirmed,
relearned, and
repracticed.

One has to work constantly at regaining one's
excellence.

How can one work
at maintaining one's excellence
unless one knows what it is?

- Every knowledge becomes the wrong knowledge.

It becomes obsolete.

What else do we need?

Or do we need something different?

- Requires concentration

No company can excel
in many knowledge areas.

A business may be able to excel
in more than one area.

A successful business
has to be at least competent
in a good many knowledge areas
in addition to being excellent in one.

And many businesses have to achieve beyond the
ordinary in more than one area.

But to have real knowledge
of the kind for which the market
offers economic rewards
requires concentration
on doing a few things superbly well.

- **Knowledge has to progress to remain knowledge.**
Knowledge is like a world record in athletics.
For years it stands, apparently immovable.
Then one sprinter runs the mile
a little faster
and suddenly other athletes repeat the feat
and have acquired a new dimension of performance.

▼The Future

- ▼We know only two things about the future:
 - It cannot be known.
 - It will be different from what exists now and from what we now expect.
- **The Implications**
Any attempt
to base today's actions and commitments
on predictions of future events
is futile.
The best we can hope to do
is to anticipate future effects
of events which have already
irrevocably happened.

Precisely because the future
is going to be different and
cannot be predicted,
it is possible to

make the unexpected and unpredicted
come to pass.

- **On Risk**

To try to make the future happen
is risky;

but it is a rational activity.

And it is less risky than

coasting along

on the comfortable assumption

that nothing is going to change,

less risky than

following a prediction

as to what "must" happen or

what is "most probable".

- **The one thing that man can try**

is to find, and

occasionally to create,

the right risk and

to exploit uncertainty.

The purpose

of the work

on making the future

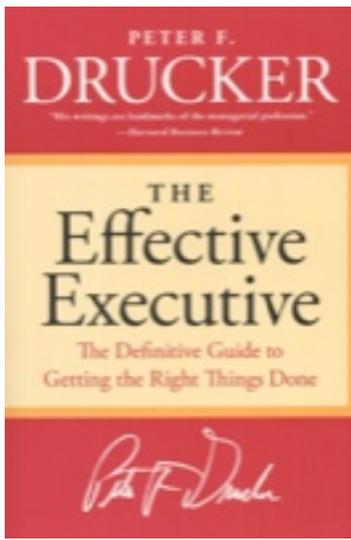
is not to decide

what should be done tomorrow,

but what should be done today

to have a tomorrow.

[The Effective Executive](#) by Peter Drucker



▼ **The Executive Realities**

Who is an executive?

Those knowledge workers, managers, or individual professionals

who are expected

by virtue of their position or knowledge
to make decisions

in the normal course of their work

that have significant impact on

the performance and results of the whole

- **The executive's time belongs to everyone else.**

- **Executives are forced to keep "operating"**

unless they take positive action

to change the reality

in which they live.

Unless he changes it by deliberate action,

the flow of events

will determine

what he is concerned with

and what he does.

The flow of events

are not the real problem
nor even the symptoms of the real problem.
Need criteria
which enable him to work on
the truly important (contribution and results).
The criteria are not found in the flow of events.

- **Executives are effective only if and when...**
other people make use of what he contributes.
Usually the people
who are most important
to the effectiveness of an executive
are not people
over whom he has direct control.

▼ **The executive is within an organization**
and therefore removed from
the only reality that matters—the outside.

- The organization.
Is an abstraction.
Mathematically, it would have to be
represented as a point—
that is, as having neither
size nor extension.

Even the largest organization
is unreal
compared to the
reality of the environment
in which it exists.

Specifically, there are no results
within the organization.
All the results are on the outside.
The only business results,
for instance, are produced by

a customer
who converts the costs and efforts
of the business
into revenues and profits
through his willingness
to exchange his purchasing power
for the products or services
of the business.
The decision maker is
outside rather than inside the business.

What happens inside any organization
is effort and cost.

The less an organization has to do
to produce results,
the better it does its job.

That it takes 100,000 employees
to produce the automobiles or the steel
the market wants
is essentially gross engineering imperfection.

- The environment
which is the true reality
is well beyond effective control
from the inside.
At the most
results are codetermined,
as for instance in warfare,
where the outcome is the result
of the actions and decisions
of both armies.
In business, there can be attempts
to mold the customer's
preferences and values

- through promotion and advertising.
- The danger of inside focus
But it is the inside of the organization
that is most visible to the executive.
It is the inside
that has immediacy for him.
Its relations and contact,
its problems and challenges,
its crosscurrents and gossip
reach him and touch him at every point.

Unless he makes special efforts
to gain direct access
to outside reality,
he will become increasingly inside-focused.
The higher up in the organization
he goes, the more will his attention
be drawn to problems and challenges
of the inside
rather than events on the inside.

- The truly important events
on the outside
are not the trends.
They are changes in the trends.
These determine ultimately
success or failure
of an organization and its efforts.
Such changes, however, have to be
perceived:
they cannot be counted, defined, or classified.

[Ted Levitt : Marketing](#)

▼ Requisites of competitive success

▼ **Purpose of a business is to create & keep a customer.**

- To Do that you have to
 - Produce & deliver goods & services that
people want & value
at prices & under conditions
that are reasonably attractive relative to
competition
 - To a proportion of customers large enough to make
those prices & conditions possible.

- To Continue to do that the enterprise must
 - Produce revenues in excess of costs to attract & hold
investors in the enterprise
in sufficient quantity
with sufficient regularity
 - Stay abreast and sometimes ahead of competitive
offerings.

- **This Requires**
 - Clarity of
 - Purposes
 - Strategies
 - Plans
 - In large organizations:
 - Written down
 - Clearly communicated
 - Frequently reviewed by senior members of the
enterprise.
 - Appropriate system of rewards, audits, and controls,
To assure that what's intended gets done & rectified
when not.

- **This also requires knowing what attracts and drives
customers**