



Book Peter Drucker

Shaping the Managerial Mind

John E. Flaherty
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Recommendation

Peter Drucker is perhaps the most influential thinker on business and management in the world today, and John E. Flaherty explains why in this in-depth analysis of Drucker’s work and ideas. He starts with biographical details and provides a definitive account of Drucker’s achievements as a management researcher, thinker, and writer. Flaherty’s fascinating book highlights Drucker’s contributions to the fields of management and business strategy. Of necessity, the author includes summaries of Drucker’s books and quotes from his work. But, reaching a little deeper, Flaherty also shows how Drucker, who began as a social and political theorist, came to create the new academic field of management. Many of Drucker’s early ideas are still applicable today, as Flaherty makes abundantly clear in this book, which *BooksInShort* strongly recommends to managers of all levels and students of business.

Take-Aways

- Peter Drucker is the father of modern management.
- Drucker coined the terms "knowledge society" and "knowledge worker."
- Drucker developed his insights into "the marketing concept."
- Drucker explains that every business exists in three different time zones - traditional, transitional, and transformational.
- To plan now for tomorrow, manage all three business time zones simultaneously.
- Look at your business from the customer’s point of view.
- To respond systematically to change, ask: "What will the business be?" and "What should the business be?"

- The development of technology is the prime catalyst of today's knowledge society.
- Technology is the engine of change; information in action is the fuel.
- The executive's role is to sharpen corporate vision, generate improved performance and become increasingly effective through learning and practice.

Summary

Seminal management theorist Peter Drucker is recognized as the father of modern management and as the man who invented the corporate society. He has the rare distinction of having established a modern academic discipline. His books are landmarks in the discipline of management. For the most part, Drucker's ideas have been accepted with little criticism. In fact, many authors borrow from him freely.

Drucker came to his position as a leading management thinker via three major formative influences. Initially, he was influenced strongly by two elementary school teachers who helped him develop a short, clear writing style that enables him to convey his ideas effectively. He also was influenced by his family's friends: the leading professional and intellectual leaders in Vienna just after World War I.

“Drucker contended that management was liberal because it dealt with conceptual and theoretical knowledge and was an art because it focused on results and the human relation skills needed to achieve them.”

Though Drucker didn't go to college, his curiosity and quest for learning spanned ordinary disciplines. He worked first as a trainee in a Hamburg trading house. Then he became a security analyst for a bank in Frankfurt, where he first linked his knowledge with his ability to write as a financial reporter for a leading regional newspaper. Meanwhile, he studied for a doctorate in political science at a German university and, in 1937, he left Germany and came to the United States.

“The corporation is a social and political system as well as an economic organization.” (Peter Drucker)

In 1939, he began teaching at Sarah Lawrence College. He continued university-level teaching over the next decades at Bennington, New York University, and Claremont College. The year he began teaching he also published his first major book, *The End of Economic Man*, which began his academic focus on management.

Drucker's Early Work

From 1938 to 1954, when he published *The Practice of Management*, Drucker searched for a deeper understanding of the effects of modern industrialism. The meanings, threats and challenges of the rapid expansion of the industrial economy especially intrigued him. He came to believe that the big corporation was the single most powerful institution of modern society. He identified corporate professional managers as a new major leadership group.

Initially, he approached his subject more as a political philosopher, since there was no field of management, but these early writings paved the way for him to build the discipline of management. As he described in *The End of Economic Man*, he firmly believed in the superiority of capitalism. However, he felt that for it to survive, it needed effective approaches to the unemployment, class conflict and social alienation the system produced. He urged combining economic pursuit with ethics and a concern for the larger community.

“Rarely, if ever, has a new basic institution, a new leading group, a new central function, emerged as fast as has management since the turn of the century. Rarely in human history has a new institution proven indispensable so quickly.” (Peter Drucker)]

In his 1942 book, *The Future of Industrial Man*, Drucker lauded the large corporation as the basis for structurally changing the fundamental system of society. He called the corporation, "the chief institutional symbol of a new social order." Yet, even in an economically successful corporation, he said managers still must clarify the firm's social mission and overcome the frictions between managers and workers. He was quite hopeful that corporate management was up to the task, noting: "There has never been a more efficient, a more honest, a more capable and conscientious group of rulers than the professional management of the great American

corporations today."

"Risk is inherent in the commitment of present resources to future expectations." (Peter Drucker)

In 1946, he wrote a groundbreaking inside study of General Motors, *Concept of the Corporation*. The book examined the company's policies, practices, and performance. Drucker noted the benefits General Motors realized from decentralization, but said its top executives were not aware of the detriments of decentralization. They did not recognize such weaknesses as failing to provide sufficient management development and taking the company's strategic mission for granted. Drucker felt the firm's focus on economic performance was too single-minded. He urged large companies to become more responsible for the quality of life in the larger society. He perceived the corporation as "a social and political system as well as an economic organization."

In 1950, Drucker also showed an early insight into the direction of society, in *The New Society*. He identified the growth of a society made up of multiple organizations and spoke of the rise of the knowledge worker, well before the boom in knowledge work in the 1990s.

His early thought culminated in *The Practice of Management*, published in 1954. In this book, Drucker says managers should unite their companies' separate business functions into a coherent whole based on purpose. He observed that both the business world and academia lacked a systematic approach to the corporation, and urged study of management as a discipline.

"The harmony and effectiveness of the business enterprise requires the introduction of industrial citizenship for employees." (Peter Drucker)

Drucker pointed out that the great U.S. corporate leaders from 1900 to 1950 were trailblazers in establishing a systematic approach of managing for results, although they weren't aware that they were doing this or that their practices could be taught to others. He cautioned managers to think about managing change effectively for successful future results. The enthusiastic popular response to this book helped establish Drucker's reputation as the father of modern management and set the stage for the management themes that Drucker - and other scholars - would address over the next decades.

Strategy and Entrepreneurship

As time passed, Drucker developed certain major themes in his writings about management and building successful corporations. His themes included managing change strategically, promoting entrepreneurship, and developing strategies to manage a business in transition.

"Organizational charts are poor barometers of contribution because they are incapable of defining tasks." (Peter Drucker)

Drucker pointed out that every business exists in three different time zones - traditional, transitional, and transformational, which correspond to the past, present, and future. The traditional is the status quo; the transitional is what you do now; and the transformational relates to building your business for the future. In his view, strategically, you have to manage all three of these segments at the same time, so you can plan today for tomorrow. As he put it, there is "no such thing as a future decision, only the futurity of a present one."

Drucker identified corporate culture. He urged businessmen to hire a mix of different types of employees with different skills, values, and commitments, as businesses change over time. He called for strategic planning as the best way to manage change, and said entrepreneurship provided a way to manage change systematically. Entrepreneurs must accept uncertainty and risk, but greater risk resides in doing nothing, which invites entropy and stagnancy.

"Economic contribution is the main responsibility of the business but not the only one." (Peter Drucker)

All physical processes, including corporations and other institutions, tend to disintegrate unless they receive new inputs. He said IBM stumbled and failed to change at the beginning of the computer revolution because it was technology-driven, not market-driven. Conversely, Drucker attributed Wal-Mart's success to its ability to listen to the market and respond.

The Marketing Concept

Drucker also developed insights about what came to be called the "marketing concept."

“A constant background theme in all of Drucker’s business writings was the importance of entrepreneurship for managing change systematically.”

His writings about this concept examined six major areas:

1. Consumer sovereignty.
2. Consumer rationality.
3. The utility function.
4. The distinction between sales and marketing.
5. The systems approach.
6. The demand factor.

His emphasis on consumer sovereignty broke with convention wisdom, which characterized a business based on what it produced. Instead, Drucker urged looking at the business from the customer’s point of view. He stressed the need to recognize the way customers assigned value. Customers don’t just buy a product, he said. Customers buy satisfaction based on a product’s "utility function," which is how they use it and benefit from it.

He said business should employ marketing to know and understand the customer so well that the product sells itself. He viewed marketing as the corporate catalyst that "integrates all comparative strengths and core competencies" in pursuing the desired results, viewed from the customer’s perspective.

“Entrepreneurship... converts problems into opportunities ... Focuses not on tomorrow but on what has to be done today in order to have a tomorrow ... Fuses internal corporate strengths with external stimuli.” (Peter Drucker)

Drucker embraced change when others did not. After World War II and during the 50s, most U.S. business people preferred continuity. They tolerated moderate change, at best. Drucker said managers’ preferences did not matter: They had to cope with accelerated change because it was inevitable. He said that once they managed basic business fundamentals - including knowing about the marketing concept and using capital assets productively - they then needed to adopt an entrepreneurial approach to integrating the past, present, and future so they could create a transition to the company of tomorrow.

“Drucker emphasized that management’s main task, and what it was actually paid for, was to make these basic resources productive in creating economic results.”

Drucker recognized that change was coming due to the pressure of external force of globalization and the rise of the transnational corporation. He said major regional blocks would become the key structural units of the global economy. He urged top management to ask two key strategic questions to respond systemically to change: "What will the business be?" and "What should the business be?"

He offered a methodology to diagnose risk and opportunity, along with specific proposals and guidelines for converting opportunities into concrete results. Drucker told businesses how to prepare to handle the unexpected, analyze business incongruities, identify vital demographic trends, examine the patterns of industry structure and understand the significance of creative imitation.

Becoming an Effective Executive

Drucker cared about executive effectiveness. He emphasized managing for change in light of the challenges of the post-industrial, knowledge-age society. In 1968, he coined the terms "knowledge society" and "knowledge workers," in his book *The Age of Discontinuity*. These terms are common today, but Drucker was the first to see where the management revolution was going. In his viewpoint, the development of technology laid the foundation for today’s knowledge society. Technology was the prime "catalyst" for defining the nature of work and worker expectations, the "engine of change." Knowledge or "information in action" was its fuel, but knowledge without skill is unproductive. Thus, the knowledge worker’s effectiveness depends on "contribution not effort, output not

input, performance not technique, and responsibilities not activities." Drucker taught that this third technological revolution, based on applying knowledge to performance, was the major force shaping our society today.

He identified five key characteristics of knowledge:

- 1. Storability
- 2. Measurability
- 3. Mobility
- 4. Impermanence
- 5. The need to be used responsibly

Finally, Drucker looked closely at leadership, noting that the basic principles of leadership technique had been around for centuries. He stressed that the role of the executive was to sharpen the corporate vision, generate improved performance and become increasingly effective through learning and practice. In his various books about effective leadership, he described key techniques you need to use to be an effective leader, including good time management, effective communication skills and solid decision-making techniques.

About the Author

John E. Flaherty is professor emeritus of management at Pace University in New York City, where he was formerly dean of the Graduate School of Business and chairman of the Social Science Department. After meeting Peter Drucker while auditing one of his management courses at New York University in the mid-1950s, Flaherty followed Drucker’s work over the years, keeping notes from Drucker’s lectures, books, articles, conversations and correspondence, much of which is incorporated into this book.
