The Practice of Management: Reflections on Peter F. Drucker's landmark book

An Academic Commentary by Shaker A. Zahra

The publication of Peter F. Drucker's The Practice of Management in 1954 was a turning point in the development of the discipline of management.1 Hailed since its publication as a great contribution to the field, this book remains a major classic that shapes our thinking about the nature of management as a scholarly field and as a field of practice. This article synthesizes this important book's major propositions, highlighting Drucker's contributions to the field of management.

The Practice of Management consists of four sections that cover such topics as the nature of management, the meaning of business, managing managers, the structure of management, the management of workers and work, and what it means to be a manager. The book's 29 chapters combine insightful analyses of the various roles and responsibilities of management at all organizational levels, supported with several case studies of leading companies such as Sears, Ford and IBM. To organize the discussion, I will cover Drucker's analyses of the following areas: (1) The importance of management as a discipline, (2) the value of management education, (3) the concept of the firm and definition of business, (4) innovation and entrepreneurship, and (5) organizational leadership and governance.

Management as a Discipline and Practice, Not A Profession

Drucker views management as a distinct function within the organization. He observes, "The manager is the dynamic, life-giving element in every business... In a competitive economy, above all, the quality and performance of the managers determine the success of a business; indeed they determine its survival."2 As a distinct group in the contemporary enterprise, managers also define their organization's mission, develop and retain productive teams, coordinate various activities, set goals, and make things happen. The concept of the firm and the definition of its business come to life through the various decisions that managers make. Understandably, Drucker redefines the role of the enterprise, focusing on its role in creating growth and profitability. An organization is an important means of putting wealth-creating resources to productive use, a task that could not be achieved without skillful, decisive, and visionary management.

Unlike Frederick Taylor's view of organizations and their managers, Drucker's vision of the firm and its executives recognized the importance of the external environment.3 Not only is the firm a part of the milieu in which it competes, but it also contributes to and shapes its external environment. Thus, Drucker's vision for the role of management was broader, and more proactive, than previously recognized in the literature. This role far exceeds mere adaptation to the external environment; it requires visionary thinking about the state of things to come and taking appropriate risks to capitalize on opportunities through innovation. Drucker notes that "...managing a business must be a creative rather than adaptive task. The more a management creates economic conditions or changes them rather than passively adapts to them, the more it manages the business."4

Drucker views growth as the engine of economic development and the means by which shareholders are rewarded for taking risks. He further emphasizes the need for clarity about the business definition, arguing that "what is our business is the most important question successful management groups have to address." This issue has been the subject of considerable discussion in the field of strategy and has become the foundation for analyses leading to the definition and reformula-
tion of mission statements. It has also contributed to a rich analysis of the meaning of the enterprise and its role in society. This discussion has been further enriched by the recognition of the diverse business objectives that companies must address.\(^5\) These objectives can be tangible or intangible and combine economic and non-economic factors. Economic factors, for example, include profitability and market standing. The non-economic factors include the use of national resources, contributed value, and innovation, among others. Drucker was among the first to acknowledge the diversity of organizational goals and to highlight the intricate links between their financial and non-financial components.

Drucker also highlights the importance of management for the success of an organization and society. To him, without capable management, resources of production will "remain resources and never become production."\(^6\) This is more than a transformation process; it requires careful analysis of the firm’s mission, definition of the business concept, setting clear goals, and marshalling resources to pursue these goals. While management means getting things done through other people, Drucker also highlights the crucial role of management in building the organization that makes this possible.

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Further, Drucker writes, "Management, its competence, its integrity and its performance will be decisive both to the United States and the free world in the decades ahead."\(^7\) Drucker also predicts that the demands on management will be rising steadily and steeply, given the changing social expectations and the growing complexity of business. These prophetic statements have come true as both the quality of management and the integrity of managers have been instrumental in building and sustaining the growth of the free-world economy. The collapse of the Soviet Union and the end of the Cold War have also intensified the demand for skilled managers, reflecting the complexity of the contemporary enterprise and management’s acknowledged contributions to the West’s phenomenal record of success. Developing countries seeking economic, technological, and social progress have also found it necessary to train and develop competent managers to lead their organizations. Management education, through degree and non-degree programs, is one of fastest growing industries in developing countries. Indeed, economic and technological development cannot be attained or sustained without skillful managers who provide leadership.

Table 1 recaps Drucker’s key propositions regarding the nature of management and its diverse responsibilities.

**The Value of Management Education**

Drucker’s view of management is inclusive; it is a task that should be performed throughout the organization and within each of its different functions. This requires training and preparing managers at all levels through effective practice. Recognizing that management can never be an exact science, Drucker views it as "a practice, rather than a science or a profession, though containing elements of both. No greater damage could be done to our economy or our society than to attempt to ‘professionalize’ management by ‘licensing’ managers, for instance, or by limiting access to management to people with a special academic degree."\(^8\) To be sure, the manager’s work is amenable to scientific analysis, and Drucker supports formal management education for degree and non-degree purposes. However, viewing man-

<p>| <strong>TABLE 1</strong> |</p>
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<th><strong>Summary of Drucker’s Ideas About Management and Its Responsibilities</strong></th>
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<tr>
<td>1. Management is a distinct and important function that determines the viability and success of the firm.</td>
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<td>2. The managerial task, though amenable to scientific analysis, is practice-oriented. Management education enhances and sharpens managerial skills.</td>
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<td>3. The managerial task combines creative and adaptive components.</td>
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<td>4. There are two entrepreneurial dimensions to management: marketing and innovation. Marketing focuses on identifying customers. Innovation centers on creating products, goods, systems, processes, and services. It also requires acquiring and honing the skills necessary to develop products, services, etc.</td>
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<td>5. Managers should follow a systematic decision-making process that focuses on defining the problem, developing alternatives, examining the merits and shortcomings of these alternatives, selecting the approach to be followed, implementation, and using feedback.</td>
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<td>6. Managers are responsible for building the organization and integrating its different functions.</td>
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<td>7. Managers are responsible for developing and leading knowledgeable workers.</td>
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<td>8. Integrity is the hallmark of managerial character. Along with integrity comes a sense of accountability.</td>
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management as a profession, Drucker concludes that managers can learn a great deal through active practice. Drucker continues to emphasize the value of such practical experience today, emphasizing the importance of consulting. Drucker states: "...management is practice, and a practitioner needs practice. I look at my consulting practice as my laboratory..." Drucker likens management education to medical training: one learns by doing.9

Two other points are noteworthy about Drucker’s views of management education. The first is his emphasis that managers, at all organizational levels, are responsible for their career development. Consequently, they need to master the various skills needed to perform their current tasks and prepare themselves for the challenges created by changes in technology and social values. The second point is Drucker’s emphasis on managers’ responsibility to develop and nurture their subordinates. This message permeates almost every major chapter in the The Practice of Management. Toward this end, Drucker draws attention to management by example in preparing tomorrow’s leaders.

A Dynamic Concept of the Firm and its Business Definition

For decades, Taylor’s concept of the organization dominated management’s thinking and practice. Organizations were a means of assembling and processing resources of production efficiently. To ensure efficient operations, organizational decision-making was centralized, and employees performed specialized and often narrowly defined tasks. Taylor’s organizations were hierarchical, formal entities whose primary (if not only) goal was profit making. The command and control function was left in the hands of the organization’s upper echelon.

Drucker’s description of the firm and its function differed significantly from Taylor’s views. Drucker notes that the firm is a social entity with multiple goals that center on producing and making things, not simply making money. Making a profit and supporting growth are, of course, among the key organizational goals Drucker highlights. However, Drucker sees these as the outcome of, not the reason for, the firm’s existence. The firm is a social institution, one that serves a societal objective and provides a place in which people lead productive careers, make effective use of their talents, and grow.

Drucker believes that the firm exists at three levels. The first is as an economic institution that creates value for society and shareholders. The second is as a human and social organization that employs people, develops them, pays them, organizes them to increase productivity, and as such requires effective governance and management. The third is as a "social institution that is deeply embedded in society and values and as such is affected by public interest discussion, debate, and values."10 These three constructions of the firm influence each other, determining the company’s performance, mission, and business definition.

Throughout The Practice of Management, Drucker highlights the importance of the external environment for the strategic and organizational choices (e.g., structure) that firms make. This link highlights the vital role of business in society, a theme that runs across several of Drucker’s important books. His discussions cover the firm’s home country as well as host countries. This role centers, among other things, on managing the social impacts of the firm’s decisions and defining what a business can do for society. Further, Drucker recognizes that social problems can provide important and profitable business opportunities. Still, Drucker recognizes that certain factors might limit the firm’s social role. These limitations include resources, skills and competencies, and obligations to other key stakeholders.

To Drucker, the firm is more than an assemblage of resources: it is a living social entity, an integrated whole that is capable of evolution, change, and transformation.

Drucker’s organization is more focused in its business definition. The firm is expected to build value by focusing on those areas in which it has skills and capabilities. Being focused, the firm is also expected to foster innovation as a means of ensuring profitability and growth. Drucker’s firm is also more decentralized, less hierarchical, more informal and, all in all, a more interesting place in which to work than the companies Taylor had envisioned. People, at all levels, are expected to assume responsibility for their careers and jobs. They are expected to use their brainpower, in addition to their physical skills. Drucker’s firm is also outward looking and long-term oriented in its decision-making. To Drucker, the firm is more than an assemblage of resources; it is a living social entity, an integrated whole that is capable of evolution, change, and transformation.

In The Practice of Management, Drucker highlights the need for clarity about the business def-
inition. He argues that the first question senior management should ask is, "What is our business?" Competent management requires deciding which business activities to pursue and which activities the firm should avoid or abandon. Performing this demanding task requires a thorough analysis of customers and markets to determine: who the customers are (current and potential); where they are located; how they buy the firm's products; and how the firm reaches these customers. Management should also clearly define what customers consider valuable and what they look for when buying the firm's products. Executives also need to examine market structure and trends, potential innovations that are likely to change customers' expectations and demand function, the effect of customers' increased market knowledge, and the areas that cause customer dissatisfaction.

Drucker's firm is international in its focus and strategy. However, in his later writings, Drucker gives more attention to the issues that senior executives must tackle as their firms expand internationally. Drucker highlights the tensions that arise in the course of multinational expansion between economic gains and sovereignty; between profit making and protecting the environment; between centralization and decentralization. Drucker also discusses the strategic choices multinationals have to make and what they mean for their management. He also observes that these firms have multiple top-management teams, corresponding to the various businesses, countries, and regions in which they compete. The multiplicity of these teams adds complexity to the organizational structure, creating power struggles within the corporation. Drucker discusses various structural arrangements that can help to alleviate these problems, while highlighting the need for each firm to find an effective structure that matches its own needs and circumstances.

Drucker's concept of the firm has two additional components that make it workable. The first is long-term planning by defining the firm's business concept, allocating resources, and building the organization necessary to pursue its organizational goals. The second is the use of management by objectives (MBO) to actualize the diverse financial and non-financial goals that the enterprise might achieve. MBO is required to ensure the success of the strategic plans that focus on three issues: strategy formulation, tactical planning, and budgeting to ensure successful controls. MBO is an important link in the successful execution of the strategic plan. The MBO process ensures that everyone in the organization knows which goals to pursue. Applying an MBO system, executives can clearly delineate key objectives and allocate resources according. Clarity of vision and unity of focus, in turn, can improve the successful implementation of a company's strategy. MBO also requires managers to organize and motivate their employees, promote effective communication, develop employees, and measure performance. Through these activities, the link between strategy formulation and execution is established, enabling companies to leverage their resources and create value.

MBO, as conceived by Drucker, was a revolutionary process that was widely adopted by companies all over the globe. The use of MBO contributed to improved company performance by focusing on key goals, dedication of effort, use of real-time feedback, and effective communication. It also increased employees' participation and their sense of empowerment. MBO created a sense of shared responsibility and accountability throughout the company, further weakening Taylor's hold on management thinking. Employees were becoming partners in managing the enterprise, capitalizing on their knowledge and experiences. Participative management was being touted as an effective approach to motivating employees. Still, some found this approach too detailed to be responsive to changing market realities. Extensive and constant negotiation between management and employees was also time consuming. Even so, MBO was an important contribution that challenged executives to prioritize key objectives and manage their companies accordingly. Table 2 recapitulates Drucker's concept of the firm.

**Management: Tasks, Responsibilities Practices** assembles a number of chapters from earlier books, as stated in the companion interview, and therefore offers a comprehensive and articulate view of Drucker's ideas. This is especially true

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<td><strong>Drucker's Concept of the Firm</strong></td>
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<td>1. The firm is outward looking; it is influenced by its external environment and shapes that environment.</td>
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<td>2. The firm is a social institution, not a mere assemblage of financial resources. It creates goods and contributes to society and therefore makes money. Profits and growth are outcomes of the firm's production.</td>
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<td>3. The firm pursues multiple financial and non-financial goals, adopting a long-term view of the accomplishment of these goals.</td>
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<td>4. The firm emphasizes innovation throughout its different units and operations.</td>
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<td>5. The firm is focused. Its management has to clearly answer the question: &quot;What is our business?&quot;</td>
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<td>6. Senior leadership is important for developing the spirit of the organization and giving it meaning.</td>
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regarding the changing nature of the contemporary organization and the sources of value creation. For example, in several books, Drucker notes the rise of the knowledge worker and discusses the importance of this trend for organizations and their management. Knowledge workers are highly educated workers, employees, and managers; they rely more on their brainpower than manual labor. Management: Tasks, Responsibilities, Practices addresses this issue in greater depth, highlighting the role that knowledge plays in creating value for companies and their shareholders. Knowledge workers spend much of their time creating, processing, interpreting, and using information. This has important implications for the design of information systems intended to support strategic and operational decision-making. The rise of the knowledge worker also influences the role of middle managers as a key hub of information and its dissemination throughout the company’s operations. Drucker also suggests that the rise of the knowledge worker challenges senior managers to find ways to “invest” (deploy) intellectual capital so that it will create value.

Given the recognition of knowledge as a foundation of competitive advantage, these issues have received attention in the study of human resource management, international business, and strategic management. Drucker states the importance of the intellectual as follows: “The basic factor in an economy’s development must be the rate of ‘brain formation,’ the rate at which a country produces people with imagination and vision, education, and theoretical and analytical skills.” Clearly, business schools and firms have an important role to play in the formation and effective utilization of this brainpower.

Innovation and Entrepreneurship as Key Managerial Responsibilities

As noted, Drucker’s firm is a dynamic, adaptive, and evolving being that is intimately connected to its external environment. It thrives on and welcomes change. It also induces change into its markets and external environment. The Practice of Management views innovation as vitally important for value creation in small and well-established companies alike. While some equate entrepreneurship with independent start-ups, Drucker recognizes its crucial value for business development and survival in established companies.\textsuperscript{13} Thus, regardless of the type of business or industry, Drucker suggests that management has distinct entrepreneurial functions: marketing and innovation. Marketing centers on stimulating demand. Innovation involves the creation of new technologies and products to meet emerging market needs. As a major managerial function, innovation occurs (or should occur) in every part of the enterprise, not only in engineering or R&D. Every unit should also have specific goals for innovation, even though it might be difficult to fully quantify these goals. Drucker offers his recipe for nurturing innovation. Here, too, management is viewed as the center of gravity in promoting and sustaining entrepreneurial efforts, as presented in Table 3.

Drucker’s focus on innovation is one of the central points in The Practice of Management.

Drucker’s focus on innovation is one of the central points in The Practice of Management. Drucker notes that entrepreneurial activities do not just happen; they should be carefully planned, organized, and integrated. This view is now widely accepted in the literature.\textsuperscript{14} Similarly, Drucker appears to favor dispersed entrepreneurship where different groups and units work on different things, capitalizing on the unique resources, skills, and opportunities that exist within individual units. These activities often complement and augment those formal and informal activities that occur at the firm level. Innovation and other entrepreneurial activities are important managerial responsibilities, but they are also everybody’s job.\textsuperscript{15}

TABLE 3

Drucker on Nurturing Entrepreneurship

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<th>According to Drucker, building an entrepreneurial company requires several managerial activities:</th>
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<td>1. Setting clear and specific goals for innovation for each unit within the organization, as management would do for any functional area (e.g., production).</td>
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<tr>
<td>2. Capitalizing on the diversity of the types of innovation. Innovation could take the form of new products (services), processes, or systems. Innovations could be radical or incremental, and both have different but complementary roles in business creation and improving performance.</td>
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<td>3. Recognizing the multiple sources of innovation within and outside the company and using these sources to develop specific ideas or targets for innovation.</td>
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<td>4. Supporting innovation through patient investments over a long period of time. There is a need to promote and harvest innovations, especially in those areas where the pace of technological change is slow.</td>
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<tr>
<td>5. Besides promoting innovation in products (services), processes, and systems, Drucker emphasizes the need for innovation in the various skills and activities needed to develop and exploit these innovations.</td>
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It is not a coincidence that Drucker’s view of the firm mirrors current prescriptions for improved innovation and entrepreneurship. Drucker’s organizations are relatively decentralized and have flat structures that promote communication, sharing of ideas, and agile action. The central command and control function that Taylor once envisioned is now widely diffused throughout the decentralized organizational structures that Drucker favors. Managerial tasks, responsibilities, and influence are also diffused throughout the company and therefore provide the coordination necessary to ensure coherence and clarity of vision. Entrepreneurship is both a creative and disciplined process.

Drucker’s continued interest in promoting innovation in established companies is evident from the publication of his book Innovation and Entrepreneurship: Practice and Principles in 1985. Drucker emphasized three essential ingredients for entrepreneurial management: having a clear market focus, having financial insights, and assembling a competent top management team. Drucker pays special attention to the issues associated with technology commercialization—an area that plagued many companies throughout the 1980s and 1990s. These companies have excelled in innovation but have failed to successfully commercialize their discoveries.

It is remarkable that Drucker formulated and popularized such a winning recipe for successful innovation in 1954. The integrity of his formula remains intact. Indeed, a large body of research has appeared over the past three decades, supporting Drucker’s emphasis on goal setting for successful innovation. Research findings also support the important role of patient investments for successful innovation and other entrepreneurial activities. Accumulating research evidence also shows that innovation and entrepreneurship are crucial for the profitability and growth of companies.

One of the key points that emerges from the companion interview with Drucker is the need for strategic focus to stimulate and nurture innovation. Drucker highlights the need for an organized process of systematic abandonment whereby the firm exits operations or businesses where it cannot achieve excellence. This process requires companies to select the criteria by which they define excellence, undergo a strategic audit of their operations, and select those businesses that will be retained within the business portfolio. This process gives managers an opportunity to explore possible sources of synergy among businesses and decide how best to invest resources to build those units that are retained. As with other parts of a business, Drucker emphasizes strategic focus as a cornerstone in the company’s quest for superior financial performance.

The “Spirit of the Organization”: Leadership and Effective Governance

One of my favorite chapters in The Practice of Management is entitled “The Spirit of the Organization.” Here, Drucker discusses the critical role that senior leaders play in giving the organization its character and defining its culture. He also explores the dysfunctional effects of executive compensation and overemphasis on short-term performance. Drucker emphasizes the importance of tying rewards to performance so that executive compensation is both an incentive and a reward. He says that integrity should be the litmus test of managerial character. Finally, Drucker questions the fallacy of the one-person CEO, favoring the notion of a senior management team. The CEO’s job is demanding, and the tasks are countless, isolating senior executives from market realities. A well-organized top management team can capitalize on the diversity of the expertise among its members and provide leadership throughout the company.

In The Practice of Management, Drucker tackles the thorny issue of the relationship between chief executive officers (CEOs) and their boards, and addresses the fundamental issues that surround effective corporate governance. Drucker also discusses effective ways to restructure and organize the board, making it an effective instrument of governance. Table 4 summarizes Drucker’s perspective on this complex issue.

**TABLE 4**
Drucker’s Views on Effective Corporate Governance

1. Boards of directors, in many cases, have become a legal fiction—failing to add value. A major part of the reason for this failure is the legal definition of the role of the board.
2. One of the CEO's most important tasks is to maintain a strong board.
3. A strong board is composed of outside directors who have never served as full-time officers of the company. Outside directors are better positioned than insiders to monitor senior management.
4. We should not expect directors to know all the details of the company’s operations. Directors should have a broad view of the company, look for patterns, probe senior managers’ assumptions and plans, and serve as the "supreme court" as issues arise. Directors are expected to come to action at times of crises, if necessary replacing the CEO.
5. To attract good directors, membership on the board should be financially attractive.
Reading through the five items listed in Table 4, I am struck by the fact that they have become a major part of the recommendations currently being widely debated on reforming corporate governance. Over the past two decades in particular, there has been a strong emphasis on clarifying the domain of directors’ responsibilities. Companies have also provided financial incentives to directors to attract the most qualified individuals to serve on their boards. Several mechanisms have also been put in place to improve directors’ access to accurate and timely information that allows them to probe management assumptions.21 Yet, research findings on the merits of these recommendations and efforts are contradictory, helping perhaps to serve as an important reminder of Drucker’s emphasis that having a strong board is one of the CEO’s most important responsibilities. It is also clear that, when it comes to structuring and organizing boards, one size does not fit all.22 Drucker’s central message, therefore, remains the same: effective governance is crucial to company performance, and strong, independent boards can help improve the CEO’s job performance.

Drucker’s central message, therefore, remains the same: effective governance is crucial to company performance, and strong, independent boards can help improve the CEO’s job performance.

The Practice of Management: A Grand Vision

This article has highlighted five key areas that I consider crucial to understanding why Drucker’s The Practice of Management has remained such an influential book for 50 years. Drucker’s powerful ideas have offered a vision for the discipline and practice of management—defining our work, the nature of the managerial task, and the field in general. These insightful ideas, combined with a lively communication style and clear logic, have shaped our thinking. The Practice of Management is far larger than the various techniques it embodies. It is a grand vision for management as a field, a vision that we should cherish.

Endnotes

2 Ibid., 3.
4 Erick Schonfeld: Peter Drucker interview—Unabridged.
7 Ibid., 4–5.
8 Ibid., 9–10.
11 Ibid. 49.
12 Management by objectives (MBO) has been the subject of considerable study and discussion. For an overview of this approach and its mechanics, see Kotelninkov, V. 2002. Management by Objectives. http://www.1000ventures.com/business_guide/mgmt_mbo_main.html.
13 Drucker, The practice of management, 39–41. Drucker also discusses the importance of having goals for innovation, pp. 68–71. In addition, Drucker recognizes the various forms of innovation in an established company, pp. 68–69.


Shaker A. Zahra is Paul T. Babson Distinguished Professor of Entrepreneurship at Babson College in Wellesley, MA. His research centers on the intersection of corporate, international, and technology dimensions of entrepreneurship. His research, teaching, and service have received several awards. Contact: szahra@babson.edu.