

# **The Practice of Management**

## **(Review of book by Peter Drucker)**

### **Introduction**

The emergence of management as an essential, a distinct and a leading institution is a pivotal event in social history. Rarely, if ever, has a new basic institution, emerged as fast as has management since the turn of this century. As Drucker puts it, management has become indispensable quickly; and it has arrived with little opposition, or disturbance, so little controversy.

Despite its crucial importance, its high visibility and its spectacular rise, management is the least known and the least understood of our basic institutions. For management is the economic organ of an industrial society and organs can be described and defined only through their function. So, the ultimate test of management is business performance. Management, in other words, is a practice, rather than a science or a profession, though containing elements of both.

Management is responsible for making a productive enterprise out of human and material resources. The enterprise cannot therefore be a mechanical assemblage of resources. What is needed is a transmutation of the resources. And this cannot come from an inanimate resource such as capital. It requires management.

Management has to manage workers and work. Work has to be performed; and the resource to perform it with is workers – ranging from totally unskilled to artists, from wheelbarrow pushers to executive vice-presidents. This implies organization of the work so as to make it most suitable for human beings, and organization of people so as to make them work most productively and effectively.

Automation cannot replace managers. New technology will not render managers superfluous or replace them by mere technicians. On the contrary, it will demand many more managers. It will greatly extend the management area; many people now considered rank-and-file will have to

become capable of doing management work. The great majority of technicians will have to be able to understand what management is and to see and think managerially. The demands on the manager's responsibility and competence, his vision, his ability to manage workers and work, his competence in making decisions, will be greatly increased.

Managing a business must always be entrepreneurial in character. It cannot be a bureaucratic, an administrative or even a policy-making job. It must be a creative rather than an adaptive task. The more a management creates economic conditions or changes them rather than passively adapts to them, the more it manages the business.

One of the key tenets of good management is to balance the short term and the long term needs. A management problem is not solved if immediate profits are purchased by endangering the long-range profitability, perhaps even the survival, of the company. A management decision is equally irresponsible if it risks disaster this year for the sake of a grandiose future.

### **What is a Business?**

A business enterprise is created and managed by people. Economic forces set limits and create opportunities for management's action. But they, by themselves, do not determine what a business is or what it does.

Profit is not a cause. It is the result of the performance of the business in marketing, innovation and productivity. It is at the same time the only test of this performance.

Economic activity, focuses on the future. The one thing certain about the future is its uncertainty, its risks. It is the first duty of a business to survive. The guiding principle of business economics, in other words is not the maximization of profits; it is the avoidance of loss. Business enterprise must produce the premium to cover the risks inevitably involved in its operation. And there is only one source for this risk premium: profits.

It is an absolute necessity for the business enterprise to produce at the very least the profit required to cover its own future risks, the profit required to

enable it to stay in business and to maintain intact the wealth-producing capacity of its resources.

But a business cannot be defined or explained in terms of profit. Profit and profitability are important. But profit is not the explanation, cause or rationale of business behavior and business decisions, but the test of their validity.

If we want to know what a business is, we have to start with its purpose which lies outside the business. In fact, it must lie in society since a business enterprise is an organ of society. There is only one valid definition of business purpose; to create a customer.

It is the customer who determines what a business is. For it is the customer, and he alone, by being willing to pay for a good or for a service, converts economic resources into wealth, things into goods.

Because its purpose is to create a customer, any business enterprise has two and only two basic, entrepreneurial functions: marketing and innovation. They are entrepreneurial functions.

Marketing is the distinguishing, unique function of the business. A business is set apart from all other human organizations by the fact that it markets a product or a service. Marketing encompasses the whole business as seen from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise. The essence of innovation is the provision of better and more economic goods and services. A business need not grow bigger; but it must constantly grow better. Innovation goes right through all phases of business. It may be innovation in design, in product, in marketing techniques. It may be innovation in price or in service to the customer. It may be innovation in management organization or in management methods.

### **Understanding the business**

Actually "what is our business" is almost always a difficult question which can be answered only after hard thinking and studying. And the right answer is usually not obvious.

The business is not determined by the producer but by the consumer. It is defined by the want the consumer satisfies when he buys a product or a service. The question is especially relevant when a business is successful.

One must keep asking: "Who is the customer?" the actual customer and the potential customer? Where is he? How does he buy? How can he be reached? "What does the customer buy?" "What does the customer consider value? What does he look for when he buys the product?" Indeed, what the customer considers value is so complicated that it can only be answered by the customer himself.

Companies should be focused on the following issues:

- Market potential and market trend.
- What changes in market structure are to be expected as the result of economic developments, changes in fashion or taste, or moves by competition?
- What innovations will change the customer's wants, create new ones, extinguish old ones, create new ways of satisfying his wants, change his concepts of values or make it possible to give him greater value satisfaction?
- What wants does the consumer have that are not being adequately satisfied by the products or services offered to him today?

Management still has to ask: "Are we in the right business or should we change our business?" Changes in the nature of the business arising out of innovation are too well known to require much documentation. Productivity consideration, too, may demand a change in the nature of the business. Profitability considerations alone should not, however, normally lead to changes in the nature of the business. Of course, a business can become so unprofitable as to be abandoned. But almost always market standing, innovation or productivity would have counseled its abandonment much earlier.

But if the decision to go into a business is sound on the basis of market standing, innovation and productivity, if it is sound according to what makes a business, it is the responsibility of management to make it produce

the needed minimum profit. Management that cannot, over a reasonable period of time, produce the minimum profit needed, must give way to another management.

### **Increasing productivity**

We need a concept of productivity that considers together all the efforts that go into output and expresses them in relation to their results, rather than one that assumes that labor is the only productive effort. But this definition of effort must not be confined to the things expressed in the form of visible and directly measurable costs, that is, in the accountant's definition of effort.

First there is time, man's most perishable resource. Whether men and machines are utilized steadily or only half the time will make a difference in their productivity.

Then there is the "product mix," the balance between various combinations of the same resources. Differentials in the market values of these various combinations are rarely identical with the differentials in the efforts that go into making up the combinations. Often there is barely any discernible relationship between the two. A company turning out the same volume of goods requiring the same material and skills and the same total amount of direct and indirect labor, may reap fortunes or go bankrupt, depending on the product mix.

There is also the "process mix." Is it more productive for a company to buy a part or to make it, to assemble its product or to contract out the assembly process, to market under its own brand name through its own distributive organization or to sell to independent wholesalers using their own brands? What is the company good at? What is the most productive utilization of its specific knowledge, ability, experience, and reputation?

Productivity is also affected by organization structure and by the balance between the various activities within the business. If, for lack of clear organization, managers waste their time trying to find out what they are supposed to do rather than doing it, the company's scarcest resource is being wasted.

**Setting the objectives**

A business must be managed by setting objectives for it. These objectives must be set according to what is right and desirable for the enterprise. They must not be based on the expedient or on adaptation to the economic tides.

Similarly, to reach objectives, detours may have to be made around obstacles. Indeed, the ability to go around obstacles rather than charge head-on is a major requirement for managing by objectives. Yet, setting objectives enables a business to get where it should be going rather than be the plaything of weather, winds and accidents.

To manage a business is to balance a variety of needs and goals. This requires judgment. The search for the one objective is essentially a search for a magic formula that will make judgment unnecessary. But the attempt to replace judgment by formula is always irrational. All that can be done is to make judgment possible by narrowing its range and the available alternatives.

Objectives are needed in every area where performance and results affect the survival and prosperity of the business. Objectives should enable us to do five things: to organize and explain the whole range of business phenomena in a small number of general statements; to test these statements in actual experience; to predict behavior; to appraise the soundness of decisions when they are still being made; and to enable practicing businessmen to analyze their own experience and, as a result improve their performance. The traditional theorem of the maximization of the profits cannot meet any of these tests. Hence, it has to be discarded.

There are eight areas in which objectives of performance and results have to be set:

- market standing
- innovation
- productivity
- physical and financial resources
- profitability

- manager performance and development
- worker performance and attitude
- public responsibility.

There is potential to innovate in any business. Indeed, as Drucker puts it, deliberate emphasis on innovation may be needed most where technological changes are least spectacular. The less spectacular or prominent, technological change is in a business, the greater is the danger that the organization will ossify. So there should be more emphasis on innovation.

Businesses have pretty much the same resources to work with. What differentiates one business from another in any given field is the quality of its management on all levels. And the only way to measure this crucial factor is through a measurement of productivity.

Profit serves three purposes. It measures the net effectiveness and soundness of a business's efforts. It is the ultimate test of business performance. It is the "risk premium" that covers the costs of staying in business replacement, obsolescence, market risk and uncertainty. Profit also ensures the supply of future capital for innovation and expansion, either directly, by providing the means of self-financing out of retained earnings, or indirectly, through providing sufficient inducement for new outside capital in the form in which it is best suited to the enterprise's objectives. A profitability objective therefore measures not the maximum profit the business can produce, but the minimum it must produce.

Different areas require different time-spans. In setting objectives, management has to balance the immediate future against the long range.

All managed expenditures require long application; short spurts of high activity do not increase their effectiveness. Sudden cuts may destroy in one day what it took years to build.

Management also has to strike a balance between various activities. What is more important: an expansion in markets and sales volume, or a higher rate of return? How much time, effort and energy should be expended on

improving manufacturing productivity? Would the same amount of effort or money bring greater returns if invested in new-product design?

### **Today and tomorrow**

Management needs tools that enable it to free its thinking and planning from dependence on the business cycle. The tools must enable it to make decisions without having to try to guess in what stage of the cycle the economy finds itself.

There will always be fluctuations. So decisions must be freed from cyclical guesswork by testing the business decision against the worst case scenarios. Trend analysis rests on the assumption that economic phenomena say, the use of electric power by a residential customer or the amount of life insurance per dollar of family income have a long term trend that does not change quickly or capriciously. Trend analysis thus tries to find the specific trends that pertain to the company's business. It then projects them in such a form that decisions can be taken for the long term without too much attention to the business cycle. Another option is to base a decision on events which are likely to have heavy impact upon future economic conditions but which have already happened. Instead of forecasting the future, this method focuses on past events which, however, have not yet expressed themselves economically. Demographic trends fall in this category.

### **Organizing production**

Production is not the application of tools to materials. It is the application of logic to work. The more clearly, the more consistently, the more rationally the right logic is applied, the less of a limitation and the more of an opportunity production becomes.

Today, we talk so much about flexible manufacturing and mass customization. Drucker seems to have understood this point several years back. The essence of genuine mass production is that it can create a greater diversity of products than any method ever designed by man. It does not rest on uniform products. It rests on uniform parts which can then be mass-assembled into a large variety of different products.

In batch production, management's first job, is to get an order. In mass production, the job is to build an effective distributive organization and to educate the customer to adapt his wants to the range of product variety. Batch production has high costs for the individual product but great flexibility in the plant. Mass production "new style" has the ability to supply wants cheaply and within a wide and flexible range of products. But it requires much higher capital investment, a much higher level of continuous activity; it involves inventory risks; and it needs a distribution organization that can sell continuously rather than one that goes after a specialized, individual order.

Under the batch system the time-span of a decision is short. Under mass production it becomes longer: a distributive organization, for instance, may take ten years to build. Once built, the production facilities are relatively inflexible and can be changed only at major expense; the total investment may be large; and the development of a market is long-range.

Batch production requires highly skilled people. Mass production requires management trained in analytical thinking, in scheduling and in planning. In batch production management can be centralized at the top. Co-ordination between the various functions is needed primarily at the top.

Mass production does better with a pattern that establishes centers of decision and integration much further down. It requires close co-ordination between the engineers who design the product, the production people who make it, the sales people who market it, and so forth.

### **Controls and procedures**

In the business enterprise, managers are not automatically directed toward a common goal. On the contrary, there are three powerful sources of misdirection in any business in the specialized work of most managers; in the hierarchical structure of management; and in the differences in vision and work and the resultant insulation of various levels of management.

Management control and information systems can lead to a tremendous advance in the effectiveness and performance of management. But if this new ability is abused to impose control on managers from above, the new

technology will inflict incalculable harm by demoralizing management, and by seriously lowering the effectiveness of managers.

Reports and procedures must not be misused. Procedures are not instruments of morality. They decide what should be done, not how it might be done most expeditiously. Procedures cannot substitute for judgment. Procedures can work only where judgment is no longer required, that is, in the repetitive situation. Reports and procedures must also not be used as an instrument of control from above.

Every business should regularly examine whether it needs all the reports and procedures it uses. Supervision and control should remain within reasonable limits. If a manager, are controlled by the objective requirements of his own job and measured by his results, there is no need for the kind of supervision that consists of telling a subordinate what to do and then making sure that he does it. There is no span of control.

### **The spirit of an organization**

Management by objectives tells a manager what he ought to do. The proper organization of his job enables him to do it. But it is the spirit of the organization that determines whether he will do it. It is the spirit that motivates, that influences the level of dedication and effort, that decides whether he will give his best or do just enough to get by.

Good spirit requires that there be full scope for individual excellence. What is necessary to produce the proper spirit in management must therefore be morality. There must be an emphasis on strength, stress on integrity, and high standards of justice and conduct.

Morality does not mean giving sermons. Morality, to have any meaning at all, must be a principle of action. It must not be exhortation, sermon or good intentions. It must be practices.

The first requirement of management spirit, then, is a high demand on performance. Managers should not be driven, but they should drive themselves.

There is no substitute for leadership. But management cannot create leaders. It can only create the conditions under which potential leadership qualities become effective; or it can stifle potential leadership. The supply of leadership is much too limited and unpredictable to be depended upon for the creation of the spirit the business enterprise needs to be productive and to hold together. Management must work on creating the spirit by other means. These means may be less effective and more pedestrian. But at least they are available and within management's control.

### **Corporate governance**

Even if the job is studied most systematically, organized most thoughtfully, and with the maximum of decentralization, it still is not a job one man could or should do. Most of the trouble we are having with the chief executive's job is rooted in our strong belief in the one-man chief. The chief executive of the modern business is still modeled after the single proprietor of yesterday's economy. A single man at the top usually remains isolated from day-to-day realities. Moreover, leaving succession to a single man can often be dangerous.

How then should the chief-executive team be organized? The first requirement is that it be a "team" rather than a "committee." There should be no collective responsibility. Each member should have assigned to him the areas in which he makes final decisions and for which he is responsible. Deliberation should be joint; decision single. The second requirement is that there be no appeal from one member of the chief executive to another. Whatever any one of them decides is the decision of the entire top management.

How many members should the team have? The fewer the better – but more than two. Indeed if two men can work together closely, they form an ideal team. But two people like this are rarely found. And two people in a team are always a highly unstable combination. A two-man team can function only if the men are held together by strong emotional bonds, which is in itself undesirable. Finally a two-man chief-executive team aggravates the problem of succession. Precisely because the two members have to be so close to each other they usually retire together; for the survivor would find it almost impossible to adjust to a new partner.

There are some functions which only a Board of Directors can discharge. Somebody has to approve the decision what the company's business is and what it should be. Somebody has to give final approval to the objectives the company has set for itself and the measurements it has developed to judge its progress toward these objectives. Somebody has to look critically at the profit planning of the company, its capital-investment policy and its expenditure budget. Somebody has to discharge the final judicial function in respect to organizational and problems. Somebody has to watch the spirit of the organization, has to make sure that it succeeds in utilizing the strengths of people and in neutralizing their weaknesses, that it develops tomorrow's managers and that its rewards to managers, its management tools and management methods strengthen the organization and direct it toward its objectives.

The Board must operate by oversight. It is an organ of review, of appraisal, of appeal. Only in a crisis does it become an organ of action. Then it must remove existing executives that have failed, or replace executives who have resigned, retired or died. Once the replacement has been made, the Board again becomes an organ of review.

Today, there is so much talk about the need for independent directors. Again, Drucker seems to have understood this point decades ago. The Board must be detached from operations. It must view the company as a whole. So working executives of the company should not dominate the Board. A genuinely "outside" Board, the bulk of whose members have never served as full-time officers of the company is usually more executive. Full-time executives tend to think too much in terms of immediate or technical problems. The very remoteness of the outside Board member counteracts this. It makes him look for the over-all pattern, see broad objectives and plans, and ask questions on concept and principle.

### **Developing managers**

Increasingly it is in his work that the citizen of a modern industrial society looks for the satisfaction of his creative drive and instinct, his self-respect, his self-esteem. Development of managers is therefore crucial. That is what provides meaning. By offering challenges and opportunities for the

individual development of each manager to his fullest ability, the enterprise discharges, in part, the obligation to make a job in industry a “way of life.”

Developing managers must be dynamic. It must never aim at replacing what is today. It must always focus on the needs of tomorrow. What organization will be needed to attain the objectives of tomorrow? What management jobs will that require? What qualifications will managers have to be equal to the demands of tomorrow? What additional skills will they have to acquire? What knowledge and ability will they have to possess?

Nothing could be more absurd than for the enterprise to assume responsibility for the development of a man. The responsibility rests with the individual, his abilities, and his efforts. No business enterprise is competent, let alone obligated, to substitute its efforts for the self-development efforts of the individual. To do this would not only be unwarranted, it would be foolish pretension.

But every manager in a business has the opportunity to encourage individual self-development or to stifle it, to direct it or to misdirect it. He should be specifically assigned the responsibility for helping all men to apply their self-development efforts productively. And every company can provide systematic development challenges to its managers.

Just as no one learns as much about a subject as the man who is forced to teach it, no one develops as much as the man who is trying to help others to develop themselves. Indeed, no one can develop himself unless he works on the development of others. It is only through the development of others that managers can raise their demands on themselves. The best performers in any profession always look upon the men they have trained and developed as the proudest monument they can leave behind.

Manager development must therefore begin with the supervisors. And in the filling of middle-management and technical jobs the supervisors must be fully considered. The best preparation for most of the technical jobs in industrial engineering, in quality control, in production scheduling is successful performance as a first-line supervisor.

### **The importance of organization structure**

Organization is not an end in itself but a means to the end of business performance and business results. A wrong structure will seriously impair business performance and may even destroy it. Still, the starting point of any analysis of an organization cannot be a discussion of structure. It must be the analysis of the business. Organization structure must be designed so as to make possible the attainment of the objectives of the business for five, ten, fifteen years hence.

The type of structure needed would depend on the type of decisions involved. What decisions are needed to obtain the performance necessary to attain objectives? What kind of decisions are they? On what level of the organization should they be made? What activities are involved in or affected by them? Which managers must therefore participate in the decisions at least to the extent of being consulted beforehand? Which managers must be informed after they have been made?

There are four basic characteristics which determine the nature of any business decision.

- The degree of futurity in the decision.
- The impact the decision has on other functions, on the other areas or on the business as a whole.
- The number of qualitative factors that enter into the decision - basic principles of conduct, ethical values, social and political beliefs, etc.
- Whether they are periodically recurrent or rare, if not unique, decisions.

A decision should always be made at the lowest possible level and as close to the scene of action as possible. Moreover, a decision should always be made such that all the implications are fully considered. The first rule tells us how far down a decision should be made. The second how far down it can be made as well as which managers must share in the decision and which must be informed of it.

A management structure must meet the requirements it has to satisfy. The more efficient the more "direct" and simple it is, the less it has to change the speed and direction of individual activities to make them result in

business performance. It must, in brief, make for willingness and ability to work for the future rather than rest on the achievements of the past, and to strive for growth rather than to put on fat.

The organisation structure must contain the least possible number of management levels, and for the shortest possible chain of command. Every additional level makes the attainment of common direction and mutual understanding more difficult, distorts objectives and misdirects attention. Every link in the chain sets up additional stresses, and creates one more source of inertia, friction and slack.

Every additional level adds to the difficulty of developing tomorrow's managers, by adding to the time it takes to come up from the bottom and by making specialists rather than managers out of the men moving up through the chain.

Organization structure must make possible the training and testing of tomorrow's top managers. It must give people actual management responsibility in an autonomous position while they are still young enough to acquire new experience. Work as a lieutenant or assistant does not adequately prepare a man for the pressures of making his own decisions. Often, the trusted and effective lieutenant collapses when he is put on his own. Men must also be put into positions where they at least see the whole of a business, even if they do not carry direct responsibility for its performance and results. Though experience as a functional specialist is necessary, certainly at the start of a man's career in management, if exposed to it too long, a man will be narrowed by it. He will come to mistake his own corner for the whole building.

Every functional manager considers his function the most important one. There is no real remedy against this tendency in the functional organization. The lust for aggrandizement on the part of each function is a natural outcome of the desire of each manager to do a good job. Functional work should thus always be organized so as to give the manager the maximum of responsibility and authority, and should always turn out as nearly finished or complete a product or service as possible. Otherwise functional managers will not have objectives of performance and

measurements of results that are really derived from business objectives and really focus on business results.

Whenever possible, activities must be integrated on the principle of federal decentralization, into autonomous product businesses, each with its own market and product and with its own profit and loss responsibility. Where this is not possible it must use functional decentralization, which sets up integrated units with maximum responsibility for a major and distinct stage in the business process.

There is, however, one requirement that must be satisfied if federal decentralization is to result. The managerial unit must contribute to the profit of the company. Its profit or loss should directly become company profit or loss. In fact, the company's total profit must be the sum total of the profits of the individual business. And it must be a genuine profit not arrived at by manipulating accounting figures, but determined by the objective and final judgment of the market place. Federal units should exist side by side, each with its own job, its own market or product. Where they touch, it should be in competition with each other. But they should not normally be required to do anything jointly. Their relation should be close and friendly but based strictly on business dealings rather than on the inability of individual units to stand alone. Where federal units cannot be organized on the basis of an arm's length relationship, they must be given the "right of nullification."

Any federal organization requires both strong parts and a strong center. The term "decentralization" is actually misleading. It implies that the center is being weakened. Federal decentralization requires strong guidance from the center through the setting of clear, meaningful and challenging objectives for the whole. The objectives must demand both a high degree of business performance and a high standard of conduct throughout the enterprise.

The federally decentralized unit must be large enough to support the management it needs. The aim should be to have as many autonomous units as possible and to have them as small as possible. But this becomes

absurd when the unit gets too small to support management of the necessary number and quality.

Each federally decentralized unit should have potential for growth. It is poor organization to put all the stable lines into one autonomous unit and all the promising and expanding ones into another.

Decentralization is always the best way to organize functional activities. But if the system of production contains any elements of automation, it becomes absolutely essential. The production organization of any company must be set up as a series of centers of information. Decisions must be taken at very low levels but there should be a high degree of integration across departments.

An enterprise is too big or too complex for functional organization whenever the organization requires more than two levels of functional managers. Then the principle of federal decentralization should be introduced.

Finally, whatever the organization pattern and structure, management must watch out for a serious and crippling constitutional disorder: a lopsided management age structure. To ensure a balanced age, structure should be one of the main concerns of manpower planning. There must be enough older men to ensure opportunities for younger men, enough younger men to ensure continuity; enough older men to provide experience and enough younger men to provide drive. Age structure of management is like the metabolism of the human body; unless it is balanced all constitutional processes are diseased. Just as having a preponderantly old management is dangerous, too many young managers may be equally bad. Overage in management liquidates itself fairly fast. If the enterprise survives till then, its recurrence can be prevented. A preponderantly young management means, however, that for years to come there will be no promotional opportunities for young people.

### **The small, the large, the growing business**

A business tends to become unmanageable when the chief executive of a product business can no longer work directly with the chief executive team

of the company but has to go through channels to get to the top. When, in addition to a number of deputy presidents, a layer of group vice-presidents is needed, then the business approaches unmanageability. Similarly, when objective-setting officers no longer can work directly as part of the chief-executive team but need an executive vice-president or group vice-president of their own to coordinate them and to communicate their thinking to the top team, the business has grown too big to be manageable.

A very large business becomes oversized when it needs so many levels of management that even a man of real ability cannot normally rise from the bottom to the top and yet spend enough time at each level to be thoroughly tested in performance.

Finally, a business becomes unmanageable when it is spread out into so many different directions. It can no longer be managed as an entity. It can no longer have common over-all objectives.

Small and fair-sized businesses often suffer from lack of management support. They are often too small to be able to offer its managers adequate inducements. Financially they may not be able to pay what a first-rate man can get in a large business even in lower-ranking positions. They cannot easily develop tomorrow's managers in adequate number or quality. Above all, they do not, as a rule, offer the challenge and scope in management positions which the large business offers.

What can the small and the fair-sized business do? First, it has to take great pains to bring an outside viewpoint into its management councils to broaden its vision. Second, if the business is family-owned, it should be firm that no member of the family should ever be given a job which he has not earned.

The first problem in the large and very large businesses is the organization and scope of the chief-executive's job. What is the job? How should it be organized? What decisions should be made at the top? The second problem of the large, and especially of the very large enterprise, is the tendency of its management group to become ingrown and inbred, smug and self-satisfied.

The large or very large company needs an esprit de corps among its managers. It needs pride in what the company is and what it stands for. But this esprit de corps must not degenerate into blind acceptance of company tradition as sacred and unchangeable just because "this is the way we have always done it." It must not become blindness to lack of performance or contempt for the "outside."

Large businesses expect their managers to make the company the center of their universe. But a man who, as the phrase goes, "lives for his business," is far too narrow. Since the company is his life he clings to it with desperation; he is apt to stifle the development of the younger men so as to make himself indispensable and to postpone retirement. In its own interest, management should encourage serious outside interests on the part of its executives.

Growth always requires new and different competencies in top management. It requires that top management realize that its own function is no longer to know what goes on in the plant or in the sales offices. Top management must understand that the problem of size cannot be met by trying to increase communication with managers and employees as far down as possible. This is neither required nor even desirable.

As the business gets larger, the further ahead in the future top management operates. It requires a different ratio between objective-setting and doing. The larger the business, the more will top management concern itself with setting objectives, the less will it be concerned with the steps to their attainment. The emphasis in communication shifts. The larger the enterprise the less will top management be concerned with communications down, the more it will have to work on establishing communications upwards, from lower management to itself.

Growth is the result of success. A company grows because it is doing a good job. Its products meet with increasing demand. The normal cause of business growth is able and competent management.

That the problems of growth are problems of success is the reason why they are so difficult. Problems of success are always the hardest to handle. The human mind tends to believe that everything is easy once success has been attained. It is also for this reason that so few managers realize that growth requires a change in their attitudes. They tend to argue that the attitudes and behavior that led to success in the past will also lead to success in the future.

### **Goal conference**

Work must always be organized in such a manner that whatever strength, initiative, responsibility and competence there is in individuals becomes a source of strength and performance for the entire group. Aligning the aspirations of the employees with those of the company is the challenge all organizations, especially the large ones face.

The enterprise lives in two economic systems, an external and an internal one. The total amount available for the internal economy is determined by what the business enterprise receives for its product in the external economy.

Internally, however, the enterprise is not a market economy. It is a "redistributive" one in which the product of the whole is distributed among the members of the enterprise according to a predetermined formula. Both market and redistributive economy are basic patterns; but the business enterprise is the only human institution known to us in which the two have ever become indissolubly linked. Outside the enterprise, the considerations are economic. Inside the enterprise they are based on power balance and power relationships.

To the enterprise, wage must necessarily be a cost. To the recipient, however wage is income, the source of his livelihood and that of his family. To the enterprise profit is a necessity of survival. To the worker profit is somebody else's income. These paradoxes have to be managed skillfully.

### **Organizing work**

Personnel Administration is often ineffective due to three basic misconceptions. First it assumes that people do not want to work.

Secondly, Personnel Administration looks upon the management of worker and work as the job of a specialist rather than as part of the manager's job. Finally, Personnel Administration tends to be "fire-fighting," to see "personnel" as concerned with "problems" and "headaches" that threaten the otherwise smooth and unruffled course of production.

Scientific management was popular at one point of time. But, there are problems with Scientific Management. It believes in analyzing work, its simplest constituent motions and organizing it as a series of individual motions, each if possible carried out by an individual worker. Scientific Management attempts to organize human work but it wrongly assumes that the human being is a machine tool.

It is useful to analyze the work into its constituent motions. We can definitely improve work by improving the way the individual operations are performed. But there is nothing to suggest that the closer the work comes to confining itself to the individual motion or operation, the better the human being will perform it. The "divorce of planning from doing" is another problem in Scientific Management.

The separation of planning and doing in the analysis of work does not mean that the planner and the doer should be two different people. It does not follow that the industrial world should be divided into two classes of people; a few who decide what is to be done, design the job, set the pace, rhythm and motions, and order others about; and the many who do what and as they are being told.

Planning and doing are separate parts of the same job. They are not separate jobs. There is no work that can be performed effectively unless it contains elements of both. One cannot plan exclusively all the time. There must be at least a trace of doing in one's job. Otherwise one dreams rather than performs. One cannot, above all, do only; without a trace of planning his job, the worker does not have the control he needs even for the most mechanical and repetitive routine chore. Advocating the divorce of the two is like demanding that swallowing food and digesting it be carried on in separate bodies.

There are two principles for organizing work. Mechanization and Integration. Both start, with the systematic analysis of the work, lay out the work in a logical sequence of motions and focus on each motion, to make it easier, faster, more effortless. But one organizes the motions mechanically to do one thing fast and faultlessly. The other one integrates operations so as to utilize the human being's ability to make a whole out of many things, to judge, to plan and to change.

Organizing men for work means putting the man on the job he will do best. Job allocation and job rotation therefore represent one of the most important tasks in the management of worker and work. It cannot be done when a man comes to work but must be done after he has had time to get to know the work and to be known. It cannot be done once and for all. Placement decisions must be reviewed continually.

A man may be satisfied with his job because he really finds fulfillment in it. He may also be satisfied because the job permits him to "get by." A man may be dissatisfied because he is genuinely discontented. But he may also be dissatisfied because he wants to do a better job, wants to improve his own work and that of his group, wants to do bigger and better things. So, the reasons for satisfaction and dissatisfaction must be analysed carefully.

### **Motivating employees**

There are four ways by which we can attempt to reach the goal of the responsible worker. They are careful placement, high standards of performance, providing the worker with the information needed to control himself, and with opportunities for participation that will give him a managerial vision. All four are necessary.

People are proud if they have done something to be proud of. Otherwise, it is false pride and destructive. People feel happy only if they have accomplished something. They feel important if their work is important. The active and responsible participation of people in the determination of their own work and in the government of their own plant community will make them genuinely happy and give them a scope of accomplishment.

There is no greater danger to a free economy than the hostility of employees toward profit. Similarly, while widespread share-ownership is in the interest of enterprise and society alike, the belief that a worker will change his attitude towards profits because he now owns a few company's shares is a naive illusion. His opposition goes much deeper than his economic interest. It is grounded in his resistance to having his own individual purposes and objectives subordinated to the impersonal objectives and laws of the enterprise.

Not to give adequate promotional opportunities to the supervisor is a blow at the foundations of a free society. The strength and cohesion of a free society rest on the reality of its promise of equal opportunity. In industrial society this means the chance to rise from worker into management according to ability, performance and effort. That in this country the job of supervisor has always been both the opportunity for the worker and the first rung on the management ladder explains to no small extent the absence of classes and class wars.

### **The importance of community work**

Participation in one's own job is not the only way of acquiring managerial vision. The worker must also have opportunities for leadership in the plant community as the best means of acquiring actual managerial experience.

In every business there are opportunities for workers to acquire managerial vision. In every business there are dozens of activities that are not business activities but plant-community activities. These must be run by somebody. But they have often only the most incidental relationship to the business, and the most peripheral impact on its success. They need not, therefore, be run by management. Some such activities are the Red Cross Blood Bank or the Christmas Party, the cafeteria or the employee publications. Each of these activities by itself appears to be of minor importance, but in the aggregate they present a large area of responsibility. To the employee these activities are important, because they affect their social life.

Management has enough to do without adding non-business activities to its business responsibilities. To run community activities well requires time and a large staff. Control of these activities by management, instead of

making employees eager and able to perform better, invariably creates additional targets for criticism and discontent. Few managements get anything but complaints about the way they run their cafeteria.

### **The professional employee**

And what distinguishes the professional employee from the non-professional worker? It is primarily that his work, its standards, its goals, its vision are set by the standards, the goals, the vision of a profession, that they are determined outside the enterprise. The professional must always determine what his work should be and what good work is. Neither what he should do nor what standards should be applied can be set for him. Moreover, the professional employee cannot be "supervised." He can be helped. But he cannot be directed or controlled. The job should always provide both the maximum of managerial vision to the professional employee and a direct link between the work and its impact on the business.

It is in the area of promotional opportunities for professional employees that the division of industrial society into managers and labor does particular harm. As a result, the typical enterprise is characterized by one kind of promotion: promotion to an administrative position that entails responsibility for managing the work of others.

The best professional employees rarely make good administrators. They are often bored, if not annoyed, by administration. The good professional employee also has little respect for the administrator. He respects the man who is better professionally than he is himself. To promote the good professional employee into an administrative position will only too often destroy a good professional without producing a good manager. At the same time, promoting an administrator who typically will not be the outstanding professional in the group will appear to the professional employee as irrational, as favoritism or as reward for mediocrity. Yet, so long as business has no promotional opportunities except in administrative positions it will be confined to choosing between these two evils.

To make it a truly professional job, two things are needed. He must not be "supervised." The employee needs rigorous performance standards and

goals. A great deal should be demanded of him, and poor or mediocre performance should always be his responsibility and his decision. We also need special and continuous placement efforts for professional people. The professional also needs recognition of his expertise both inside and outside the enterprise.

The proper management of professional employees is among the most difficult problems facing the business enterprise. It cannot be side-stepped by asserting that the professional employee is part of management. Nor would it be solved, as traditional Socialist doctrine asserted, by considering the professional just a species of skilled workers and a "fellow-proletarian." Managing the professional employee requires recognition that he is distinct. A professional must determine his own work, set his own standards, have financial incentives and promotional opportunities equal to (though separate from) those of the manager. A great deal of inquiry and experimentation is still needed to teach us how to solve the problem.

### **The manager and his work**

The manager has the task of creating a true whole that is larger than the sum of its parts, a productive entity that turns out more than the sum of the resources put into it. This requires that the manager in every one of his acts considers simultaneously the performance and results of the enterprise as a whole and the diverse activities needed to achieve synchronized performance.

There are five such basic operations in the work of the manager. Together they result in the integration of resources into a living and growing organism. A manager, in the first place, sets objectives. Secondly, a manager organizes by analysing the activities, decisions and relations needed. He divides the activities into manageable jobs. Next a manager motivates and communicates. He makes a team out of the people that are responsible for various jobs. The fourth basic element in the work of the manager is the job of measurement. Finally, a manager develops people.

The more effective managers spend many more hours on their communications up than on their communications down. They do not talk

to their men about their own problems, but they know how to make subordinates talk about theirs. They are, willing to spend a great deal of their time helping subordinates set down the objectives of their job, and deciding what the superior must do to help him. They may spend a whole day every six months with each of their ten or twelve men going carefully over this exercise. As a result they do not have to worry much in between about their communications down.

Liking people, helping people, getting along with people, are not enough for a manager. It is often seen that an unpleasant, demanding unpopular boss who teaches and develops more men than anyone else. He commands more respect than the most likeable man ever could. He demands exacting workmanship of himself as well as of his men. He sets high standards and expects that they will be lived up to. He considers only what is right and never who is right. And though usually himself a man of brilliance, he never rates intellectual brilliance above integrity in others. The manager who lacks these qualities of character – no matter how likeable, helpful, or amiable, no matter even how competent or brilliant will not succeed.

Who is a manager can be defined only by a man's function and by the contribution he is expected to make. The one contribution he is uniquely expected to make is to give others vision and ability to perform. It is vision and moral responsibility that, in the last analysis, defines the manager.

### **Making decisions**

The importance of decision-making in management is generally recognized. But a good deal of the discussion tends to center on problem-solving. Indeed, the most common source of mistakes in management decisions is the emphasis on finding the right answer rather than the right questions.

In strategic decisions whatever their magnitude, complexity or importance the focus should never be on problem-solving. The critical job is not to find the right answer. It is to find the right question. For there are few things as useless, if not as dangerous as the right answer to the wrong question.

Nor is it enough to find the right answer. More important and more difficult is to make effective the course of action decided upon.

Decision making has five distinct phases: Defining the problem; analyzing the problem; developing alternative solutions, deciding upon the best solution; converting the decision into effective action.

Time should be spent on defining, analyzing the problem and developing alternate solutions. Time is necessary to make the solution effective. But much less time should be spent on finding the right solution. And any time spent on selling a solution after it has been reached is sheer waste and evidence of poor time utilization in the earlier phases.

What appears at first sight to be the elements of the problem rarely are the really important or relevant things. They are at best symptoms. And often the most visible symptoms are the least revealing ones. "Get the facts" is often the first stage in decision-making. But this cannot be done until the problem has first been defined and classified. Until then, no one can know the facts; one can only know data. Definition and classification determine which data are relevant. They enable him to say what of the information is valid and what is misleading.

### **Concluding Notes**

The business is the wealth-creating and wealth-producing organ of our society. The first responsibility of an enterprise to society is to operate at a profit. Only slightly less important is the necessity for growth. Management must maintain its wealth-producing resources intact by making adequate profits to offset the risk of economic activity. And it must increase the wealth-creating and wealth producing capacity of these resources and with them the wealth of society.

Management must consider such demands made by society on the enterprise as may affect attainment of its business objectives. It is management's job to find a way to convert these demands from threats and restrictions into opportunities for sound growth, or at least to satisfy them with the least damage to the enterprise.

Management is also responsible for make sure that the present actions and decisions of the business enterprise will not create future public opinion,

demands and policies that threaten the enterprise, its freedom and its economic success.

The company is not and must never claim to be home, family, religion, life or fate for the individual. It must never interfere in his private life or his citizenship. An employee is tied to the company through a voluntary and cancelable employment contract, not through some mystical and indissoluble bond.

But responsibility for our social beliefs and cohesion also has a positive component. It imposes on management the duty to keep open the opportunity to rise from the bottom according to ability and performance. If this responsibility is not discharged, the production of wealth will, in the long run, weaken rather strengthen our society by creating social classes, class hatred and class warfare.