



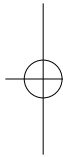
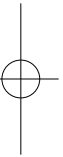

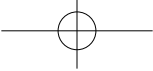
# Drucker:

## Overall View and Principles


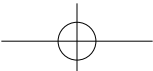


Katsunori Jack Kunisada





Bona Vita Corporation  
4-7-8-307 Tsudanuma, Narashino, Chiba 275-0016, Japan  
E-mail: [kunisada99@migiude.com](mailto:kunisada99@migiude.com)  
URL: <http://migiude.com>  
© 2014 by Katsunori Kunisada  
All rights reserved.





## Contents

*Preface* ..... vii

### *Chapter 1*

#### **The Five Main Points We Must Know to Understand Drucker’s Management Thinking**

(1) Seeing Through to Essentials from an Expansive Worldview and Historical Perspective ..... 1

(2) Seeing Society as a Whole as a Living Organism ..... 4

(3) Attaching Importance to Perception..... 8

(4) The Lineage of Drucker’s Philosophy..... 11

(5) Wishing for Human Happiness ..... 15

### *Chapter 2*

#### **What Should Be Done by Organizations?**

2-1. What Tasks Should Be Performed by Organizations? ..... 23

(1) The Three Tasks..... 23

(2) Purpose and Mission of Organizations..... 24

(3) Productive Work and Worker Achieving..... 26

(4) Social Impacts and Social Responsibilities..... 28

(5) Be Cognizant of the Time Dimension ..... 30

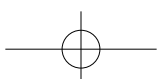
2-2. The True Purpose of Companies and Functions Companies Must Possess ..... 31

(1) “Customer Creation” Beyond “Customer Satisfaction” ..... 31

(2) Two Basic Functions Companies Must Possess ..... 36

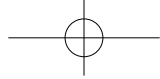
(3) Productivity as an Administrative Function of Companies ..... 39

(4) Functions of Profit..... 42



Drucker: Overall View and Principles

2-3. Begin by Defining the Purpose and Mission of Your Company .....	45
(1) The Difficult Question: "What Is Our Company's Business?" .....	45
(2) "Who Is Our Customer?" "Where Are Our Customers?" "What Does Our Customer Buy?" .....	49
(3) "What Will Our Business Be?" "What Should Our Business Be?" .....	54
2-4. How to Produce Results .....	58
(1) The Power of Objectives and Eight Key Areas for Setting Objectives.....	58
(2) Objective Setting and Main Points .....	60
(3) Balancing Objectives and Budgeting, and Execution .....	69
2-5. Making Work Productive and the Worker Achieving .....	72
(1) The Difference between "Work" and "Working" .....	72
(2) The Difficulty of Managing Knowledge Workers .....	73
(3) The Logic that Applies to "Work" .....	75
(4) The Five Dimensions of "Working" .....	77
(5) Why Focus on Worker Achieving? .....	80
(6) Responsibility as a Keyword .....	85
(7) What Is Important Is Whether People Execute .....	95
2-6. Corporate Social Responsibility .....	99
(1) The Essence of Social Responsibility and How to Respond .....	99
(2) What Must Never Be Promised and What Must Always Be Promised.....	101
2-7. Management of Public-Service Institutions.....	104
(1) Why Management Is Unsuccessful .....	104
(2) The Exceptions and Their Lessons .....	107
(3) How to Manage Public-Service Institutions for Performance ....	109



Contents

*Chapter 3*

**What Should Be Done by Managers?**

- (1) The Five Basic Operations in the Work of the Manager and  
Essential Qualities..... 111
- (2) Management by Objectives and Self-Control ..... 117
- (3) The Spirit of Performance and Practices ..... 125
- (4) Communication with Subordinates..... 128

*Chapter 4*

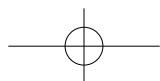
**What Should Be Done to Achieve Innovation?**

- (1) The Need for Systematic Innovation..... 135
- (2) Sources for Innovative Opportunity within the Enterprise or  
Industry (The First Set: Four Sources)..... 138
- (3) Sources for Innovative Opportunity Outside the Enterprise or  
Industry (The Second Set: Three Sources)..... 144
- (4) Don't Chase After the Bright Idea ..... 147
- (5) Principles of Innovation ..... 149

*Chapter 5*

**What Should Be Done to Address the New Age and  
Achieve Self-Fulfillment**

- (1) What Will the New Age Be Like? ..... 155
- (2) Learning from Organizational Management Methods ..... 158
- (3) How to Be Effective and Conditions for Raising Productivity..... 163
- (4) The Perspective of "What Should I Contribute?" ..... 166
- (5) How to Find Where You Belong ..... 168
- (6) Relationship Responsibility ..... 174
- (7) Preparing for the Second Half of Your Life ..... 176



*Appendix*

(1) Drucker's Thinking on the Future of Education ..... 181  
(2) How to Read Drucker's Books ..... 189

*In Closing* ..... 197

*Bibliography* ..... 205

*Column*

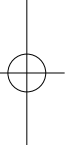
Differences in Thinking between the East and the West ..... 10  
Why is it "Create a Customer"? ..... 34  
"Concept" and "Percept" ..... 37  
The Difficulty of Considering "What is Our Business?" ..... 48  
First Forget Oneself, Then Think of Oneself..... 52  
Achieving Goals Creates a New Reality ..... 55  
The Risk of Considering Business Fields Based Solely on Profits ..... 57  
STP Strategy Taught in Business School ..... 62  
Did Drucker Struggle with Accounting? ..... 68  
Management is Courage..... 71  
Theories of Motivation ..... 81  
Intrinsic Motivation Theory of Edward L. Deci..... 86  
The "Worker Achieving" from a Seminar Instructor's Perspective..... 90  
On Integrity of Character ..... 114  
People Act as They are Expected to Act ..... 122  
The Unexpected Creates the Chance for Innovation ..... 139  
Discover Incongruities by Listening to the Voice of the Frontlines . 142  
Find Where You Belong with an Expansive Perspective ..... 177  
Can Japanese Universities Succeed in Their Present Form?..... 186



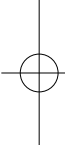
## Preface

In writing this book, I wish to provide as many people as possible with an overall view of Drucker's management thinking and an understanding of its essential principles. I also wanted to have his teachings actually applied in real-world situations. It was this desire that inspired me to write this book.

We have a boom in Drucker's management thinking. Even so, I believe that very few people understand Drucker's management thinking in its entirety and grasp its essential principles. Regrettably, many people's knowledge of this subject is limited to quoting fragments of Drucker's sayings.



Drucker's books are rich in passages that strike at the heart of matters. For example, Drucker casually writes, "To realize that they see the same reality differently is in itself already communication."<sup>1</sup> And "The 'right answer' is not central. Central is understanding of the problems."<sup>2</sup> It is certainly worthwhile to collect and savor these sorts of fragmented sayings, which speak to the essence of Drucker. However, if we could only grasp an overall view of Drucker's management thinking, we could savor the meaning of each of those sayings even more deeply.



To understand Drucker's management thinking, we must first grasp the philosophical underpinnings of this thinking and its main features. We must become familiar with Drucker's way of thinking, his thought process and the fundamental principles behind his thinking. Once we have this understanding, we will

---

1 *Management*, Page 492, BL19

2 *Management*, Page 480, BL4

be able to see the connections between all of Drucker's management thinking, which is considered to be difficult to understand, and we will find that our minds become very receptive to his ideas.

In Japan, *What If a Schoolgirl Manager of a High-School Baseball Team Read Drucker's Management* (hereinafter, *What If Drucker*) became a runaway bestseller, proving that Drucker's management thinking can capture the hearts and minds of a broad cross-section of the general public, not just the business world. Why does Drucker's management thinking command such wide appeal for so many people? I believe the reason is that Drucker's management thinking strikes at the heart of matters with a focus on people, while digesting complex issues into simple ideas and conveying them to us.

Suppose you were asked, "What does it mean to manage an organization?" How would you answer? Drucker's management thinking supplies an answer that many people can wholeheartedly accept.

Another compelling reason why we are drawn to Drucker is that we now stand at a significant turning point in history. In our society, industrialization reached its peak a couple of decades ago, and the center of gravity of the secondary industrial sector is shifting to China and Southeast Asian countries. Spiritually, we can no longer find fulfillment through the possession of material goods. Japan's population began declining in 2005, and its economy has remained in the doldrums. There has been a precipitous decline in employment opportunities for young people. Many are losing hope for the future. They know neither what the future may hold, nor what they should do with the rest of their lives.

Drucker considered himself to be a "social ecologist," and



viewed society as a living organism. One characteristic of a living organism is that it is in a constant state of flux. Drucker's management thinking consistently addresses what organizations and managers should do in a changing society. That is why Drucker captures the hearts and minds of people like us who must live in these times of profound change.

Another reason why Drucker, an academic scholar, fascinates practitioners of management is that his management thinking is for practice. Even if managers are presented with lofty ideas, they are worthless unless they are actually useful in real-world situations. Drucker emphasizes results.

Drucker writes, "The foundation for 'doing good' is 'doing well.' Good intentions are no excuse for incompetence."<sup>3</sup> In other words, even if you say, "As a doctor, I work to save patients' lives," there is no point unless you are actually saving patients' lives. Drucker urges us not to justify our own incompetence by saying that we are doing good deeds. He adheres to a strict emphasis on realism and performance.

Drucker's thinking can be applied to all manner of organizations, not just private-sector companies, including government agencies, NPOs and sports teams. It can also be applied to people in every position in any organization, not just presidents and managers, but also ordinary employees and students. It is also helpful for not only managing organizations, but also managing the life of each individual.

Whenever I consider difficult issues faced by businesses and organizations, I always turn to Drucker's thinking. Though business and self-help books abound, when we are really in a pinch, the only truly useful books are those of Drucker. Drucker's

---

3 *Management*, P809, TL5

books contain the essentials. There are two types of essentials in his books. One type is presented logically, while the other type is not a matter of logic, but consists of self-evident ideas that anyone can wholeheartedly accept when they are shared.

I believe that Drucker's management thinking can be highly useful to people who are grappling with issues related to the future course of their company or how to manage their organizations, people who are unsure about their work achievements and future careers, and people who are struggling with issues related to their own lives. Drucker's management thinking can help them organize and see the current situation clearly, find a way to solve the issues they face, and serve as a roadmap for considering the future direction of their work and lives.

This book is structured into five chapters. In Chapter 1, the book examines five main points that people should know about in order to understand Drucker's management thinking. Based on this foundation, in Chapter 2 to Chapter 5, the book gives an account of the fundamentals of Drucker's management thinking in four fields: "Organization," "Managers," "Innovation" and "Self-Fulfillment." Let me also add that since this book is designed to explain Drucker's books, which are practical writings on management, the chapter titles follow a unified pattern, based on the phrase "What Should Be Done."

Drucker's management thinking consists of a lot of subject matter written for top management and managers. However, the book's intended readers are all people working in an organization, including management, middle managers, and ordinary employees. Mindful of all these readers, I chose as the subject matter of this book those topics that I would like all people working in an organization to understand. The subject matter itself is not difficult, so I would also recommend this book to



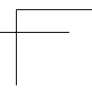
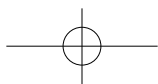
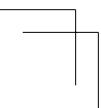
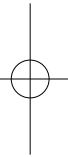
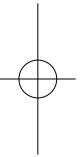
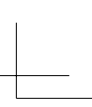
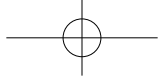
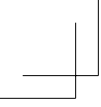
*Preface*

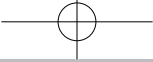
university students who will soon begin looking for a job.

On the other hand, I have not touched on topics such as managing the board of directors, business diversification, and multinational corporations, which Drucker probably wrote with top management of relatively large corporations in mind. (That said, the need to understand these topics is no longer the sole concern of large companies in this day and age.)

It is my hope that this book will give you an overall view of Drucker's management thinking and an understanding of its essentials. If you read this book, I believe that you will obtain a better understanding of the nature of organizations, the nature of management, and what it means for people to find happiness through work. I also encourage you to apply Drucker's management thinking to your worksite. After all, Professor Drucker must have wanted us to actually apply his management thinking to real-world situations more than anything else.

Without further ado, I invite you to explore and savor the deepest reaches of Drucker's management thinking through this book.

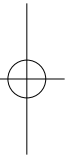




# **CHAPTER 1**

## **The Five Main Points We Must Know to Understand Drucker's Management Thinking**

### **(1) Seeing Through to Essentials from an Expansive Worldview and Historical Perspective**



Known as the “father of management,” Drucker is regarded by many as a management expert. That in itself is not wrong. He was the first person in human history to systematically study the field of management. There were others who made sizable contributions to specific areas of management. For example, Henri Fayol researched business administration and Frederick Taylor developed scientific management. However, Drucker was the first to systematically develop the expansive field of management in its entirety.

However, Drucker did not begin his career as a management researcher. His chief interest lay in society as a whole. In *The End of Economic Man*, the very first book published by Drucker in 1938 at 29 years of age, Drucker suggested that the masses turned to fascist totalitarianism because they despaired of bourgeois capitalism and Marxist socialism. The content of the book was praised highly by the iconic British Prime Minister Winston Churchill. One of Drucker's defining traits is his all-encompassing, profound knowledge and information on society as a whole, along with his incisive powers of analysis and insight.

From 1994 to 1996, I studied at the Peter F. Drucker Graduate School of Management.<sup>1</sup> Drucker began his first lecture by putting the following question to us: “Do you know which universities had the largest number of students of all the world’s universities a century ago?” Seeing that none of the students knew the answer, Drucker said, “Columbia University in the U.S. had the most students, followed by the University of Berlin in Germany. The third was the University of Tokyo in Japan. (Drucker also touched on the student enrollment numbers, but I do not recall the exact numbers.)” Drucker continued, “My point is that every nation that focused on higher education had achieved immense success a century later. That is why I also want to devote my energies to the education of young people like you.” With these words, Drucker vigorously taught the graduate students, even though he was already 85 years old at the time and had already become quite hard of hearing due to old age.

In Drucker’s books, a large number of examples are cited with specific numbers based on Drucker’s expansive historical perspective and worldview. For example, Drucker will bring up examples such as “The textbook was probably the invention of the great Czech educational reformer Johann Amos Comenius, who designed and used the first Latin primers in the mid-seventeenth century.”<sup>2</sup>; and, “In 1869, the German Werner Siemens hired the first university-trained scientist to start a modern research lab.”<sup>3</sup>

---

1 Refers to the Master of Business Administration (MBA) program at the Claremont Graduate University in California, U.S.A. The school is now named the Peter F. Drucker & Masatoshi Ito Graduate School of Management.

2 *Innovation and Entrepreneurship*, Page 31, TL16

3 *Management Challenges for the 21st Century*, Page 22, BL10

Drucker possessed immense knowledge and information. He had neatly organized this knowledge and information, backed by numerical data, into a rich tapestry woven vertically according to historical perspective and horizontally according to his worldview. Drucker himself said, "Some people call me an economist but that is completely wrong. Economists view society through numbers, while I view society through people." That is certainly the case. People always take center stage in Drucker's thinking. It was precisely because people were always at the heart of Drucker's thinking, that he was able to recognize a vital element of human psychology: namely, that numerical data plays a crucial role in enhancing the reliability of information and making it more persuasive for people.

*The Age of Discontinuity*, a book published in 1968, became a world-wide bestseller. It provided insightful analysis that pierced through to the essence of a changing society based on Drucker's expansive historical perspective and worldview. In the book, Drucker defined four types of changes as the central transformations of the times: "The New Entrepreneur," "From International to World Economy," "The New Pluralism"<sup>4</sup> and "The Knowledge Society." These changes are precisely what we who live in the modern age face today. Drucker had already pointed out these changes more than 40 years ago.

Drucker discusses organizations and management within the larger context of society as a whole. He hits the mark by revealing the essential aspects of things based on his expansive, deep historical perspective and worldview. This is undoubtedly

---

4 Pluralism is a unique feature of the 20th century. It refers to the formation of a society of organizations in which the style of having large numbers of people work in large organizations ripples out to not just corporations, but also public-service institutions, hospitals and other organizations.

the bedrock of Drucker's management thinking and what guarantees its reliability.

I do not know how Drucker obtained his vast knowledge and information. Drucker's wife has said, "Peter had a broad interest in many subjects besides the field of business, such as society, culture and history. However, I have no idea how he developed his knowledge. That said, it is sure that he was a prolific reader who would read anything in print that happened to absorb his interest."<sup>5</sup>

Drucker commanded a massive amount of information even in the years before the popularization of the Internet, which instantly puts the world's information at people's fingertips. That being the case, I sometimes wonder what kinds of new insights Drucker would provide if he lived in this age of the Internet.

## **(2) Seeing Society as a Whole as a Living Organism**

As I wrote in the Preface, Drucker considered himself to be a "social ecologist." This means not only that he viewed society as an integral whole, but also that he saw society as a "living organism."

The first sentence of the body text of Drucker's *Management* begins with these words: "Business enterprises—and public-service institutions as well—are organs of society." Upon reading that business enterprises and other institutions are "organs of society," one may merely note in passing that this must probably be the case. Drucker chose the word "organ," in the sense of

---

5 DIAMOND WEEKLY, "Minna no Drucker" ("Drucker for Everyone"), November 6, 2010 issue, P38 (Japanese only)



“an organ in the human body” or “a biological organ.” Of course, the word “organ” itself can refer to an “organization.” However, when I learned that Drucker used the word “organ” to explain the nature of business enterprises and other institutions that exist in society, I felt that his choice of the word provided a crucial insight into the basic thinking underlying his management thinking.

We can draw an analogy between society as a “living organism” and the human body. Just as the lungs, stomach and other organs are an integral part of the human body, companies, hospitals, fire stations, and other organizations are also vital “organs” of society.

Next, we may ask the following question: What is the purpose of the lungs and stomach within the human body? The purpose of the lungs is to bring in oxygen to the body, while the purpose of the stomach is to absorb nutrients into the body. The purpose of the lungs and the stomach does not lie within the lungs and the stomach themselves. The purpose of “organs” like the lungs and the stomach always lie outside the “organs” themselves.

Similarly, the purpose of organizations such as companies, fire stations, and hospitals that exist within the “living organism” we call society does not by any means, lie within each organization. The purpose of a fire station cannot be found within the fire station. The fire station’s purpose is to put out fires outside the fire station. Hospitals do not exist for the sake of doctors and nurses; the purpose of a hospital is to treat and cure patients suffering from injury or illness.

What is then the purpose of a company? Insofar as a company is an organ of society, it is inconceivable that its purpose lies within the company itself. The purpose of a company is

by no means to increase its own profits, but to fulfill a need in society or to solve a problem faced by society. In other words, Drucker points out that the purpose of a company is none other than to contribute to society.

If so, what is the meaning of profits for a company? Drucker says, "Profit is a condition of survival."<sup>6</sup> Put simply, profits are to companies what drinking water is to humans. Humans do not live for the sake of drinking water, but cannot live without it. Insofar as a company exists as a member of society, the purpose of the company cannot be merely its own profits. That said, companies cannot remain in existence without profits. In other words, profits are an essential condition for the continued existence of companies.

However, Drucker also thrusts an extremely harsh reality before our eyes. Although profits are not the purpose, but merely the condition for a company's existence, this condition is more crucial than the purpose. Humans and companies can survive without a purpose, but cannot remain in existence without satisfying this condition. Drucker writes, "If archangels instead of businessmen sat in director's chairs, they would still have to be concerned with profitability, despite their total lack of personal interest in making profits."<sup>7</sup>

In addition, in Drucker's management thinking, "change" is a keyword. As a social ecologist, Drucker sees society as a living organism. Living organisms are always changing. So is society. It is perhaps no exaggeration to say that change itself is one of the defining features of living organisms, and the same is true with society. The notion that "change is a normal state

---

<sup>6</sup> *Management*, Page 114, TL16

<sup>7</sup> *Management*, Page 60, TL4

in society” is one of the foundations of Drucker’s management thinking.

Therefore, words and phrases like “abandonment” or “sloughs off” appear often in Drucker’s management thinking. For example, Drucker writes, “Just as important as the decision on what new and different things to do is planned, systematic abandonment of the old that...(abridged) no longer makes a supplier contribution.”<sup>8</sup> and, “A business actually grows if it sloughs off activities which do not contribute.”<sup>9</sup>

People often dislike change. Drucker writes, “Resistance to change is grounded in ignorance and in fear of the unknown. Change has to be seen as an opportunity by people—and then there will be no fear.”<sup>10</sup> “See change as an opportunity.” This is Drucker’s prescription for us as we face the major upheaval of our times.

Another defining feature of society as a living organism is that society—insofar as it is living—is a complex system. Drucker takes the stance that there is no single correct answer. Drucker states that there is no single, absolute organization structure, nor is there any single, absolute method to manage people. What we should aim for instead is an organizational structure and management method that is best suited to the prevailing conditions at each moment in time. And even if there is no single, absolute answer, there are foundations and principles of thought. It is Drucker who shows us those foundations and principles.

Furthermore, given that society is a complex system, Drucker takes the view that the future cannot be known.

---

8 *Management*, Page 93, BL2

9 *Management*, Page 775, TL21

10 *Management*, Page 799, TL5

Drucker says that the only thing that is clear is that “the future will be different from what exists now and from what we now expect.”<sup>11</sup> And he adds that our role is to notice the signs of “the future that has already happened.”

Another keyword that Drucker uses is “feedback.” It is precisely because society is an unpredictable, complex system that Drucker teaches us that it is crucial to take the approach of setting clear goals and performing a feedback analysis of the results, while adjusting our own course accordingly.

Although Drucker strikes at the heart of matters based on his expansive historical perspective and worldview, he also takes the view that in the complex system that is society, there is no single, absolutely correct answer, nor is the future predictable. From this we can begin to understand just with how much integrity Drucker views reality and just how reliable he is as a person.

### **(3) Attaching Importance to Perception**

As noted before, Drucker’s defining strength is his powers of analysis based on his tremendous store of knowledge and information. In addition, as you will see as you read this book, Drucker has unparalleled critical thinking skills. Every aspect of Drucker’s thinking is impeccably logical and consistent.

That said, Drucker values the notion that one cannot understand the essence of things with analysis and critical thinking alone. And Drucker urges us to attach importance to the following ideas: “configurations may not be greater than the sums of their parts. But they are fundamentally different.” and

---

<sup>11</sup> *Managing for Results*, P173, TL3

“we don't really know why but that's the way things are.”

For example, many people are impressed when we see someone rising up to a very difficult challenge. Why is it impressive to see a persevering person? We can't really explain why. The world is filled with these sorts of things that we accept as true without any valid reason.

The word “perception” comes up often in Drucker's management thinking. “Perception” is an extremely important word to understanding Drucker's management thinking. “Perception” is the nominal form of the verb “perceive.” “Perceive” has the nuances of “taking notice,” “understanding,” and “seeing (the true state, etc.)”

There is no doubt that this emphasis on “perception” is connected to Drucker's ability to incisively see through to the essence of things. One feels that Drucker's insights have a purity and pristine quality. Rather than offering a plodding explanation of the rationale and background to his assumptions, Drucker cuts through to the essence with simplicity and clarity. And one notices only later just how profoundly thoughtful and just how incisive these simple words—which he has led you to the truth with—really are.

One of Drucker's golden sayings, which is well-admired by his followers, is the following: “There is only one valid definition of business purpose: to create a customer.”<sup>12</sup> Why are these words a golden saying? By the time you have finished reading the book, I am sure that you will have come to see why.

---

<sup>12</sup> *Management*, Page 61, TL6

## COLUMN

### **Differences in Thinking between the East and the West**

From our childhood years, we are educated based on the Western style of critical thinking based on logical analysis. Thinking logically is extremely crucial when doing work. The first step in logical analysis is classification. Because human recognition is limited, we first try to classify things when we analyze complex phenomena. This is the foundation of the Western style of critical thinking.

However, as I noted earlier, the world is full of truths that we cannot grasp through critical thinking alone. Drucker attaches importance to accepting that fact as it is. "Perception" means seeing the entirety as a whole and embracing its essence as it is, without trying to classify it or analyze it.

This approach of seeing through to the essence by looking at the whole, without classifying or analyzing it, is characteristic of an Eastern way of thinking. The example of a hospital will make this clear. Japanese hospitals are set up based on Western thinking. Therefore, the hospital's practice is classified into surgical, internal medicine, dermatology and ophthalmology departments, and specialists in each of these fields are engaged in treating diseases.

In contrast, Eastern medicine does not classify its practice. Treatment is premised on the belief that the entire body is interconnected. In Eastern medicine, one might be told, "pressing this point under your foot is good for your liver." However, no logical reason has been found to substantiate this claim. In Eastern medicine, however, what is important is the notion that "This is actually true. It works."

One reason why Drucker is more popular in Japan than

in the West is that he valued purely Eastern ways of thought, despite being a Westerner.

Drucker skillfully uses his powers of logical analysis and “perception” simultaneously as the occasion demands, and points out essences that truly amaze us. To use trendy phrases, one could say that Drucker skillfully uses both logical and emotional reasoning, or that he uses the left and right sides of his brain effectively.

It was Dr. Albert Einstein himself who said that he had never made a new discovery through logical reasoning alone. People who are recognized as geniuses are often likely to be adept at using both logic and intuition at the same time.

In regard to the importance of “perception,” Drucker himself offers an incisive study of this topic in the conclusion of *New Realities*, titled “From Analysis to Perception: The New World View.”

#### **(4) The Lineage of Drucker's Philosophy**

To understand Drucker's words, one must first grasp the lineage of Drucker's thought, i.e., what Drucker was interested in, and how his thinking developed. While Drucker's research topics change, there is a common thread running through his philosophy.

Drucker was originally interested in society as a whole, and the happiness of the people making up society. As I noted earlier, in Drucker's very first work published in 1939, *The End of Economic Man*, Drucker writes that the masses turned to fascist totalitarianism because they despaired of bourgeois capi-

talism and Marxist socialism. The book's main line of reasoning is as follows.

The fundamental premise of bourgeois capitalism is to view man as an "economic animal," and to see in the completely free exercise of man's economic activity the means toward the realization of his aims. Marxist socialism was an attempt to achieve an equitable redistribution of the wealth produced by economic activity from the bourgeois class to the working class.

However, the exercise of free economic activity triggered the Great Depression, and bourgeois capitalism did not ultimately lead to freedom and equality for people. Meanwhile, although Marxist socialism set out to achieve a classless society, it ironically produced a new class structure and ended in failure. In the final analysis, these two social systems were unable to realize people's happiness.

That was when fascism made its appearance. The masses stood at the brink of despair following the failures of the twin social structures of capitalism and socialism. The masses had nowhere to turn but to magic and miracles. Put simply, Drucker explains that the masses turned to fascist leaders, who acted like magicians by blatantly advertising such contradictions as "We will increase the price of wheat at the same time lower the price of bread." And in the end, fascism only made even more of the masses unhappy.

As early as 1939, Drucker had already seen that both capitalism and socialism were based on the supremacy of the economy, and that this orientation could never lead to the realization of people's happiness.

Drucker's next book was *The Future of Industrial Man*, originally published in 1942. In this book, which was written dur-



ing World War II, Drucker wrote that the postwar years would see the emergence of a society of organizations in which industry would play a central role. A crucial word for understanding the thinking that runs through Drucker's philosophy appears in this book. It is the word "legitimacy." Unless the concept of "legitimacy" is understood, one cannot develop a consistent understanding of Drucker's ideas.

In the Preface to a newer edition of *The Future of Industrial Man*, legitimacy is defined as follows. "It is a term that recognizes power as a social reality but demands that power be grounded in a higher sanction, in accountability, responsibility, and shared vision."<sup>13</sup> Put simply, legitimacy means that the existence of something in society is recognized as proper, and the significance of its existence is recognized with admiration.

Drucker wrote, "For the hostility to capitalism and capitalists is moral and ethical. Capitalism is being attacked not because it is inefficient or misgoverned but because it is cynical."<sup>14</sup> Drucker explains that the industrial society will certainly come after World War II. Companies, which will play the main role in this industrial society, must possess legitimacy for society to survive. And the power of companies must be derived from moral and ethical principles.

In this manner, Drucker was interested in the nature of society as a whole, particularly in the nature of the industrial society. He began researching companies, which would become the main players in the postwar industrial society. It was at this time that Drucker received a phone call from an executive of General Motors, who had read *The Future of Industrial Man*,

---

<sup>13</sup> *The Future of Industrial Man*, P9,BL16

<sup>14</sup> *The Practice of Management*, P392,TL4

asking Drucker to survey GM's management and organization. That was in the autumn of 1943. This was a completely unforeseen turn of events for Drucker. Drucker himself called it a total coincidence, something almost like an accident. Although he recalled this episode with his characteristic sense of humor, the powers of analysis and insight he demonstrated in *The Future of Industrial Man* certainly captured the heart of this GM executive. For Drucker, who had wanted to research companies, this phone call was a heaven-sent opportunity. With this single phone call, Drucker took his first step into the field of management research, which he would go on to pursue for more than 60 years.

Based on his research of GM, Drucker published *Concept of the Corporation* in 1946. Drucker's next challenge was to systematically study the field of "management." In 1954, he published *The Practice of Management* followed by *Managing for Results* in 1964, and *The Effective Executive* in 1966. In 1973, these works culminated in the publication of the 800-page masterpiece *Management: Tasks, Responsibilities, Practices*.

Drucker's next step was to undertake a systematic study of innovation in *Innovation and Entrepreneurship*, which was published in 1985. Viewing society as a living organism, Drucker recognized that above all else, innovation is crucial to the survival of companies and to economic and social development in an ever-changing society.

As we have seen, there is a common thread running through Drucker's philosophy. Furthermore, several distinctive ideas serve as the basis of his thought. If we retrace Drucker's writings, we can summarize the lineage of his philosophy as follows:

Drucker first analyzed the reasons why two social systems

based on the supremacy of the economy—capitalism and socialism—failed to bring happiness to humankind. He then shifted his focus to an analysis of the industrial society, which would take center stage after World War II. He researched corporations at the heart of the industrial society. Based on his research of corporations, he systematically studied management and then systematically studied innovation.

Considering such a great character as Drucker, I suspect that if he had not moved into the field of management, he may have gone on to pave the way for a new social system to replace capitalism and socialism. Of course, Drucker had also turned his mind to this subject. We can see this by reading his autobiographical work *Adventures of a Bystander*. Drucker believed that there could be no such thing as a perfect social system. He thought in ultra-realistic terms, and believed that man had no choice but to compromise by paying a price—i.e., allowing the market to shut out human values in the industrial society—while continuing to chase after the dream of a free society.

## **(5) Wishing for Human Happiness**

The last of the five main points that we should know about in order to understand Drucker's management thinking is the essence that runs through the heart of his management thinking. This is something that we absolutely must understand in order to grasp Drucker's management thinking and apply it to real-world situations.

In March 2007, I attended a lecture by Mr. Atsuo Ueda, a translator of Drucker's books. Mr. Ueda has translated almost all of Drucker's books into Japanese. Drucker himself once said of Mr. Ueda, "He is more well-versed in my books than I am." At the

lecture, Mr. Ueda shared his perspective on Drucker as follows: “The essence of Drucker’s management thinking lies in ‘human happiness.’ One major social development of the 20th century was that large numbers of people started to work in large organizations. This means that we live in a society where the quality of management of an organization can have a significant bearing on the happiness of numerous people. Staying true to the core tenet of wishing for ‘human happiness,’ Drucker chose the path of researching management through adapting to this social change of 20th century.”

I am a graduate of the Peter F. Drucker Graduate School of Management. However, I did not start out as a huge Drucker fan. I only started actively reading Drucker’s books after I returned from my studies abroad. When I attended Mr. Ueda’s lectures, I had not yet read all of Drucker’s books. If I were to describe my impression of Drucker at the time, I would probably describe Drucker as “extremely knowledgeable” and possessing “incisive powers of analysis and insight.”

When I heard at Mr. Ueda’s lecture that Drucker’s greatest interest was “human happiness,” I was shocked. It was as if I had suffered a hammer blow to the head. I realized that I had not understood the essence of Drucker at all.

Drucker was someone who continuously thought about how people could achieve happiness. If we keep in mind that the essence of Drucker’s management thinking is “human happiness,” we will be able to grasp what Drucker really means with great ease. Whether it is research into capitalism and socialism, research into the industrial society, or the systematic study of management, “human happiness” is the constant thread running through all of these endeavors.

In his book *Introduction to Drucker*, Mr. Ueda writes, “Hav-

ing the gift of perception means that one has the power to see all things as endowed with life, not as mere machines." Indeed, Drucker saw society as a whole as "endowed with life." Drucker's approach of seeing things from the central perspective of people, must have honed his capacity for perception.

Drucker's books are filled with the spirit of kindness. The following example appears in *The Effective Executive*. A large scientific agency of the U.S. government issued regular publications for scientists. The director of the agency retired. He was neither a scientist nor a trained writer. He was replaced by an accomplished science writer. However, the scientific community for whom these publications were intended stopped reading them. A highly respected university scientist finally told the administrator, "The former director was writing *for* us; your new man writes *at* us."<sup>15</sup> The fact that Drucker cites these sorts of examples is in itself an expression of his kindness. Incidentally, this passage always comes to mind whenever I start writing something.

Let me present a passage from Drucker's writings that will establish his kindness beyond any doubt. The passage is from the subject matter titled "Legitimacy of Management" in the "Conclusion" section at the end of the book *Management: Tasks, Responsibilities, Practices* (hereinafter, "*Management*"), the culmination of Drucker's management thinking. Here, "legitimacy" has the same meaning as explained in the section on *The Future of Industrial Man* on page 13.

What are the grounds for the legitimacy of management? That is, what is the significance of management's existence? Clearly, management fulfills the role of satisfying the needs of

---

<sup>15</sup> *The Effective Executive*, P54, TL12

consumers and employees. However, that is not enough to justify the legitimacy of management. Drucker said that there is only one principle that justifies the legitimacy of management. It is “to make human strength productive.” In essence, the purpose of an organization is to contribute to society by harnessing every individual’s personal strengths. And in the process, the organization must encourage every employee to find achievement and to reaffirm the significance of his or her existence in society. Put differently, Drucker is saying that management cannot justify its existence unless it is able to make every person in the organization happy.

What do you think? This is the subject matter laid out in the “Conclusion” of the 800-page book *Management*. I was personally overcome with awe by Drucker’s conclusion. I am convinced that the first thing we must learn from Drucker is his strong desire for human happiness. Without this spirit, no matter how much of Drucker’s management thinking we learn, we will find it difficult to apply his thinking to our real-world situations and produce results.

Drucker’s books certainly make for difficult reading in some respects. However, Drucker’s management thinking is written in language that people of ordinary ability can understand. Drucker writes that managers do not need such a thing as charisma. In fact, they can learn almost everything they need to know to perform their roles as managers. In his words, “It is that managers are made and not born.”<sup>16</sup>

Interestingly, Drucker also writes, “Manager development and management development are not promotion planning, replacement planning or finding potential. (abridged) The

---

<sup>16</sup> *Management*, Page 421, TL6

worst thing a company can do is to try to develop the “comers” and leave out the others. Ten years hence, 80 percent of the work will have to be done by those left out. The eight men out of every ten who were not included in the program will, understandably, feel slighted. (abridged) Five out of every ten “high potential” young men turn out to be nothing but good talkers by the time they reach 40.”<sup>17</sup>

Drucker shows us the basics and the principles that ordinary people must understand, be familiar with, and practice in the course of management. Drucker never leaves the ordinary man behind. Instead, one can say that Drucker exists for the ordinary man. Drucker generously offers these words, “The future is being made by totally anonymous people doing mundane jobs.”<sup>18</sup> There is no telling how much these sorts of words can encourage ordinary people like me.

I believe that Drucker is basically telling ordinary people, who may not have any special talents or abilities, “You are doing fine. Every one has the capacity to become a great manager. Just stay positive and work hard at it.” Anyone can skillfully apply Drucker’s insights. That is my belief, and I think it is what Drucker must have wished for.

Human happiness lies at the heart of Drucker’s management thinking. However, Drucker also has a very sober, strict perspective. He rejects paternalistic management directed solely at maintaining employment, and rejects managers who approach their subordinates only with kindness. As for the reasoning behind this strictness, I believe Chapter 2 and later chapters in this book will give you a better understanding of

---

17 *Management*, P423, BL19

18 *The Frontiers of Management*, P ix, Preface, TL7

what Drucker is really driving at.

This book draws on Drucker's thoughts by borrowing extensively from a variety of Drucker's books. Chapter 2 and Chapter 3 of the book basically provide an explanation of the subject matter of Drucker's book *Management: Tasks, Responsibilities, Practices*, referring also to the first two volumes of the translations of this book into Japanese.

*Management* has a three-part structure. Part One is about management. Part Two is about managers, and Part Three is about top management. As I noted in the Preface, this book seldom touches on Part Three's discussion of top management. Hence, this book does not refer to the third volume of the Japanese translation of *Management*.

Some readers may wonder, what is the difference between Part One's "management" and Part Two's "managers"? As Drucker himself noted, the difference is that Part One "looks at management first from the outside and studies the dimensions of the tasks and the requirements in respect to each of them," while Part Two "turns to the work of the organization and the skills of management."<sup>19</sup>

Without the organization, there would be no management. But without management, there would also be no organization. It follows that looking at management from the outside means discussing what tasks the organization is expected to perform. From this standpoint, I chose "What Should Be Done by Organizations" as the title of Chapter 2, which explains Part One of *Management*. This is to clearly distinguish its subject matter from that of Chapter 3.

Of course, management is a function performed by man-

---

<sup>19</sup> *Management*, "Preface: The Alternative to Tyranny"

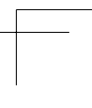
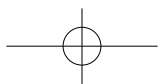
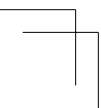
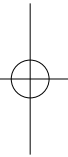
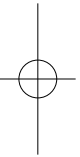
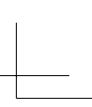
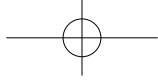
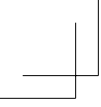


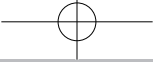
agers. There can be no management without managers. Hence, it is also true that the subject matter of Chapter 2 and Chapter 3 are linked to one another.

Chapter 4 of the book basically gives an account of *Innovation and Entrepreneurship*. It also refers to the translation of this book into Japanese. Chapter 5 primarily explores the subject matter on management of oneself in *Management Challenges for the 21st Century*. It also refers to the translation of this book into Japanese.

From Chapter 2 to Chapter 5, I have not provided references for every citation from Drucker's books. Basically, please understand that all of the citations are drawn from the foregoing books.

Without further ado, in the next and subsequent chapters, let's begin exploring the specifics of what we need to understand about Drucker's management thinking and what we need to put into practice.



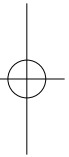


## CHAPTER 2

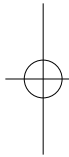
# What Should Be Done by Organizations?

### 2-1. What Tasks Should Be Performed by Organizations?

#### *(1) The Three Tasks*



Drucker's thinking is very well-reasoned. As explained in Chapter 1, Drucker viewed society as a whole as a living organism. He said that all of society's organizations exist for the sake of contributing to society, and must produce concrete results for society. In other words, the purpose of an organization lies outside of the organization. That is why outward "contribution" and "results" beyond the organization are key concepts in Drucker's management thinking.



In our modern age, large numbers of people have come to work in organizations. Human happiness is thus determined largely by how well organizations are managed. That is, Drucker contends that a crucial purpose of organizations is to encourage the people who work there to find happiness through their work. This is not about remuneration. It is about creating the conditions needed for people to feel that their work itself is worthwhile.

If we ask what organizations should do as organs of society in terms of the key concepts of "contribution" and "results" in society, as well as "human happiness," we will find that this line

of reasoning will lead us to the answer. Drucker said that there are three tasks which management has to perform to enable the institution in its charge to function and make its contribution. The three tasks are as follows:

- ① The specific purpose and mission of the institution
- ② Making work productive and the worker achieving
- ③ Managing social impacts and social responsibilities

Some readers may question why one of the aforementioned three tasks, specifically the task for making employees happy, is “Making work productive and the worker achieving.” The phrase “Making work productive and the worker achieving” has multiple levels of meaning. Why does Drucker emphasize “achievement” here? One can interpret the phrase “make the worker achieving” to mean “encouraging workers to produce results.” (Alternatively, the phrase could be interpreted as “making the best of workers through their jobs.”) These points will be explained in detail in “2-5. Making Work Productive and the Worker Achieving” in Chapter 2.

Furthermore, we might consider Task ① and Task ② of the aforementioned three tasks to be the basic tasks of an organization, and Task ③ to be an ancillary task. However, Drucker writes that the tasks are “equally important, but essentially different.” The meaning of these words will be explained in “(4) Social Impacts and Social Responsibility” on page 28.

Next, let’s take a look at each of the three tasks in detail.

## ***(2) Purpose and Mission of Organizations***

As organs of society, organizations possess different purposes and missions of their own. As said before, the role of a fire

station is to put out fires, and the role of a hospital is to cure patients suffering from illnesses.

The same holds true of business enterprises. The purpose of a business enterprise is to contribute to society by supplying products and services to customers. Each business enterprise has its own business purpose and business mission. While some business enterprises offer *ramen* noodles to customers, others provide automobiles.

That said, there are differences between business enterprises and other types of organizations, such as government agencies, public schools, and armed services. The biggest difference between business enterprises and these other types of organizations is that business enterprises conduct economic activities. Government agencies, public schools, and armed services and all other such organizations are managed using the surplus of economic resources generated by economic activity. Without the taxes levied on profits generated by business enterprises, and the taxes paid by the people who work there, government services, compulsory education and other services cannot be provided.

Most Japanese have long lived in a system where the government issues huge amounts of deficit-covering bonds, which now account for the bulk of the government's revenues. For that reason, most Japanese are prone to the illusion that the government has virtually free access to money. However, money does not grow on trees. For example, the government needs money to provide assistance to the people directly affected by the March 2011 Great East Japan Earthquake and to rebuild the affected areas. It has no choice but to raise this money basically from economic activity; i.e., economic activity conducted by business enterprises where the Japanese people

work. Excluding deficit-covering bonds, the major source of the government's revenue is taxes. In other words, the government can only provide public services using the surplus of economic resources generated by economic activity.

Based on this understanding, Drucker says that if the defining feature of business enterprises is economic activity, then business enterprises can only justify their existence through economic performance. From this, we can conclude that a business enterprise's existence is worthless unless it can supply goods and services desired by the consumer at a price the consumer is willing to pay.

As I have already said, an organization is an organ of society, which is itself a living organism; as such, the purpose of the organization always lies outside of the organization. The purpose of a business enterprise is to contribute to society through economic activity—by supplying products and services desired by the consumer at a price the consumer is willing to pay.

There are cells that can exist inside human organs solely for the purpose of self-replication, without fulfilling any useful task that would contribute to the human body—cancer cells. Organizations in society that act only for the sake of increasing their own profits and maintaining and enlarging their own organization, without making any meaningful contribution to society, may be rightfully described as cancerous to society.

### ***(3) Productive Work and Worker Achieving***

The second task of an organization is to make people, its only one true resource, productive. An organization cannot perform unless human resources are productive. Productive employees in an organization are essential to fulfilling the organization's purpose and mission, the first task of management. Companies

that do not have productive employees and can only supply goods and services at a higher price than their competitors will eventually go out of business.

Let's look at one key difference between business enterprises and public-service institutions. In the world of business, there is a mechanism in place for eliminating unproductive business enterprises from society. Companies that remain in the red eventually go bankrupt. Put simply, the markets say, "We don't need this company any more," and people stop buying the company's products or services. As a result, the company goes bankrupt.

It is sometimes suggested that workers at public-service institutions are unproductive. One reason why these workers become unproductive is that there is no mechanism in place to eliminate these organizations and their functions from society. For example, if the workers at the city office where you live are unproductive, residents can voice their complaints, but the city office can never be shut down.

As I said earlier, as long as every institution is an organ of society, all institutions must contribute to society. And for the institution to produce results so that it can contribute to society, the workers in every institution must be productive.

That said, there are two dimensions to the second task: "making work productive and the worker achieving." The first dimension is what we have discussed so far, namely making the organization productive to produce results. The second dimension is to have employees find their individual happiness through their work as a result of making work productive.

Drucker writes, "Organizing work according to its own logic is only the first step. The second and far more difficult one is making work suitable for human beings." Human beings

march to a completely different drum beat than the logic of work. Human beings cannot work like robots. Human beings have “peculiar physiological and psychological properties, abilities, and limitations, and a distinct mode of action.” We must consider “the human resource as human beings and not as things.”

Ultimately, work is done by people. By working in organizations, employees find their livelihood, and find access to individual achievement and satisfaction. It is this concept of “worker achieving” that serves as a crucial keyword for encouraging people to find happiness through their work. I will explain this idea in more detail in “2-5. Making Work Productive and the Worker Achieving.” This second dimension, the idea of making work productive in order to encourage employees to find happiness through their work, is what Drucker wanted to convey—It is his main message with regard to the second task of management.

As I wrote in Chapter 1, numerous people now work in organizations. Organizations have a significant impact on employees’ happiness. Organizations should be managed so as to encourage individual employees to contribute to society by harnessing their unique strengths, allowing them to find self-fulfillment, and find their own meaning in life through their work. If not, organizations will be unable to justify their existence and command the respect of large numbers of people. That is why Drucker believes that it is definitely the crucial task of management to encourage people to find happiness through their work.

#### ***(4) Social Impacts and Social Responsibilities***

The third task of an organization is “managing social impacts



and the social responsibilities.” The third task has a different meaning from the first task of “fulfilling the specific purpose and mission of the institution.” Institutions are organs of society. The activities of institutions have impacts on society. Examples include factory noise and emissions.

Social problems in society, such as racial discrimination, in turn have an impact on organizations. Organizations are part of society, so the impacts of social problems on organizations cannot be completely avoided. An organization must always keep in mind whether or not the organization is playing a positive role in society.

It is tempting to think of the third task as an ancillary task. In fact, this task carries a tremendous significance. Drucker writes that these tasks are “equally important but essentially different.” He also adds, “mismanaging social impacts eventually will destroy society’s support for the enterprise and with it the enterprise as well.”

We can immediately understand the importance of the third task by considering the accident at Fukushima No.1 Nuclear Power Station of Tokyo Electric Power Company (TEPCO). TEPCO has been supplying sufficient electric power to meet the needs of the residents and corporations of the eastern region of Japan. And many of its employees have been finding a livelihood and achieving self-fulfillment by working there. In other words, TEPCO has properly achieved the first two tasks of management. However, the accident at its Fukushima No.1 Nuclear Power Station has had an enormous impact on society, as well as having an immense impact on the organization, TEPCO.

These sorts of social impacts are not confined to large companies. Let’s suppose that a prosperous *ramen* noodle soup

restaurant in a community is responsible for releasing a foul odor from the cooking process into the community, thereby causing problems for local residents. It is almost impossible to completely avoid the odor in the cooking process. However, two questions would be extremely important for an organization to consider: ① How did the organization respond upon learning that the local residents were troubled by the problem?; and ② Did the organization constantly remain aware of whether it was playing a positive role in the community? I will explain “managing social impacts and the social responsibilities” in further detail in Chapter 2 “2-6. Corporate Social Responsibility.”

### ***(5) Be Cognizant of the Time Dimension***

Recognizing that complexity is ever-present in management, Drucker believes management must also be cognizant of the additional dimension of time, along with the foregoing three tasks. Properly speaking, however, he does not consider time to be a fourth task of management.

From the standpoint of the time dimension, Drucker points out that management’s decision-making always has to consider both the present and the future. He also touches on the two types of management roles with respect to managing existing businesses (“administration”) and developing new businesses (“entrepreneurship.”) This comes as no surprise given that Drucker views society as a living organism—something that is in a constant state of flux.

Let’s now take a moment to summarize the basic tasks of management explained so far. Management must fulfill the following three tasks:

- ① the specific purpose and mission of the institution;

- ② making work productive and the worker achieving;
- ③ managing social impacts and social responsibilities.

In essence, Drucker is telling us that management's role is to consider and execute the aforementioned three tasks, while also remaining cognizant of the time dimension.

## **2-2. The True Purpose of Companies and Functions Companies Must Possess**

### ***(1) "Customer Creation" Beyond "Customer Satisfaction"***

It was noted earlier that the first task of an organization is to fulfill the organization's specific purpose and mission. This is common to all organizations, regardless of whether the organization is a business enterprise, public-service institution or NPO.

From here on, the book will focus on companies that conduct economic activities. (Public-service institutions will be covered separately "2-7. Management of Public-Service Institutions" in Chapter 2.) As I said earlier, companies are organizations that conduct economic activities, and can only justify their existence through economic performance. In other words, if a company is unable to supply products and services at a price that customers are willing to pay, this means that the management of the organization has failed.

Considered from such a perspective, what is the purpose of a business? Drucker wrote, "There is only one valid definition of business purpose: to create a customer." In other words, the purpose of a business is to create a set of customers, i.e. a market.

The phrase “create a customer” is among Drucker’s most famous words. Before I read the full text of *Management*, I first came across this phrase in a different book. It made me wonder why he chose such unusual words as “create a customer.” At the time, I thought “Wouldn’t ‘to satisfy a customer’ suffice as the purpose of a business?” Yet here too, Drucker offers sharp insight into the relationship between businesses and markets. It is not enough to define the purpose of a business as “to satisfy a customer.”

Of course, one of a company’s crucial tasks is to satisfy customers. And the work of companies is surely to supply products and services that satisfy the wants of customers. However, customers themselves may not necessarily be consciously aware of what they want. In fact, the wants of customers encompass many things that customers themselves may not be consciously aware of. Drucker cites a Xerox machine and a computer as examples. He writes “no one knew that he wanted a Xerox machine or a computer until these became available.”

Large markets are created by satisfying these potential wants of customers, which even the customers themselves may not be consciously aware of. In Japan, convenience stores and *takuhaibin* parcel delivery services are good examples. Similar stores and delivery services existed in Japan from long ago in the form of general stores and postal parcel delivery services. However, in the old days, the general store would not always have in stock all the products a customer wanted. And when using postal parcel delivery services, not a few people found it troublesome to meet all of the detailed packing rules laid out in advance. Yet hardly any customers could clearly conceive the modern-day convenience store and *takuhaibin* parcel delivery service, nor did they consciously seek the specific services

offered by today's convenience stores and such delivery service providers.

It was companies that first proposed the business models of the convenience store and *takuhaibin* parcel delivery service, before they became businesses. Drucker writes, "Markets are not created by God, nature, or economic forces but by businessmen."

Drucker describes, "Business is a process which converts a resource, distinct knowledge, into a contribution of economic value in the market place." Put differently, business can be defined as the process of providing products and services that customers are willing to freely purchase, even when they can choose not to purchase them. And it is the knowledge and wisdom of people working in companies that makes this possible. Drucker writes, "it is not necessary for a business to grow bigger; but it is necessary that it constantly grow better." It is the mission of companies to use their knowledge and wisdom to continuously provide better products and services.

In fact, we actually see that there is no shortage of enterprises that have grown into large businesses by using their knowledge and wisdom to satisfy the potential wants of a customer. The clothing chain UNIQLO provides a high-tech thermal fabric called *HEATTECH*. Before *HEATTECH*, there was a similar innerwear known as a "granny shirt"—a long-sleeved, thick undershirt that was anything but stylish. I'm sure many people thought that this thick undershirt was totally lacking in any sense of fashion or style. Yet here too, there were probably no consumers who could clearly conceive of UNIQLO's *HEATTECH* line of thermal innerwear, which has the function of converting perspiration into heat. Neither did there exist a conscious need for such a product. With *HEATTECH*, UNIQLO

created a new market.

Some people say that companies must first and foremost adapt to environmental changes. That in itself is not wrong, yet is not sufficient. Drucker said that companies must not only read the markets, but must also create them. He knew that we cannot predict the future. He said that we can only identify the signs of the future that has already happened and create the future.

Furthermore, it cannot be conceivable that Drucker, who sees society as a living organism primarily from the vantage point of people, would be satisfied with defining the purpose of a business as simply “to satisfy a customer.” Naturally, the wants of customers are constantly changing. We would fall behind if we only pursued customer satisfaction. For us to ensure the continued existence of a company, without the power to predict the future, we ourselves must stand at the forefront of change. We have no other choice. We ourselves must create that change.

It is not enough to define the purpose of a business as “to satisfy a customer.” The true purpose of a business is “to create a customer.” Business people must work while remaining aware of the importance of “creating a market,” not just “satisfying a customer.”

#### **COLUMN**

#### **Why is it “Create a Customer”?**

Drucker wrote, “There is only one valid definition of business purpose: to create a customer.” When I first saw the phrase, “to create a customer,” I wondered why Drucker didn’t write, “to create customers.” Immediately after defining the purpose of a

business as “to create a customer,” Drucker writes, “Markets are not created by God, nature, or economic forces.” One can interpret this passage as meaning that the purpose of a business is to create a market through the process of creating customers. Even so, Drucker consistently uses the phrase “create a customer,” not “create customers.” Given his tremendous accomplishments, Drucker must have chosen every one of his words carefully. I feel that this case shows just how much Drucker sees things from the vantage point of people.

As long as we analyze markets as an abstract concept, we will find it difficult to develop new products and services. I believe that the willingness to consider the needs of each individual person in the market is essential to developing new products and services.

I wrote a book titled *Trinity Method: Understanding Financial Statements* that became a bestseller in Japan. However, I did not decide to write this book based on an analysis of market needs. In my management consulting practice, the president of a client company was having trouble negotiating with banks because he could not read balance sheets. While thinking about how I could best teach him financial accounting, I ended up developing an entirely new method of studying accounting. That was how the new *Trilateral Approach* was created. If we can solve a problem or make life easier for one person, the approach can surely be applied to multitudes of people.

Sontoku Ninomiya, a prominent Japanese agricultural leader who saved many impoverished villages from ruin, said, “A method that can save one village can save the entire country. The principles are one and the same.” I believe that these words capture what Drucker truly meant when he used the phrase “create a customer.”

I feel that Drucker is telling us that to create a market, we must first look carefully at each and every individual in the mar-

ket. Drucker viewed the market not as an abstract concept, but as the sum total of every constituent individual (“a customer”) in the market.

## **(2) Two Basic Functions Companies Must Possess**

If we retrace the development of Drucker’s thinking, from defining the first task of management as fulfilling the organization’s specific purpose and mission to stating that the purpose of a business is “to create a customer,” we will naturally arrive at a clear picture of the basic functions needed by a company.

Drucker writes, “the business enterprise has two—and only these two—basic functions: marketing and innovation.” To create a customer, it is crucial to know the customer and to create something that has never been seen before.

“It is the customer who determines what a business is.” Drucker says that businesses must start with the customer and know every aspect of their customers very well. This philosophy is the source of Drucker’s famous quote, “The aim of marketing is to make selling superfluous.” Drucker also adds, “The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself.”

Marketing always starts with the customer. Drucker explains as follows, “True marketing starts out with the customer, his demographics, his realities, his needs, his values. It does not ask, ‘What do we want to sell?’ It asks, ‘What does the customer want to buy?’ It does not say, ‘This is what our product or service does.’ It says, ‘These are the satisfactions the customer looks for, values and needs.’ ”

What do you usually say to customers when visiting them on sales calls? Have you ever said something like “These are the



features of our company's product"? Instead, Drucker says that you must be able to say "This is the product that you need." To do so, you must know every aspect of the customer very well. What do you need to know? You must know the customer's realities, needs, and values. In short, you need to know the reality of the customer's actual situation.

In this sense, marketing is not about conducting a market survey at a desk. Of course, it is crucial to use a variety of databases to survey markets and customers. However, truly effective marketing means staying close to customers, studying the customer's reality carefully, and knowing the customer's needs and values as if they were your own.

#### **COLUMN**

### **"Concept" and "Percept"**

In the course of working as a management consultant for companies, I have the impression that when developing or designing products, many companies spend a great amount of time on "concept work": developing the concept for what kind of product should be developed. This work is often based only on statistical data and a vague image of the market. For some reason, in the world of business, one hears the word "concept" thrown about quite frequently.

In these situations, the word "perception," one of Drucker's traits, often crosses my mind. Although the "concept" is certainly important, I would also say that companies must focus more on their "perception" of the customer before undertaking "concept work."

As I said earlier, "perception" is the nominal form of "perceive," ("perceive" connotes "awareness," "taking notice,"

“understanding,” and “seeing through to the truth” and “enlightenment”). The word “perceive” is derived from the Latin word “percipere.” Breaking this word down into its parts, “per” means “thoroughly” or “completely” while “cipere” comes from “capere,” which is the origin of the English word “capture.”

In this sense, I believe that the first step of marketing is to thoroughly grasp the customer. Clearly, however, this cannot be done through such means as questionnaire surveys. It can only be done by standing close to the customer, seeing things from the customer’s point of view and getting in touch with the customer’s reality.

Understanding the customer is crucial, but a business cannot run on marketing alone. The purpose of a business is to create a customer, i.e., create a market. Hence, the second basic function of a business is innovation.

In 1985, Drucker wrote *Innovation and Entrepreneurship*, a book focused solely on innovation and the creation of business. Drucker saw society as endowed with life. In other words, in a world where change is the only constant, we can see just how much emphasis Drucker put on innovation.

As discussed earlier, businesses that uncover potential demand are the ones that create large markets. Innovation is the provision of different economic satisfactions. Innovation is not limited to the field of technology. Drucker cites insurance and installment credit as examples of social and economic innovation. In years past, there were no insurance systems available to provide financial compensation in case of unexpected accidents, nor were there any means of providing installment credit. Of course this was quite a long time ago.

Looking at a more recent example in Japan, simple equip-

ment and an automated payment machine have been installed on small vacant lots—which had no useful purpose before—to convert them into fee-based parking lots. This is another form of innovation. This parking lot system fulfills the needs of both small land owners and customers looking for a place to park their cars.

In this manner, innovation means generating business opportunities that lead to profits based on society's needs. It is not enough to define the purpose of a business as only “to satisfy a customer.” The purpose of a business is “to create a customer” through marketing and innovation; i.e., to create a new market.

If that is the case, these two basic functions must not be positioned as the work of the personnel of a special department. The work of every employee must be directed at the company's ultimate goal of “creating a customer” through marketing and innovation. Innovation in particular should not be delegated to a special department in charge of innovation. Every managerial unit of a business, including sales, accounting, and personnel departments, must have responsibility for innovation and their efforts must contribute to the company's overall innovation goals.

One example is the shoe retailer ABC-MART, INC., which is currently the unrivaled leader of Japan's shoe industry. Besides offering appealing products, ABC-MART has developed innovative systems that other companies cannot match, including its sales management system and implementation methodologies, and relationships with overseas shoe manufacturers.

### ***(3) Productivity as an Administrative Function of Companies***

Drucker writes that the enterprise must utilize wealth-producing

resources to discharge its purpose of creating a customer. The administrative function of business refers to the productive utilization of these resources. In its economic aspect it is called productivity. Because of competition in the business world, companies with low productivity will be unable to supply products and services desired by consumers at a price that the consumer is willing to pay.

Drucker defines productivity as “the balance between all factors of production that will give the greatest output for the smallest effort.” For more than 200 years, economics has held the belief that three types of resources are necessary for economic activity: human resources, physical resources, and capital resources.

However, human resources are the only resource that can truly raise productivity. Physical resources, such as land and machinery, are only land and machinery without people. Likewise, capital resources remain only capital resources, and physical resources remain only physical resources without people. It is the wisdom of people that is needed to obtain greater output from the same capital resources and physical resources. Productivity can sometimes be improved dramatically by replacing manual work with machinery. However, the planning, design and installation of machinery to replace pre-existing manual work requires the wisdom and effort of people. As you can see, the only truly productive resource is people. The only way to raise performance is to increase the productivity of human resources.

As I mentioned before, Drucker defines productivity as “the balance between all factors of production that will give the greatest output for the smallest effort.” In the past, the main focal point of productivity was the productivity of manual work. This

means increasing productivity per worker or per hour of work. However, Drucker defines productivity completely differently. He explains productivity by looking at the following five factors that should be considered in order to increase productivity:

- ① Productivity of the knowledge worker
- ② Time utilization
- ③ Product mix
- ④ Process mix
- ⑤ Organization structure and the balance among the various activities within the business

In the modern age, the greatest opportunities for increasing productivity lie in the productivity of knowledge work itself. Although the share of knowledge workers has been increasing dramatically, sufficient research into the productivity of knowledge work has not been undertaken. What should we consider, and how should we go about raising the productivity of managers, researchers, designers and other knowledge workers? One of the main themes of Drucker's management thinking is how to increase the productivity of knowledge workers. Accordingly, we will look at this topic in detail in "2-5. Making Work Productive and the Worker Achieving" in Chapter 2 and in Chapter 5.

Next is the factor of time. Whether resources such as equipment and personnel are utilized fully or only half the time will make a huge difference in their productivity. Drucker also mentions that the time of a manager is usually the least researched aspect of time.

Other factors affecting productivity are the product mix and the process mix. For example, one issue is how to consider overall efficiency when manufacturing a combination of differ-

ent products. This is not confined to matters within a company. There is also the question of how to make efficient use of external companies within the overall process. Is it more productive for a company to make a product in-house or contract out the process, or to conduct distribution independently or to involve outside companies? Drucker refer to these considerations as the “process mix.” Not every company or individual can do everything, nor be good at everything. Therefore, utilization of specific capabilities is crucial. This means that companies and individuals should focus on making the most of their unique capabilities. This effective utilization of strengths is one of the key elements of Drucker’s management thinking.

We must discuss productivity by looking at all the factors affecting it, instead of discussing only certain parts of it. Another feature of Drucker is to emphasize the overall balance of activities in this way. Drucker sees society and organizations as living organisms, and sees all parts as being connected. Seeking to optimize the pieces will not necessarily optimize the whole. One of management’s key roles is to see the entire organization and make adjustments as necessary from this viewpoint.

#### **(4) Functions of Profit**

As explained so far, the basic functions that companies must possess are marketing and innovation. And companies must increase productivity through their administrative functions.

We may then ask “What are the functions of profit?” Profit is not the cause of something; it is a result—the result of the performance of a business brought about by the effective functioning of marketing, innovation and productivity enhancements. Profit is not a company’s purpose or a cause; it is only the result of business activities. However, Drucker tells us that

it is a needed result, and that performance measured by profit serves essential economic functions.

The first function of profit is to test the performance of business activities. Profit is the only effective test of the performance of companies. Drucker notes that profit provides a benchmark that allows companies to self-regulate themselves by analyzing feedback from their own activities.

In other words, if a company performs poorly in terms of profit, this means that all or some of the three functions of a business, namely marketing, innovation, and productivity (the economic aspect of the administrative functions) literally did not function well. The company must fix all or some of these functions. It is the performance benchmark of profit that makes it possible for companies to do so.

Drucker adds that profit has a second function: it serves as a premium for the risk of uncertainty. Capital for tomorrow's jobs, both for more jobs and for better jobs, is supplied only because a business makes a profit. Businesses that do not make a profit cannot attract capital.

Drucker writes, "it is a definition of economic progress that the investment needed to create new and additional jobs increases." This point should be explained a little further. Drucker points out the following: "We do not make a better living than our grandparents on the farm because we work harder. On the contrary, we work far less hard. We are the same kind of human beings. We can be paid so much more and yet work so much less hard because the capital investment in people and their jobs is infinitely greater than in the past."

In this sense, companies must make a profit to ensure the development of society. Furthermore, there are economic and social functions (public services, compulsory education,

defense, etc.) that have to be paid for out of profits generated by economic activity. And it is companies who conduct economic activity. There is no need to be apologetic about profit. Profit is the responsibility of a company.

The foregoing encapsulates Drucker's views on profit. Before we move on, let us summarize the development of Drucker's thinking up to this point.

Institutions are organs of society. Therefore, every institution fulfills a purpose that contributes to society. The purpose of a business is to create a customer, i.e., to create a market through economic activity.

To achieve this purpose, companies must possess three functions. The two basic functions are marketing and innovation. Furthermore, administrative functions are needed to effectively use wealth-producing resources to achieve the purpose of a business. In its economic aspects, it is called productivity.

Profit represents the performance needed to achieve the purpose of a business. The benchmark of profit serves as a self-regulation mechanism for companies by allowing them to autonomously regulate their activities by analyzing feedback. Profit serves this function of testing performance.

Profit is also essential to future development. Furthermore, services like public services, compulsory education, and defense are only possible because companies generate profits through productive activity. In this sense, as the only type of organization in society that conducts economic activity, companies have a responsibility to generate a profit.

To summarize, companies need to have four functions: marketing, innovation, administration and profit as a measure of performance.

A lot of people hold the mistaken belief that the purpose



of a business is to make a profit. Some people even believe the totally misguided notion that the purpose of a business is to “buy cheap and sell dear.” Profit serves only as a necessary condition for the continued existence of a company, and is the result of activities necessary to achieving the purpose of the company: to contribute to society through economic activity. There is no shortage of companies whose businesses are struggling because they have made profit targets their primary aim, rather than seeing profit as only a target for managing results.

### **2-3. Begin by Defining the Purpose and Mission of Your Company**

#### ***(1) The Difficult Question: “What Is Our Company’s Business?”***

Up to this point, I hope that the book has given you a good understanding of Drucker’s thinking on the three tasks of management and the four functions needed to achieve those tasks. Next, let’s take a closer look at what is needed to effectively fulfill a company’s purpose and mission.

Although this may seem obvious, companies must clearly define their purpose and mission. Every company has a specific purpose and mission. Drucker teaches us that the purpose and mission of your company must be clearly established. In other words, a company must first ask “What is our business and what should it be?”

Unless a company clearly defines its purpose and mission, the company will be at the mercy of events. In addition, Drucker notes that a company cannot rationally change itself unless it understands what it is, what it represents, and what its basic concepts, values, policies, and beliefs are.

Drucker writes that the individual entrepreneur does not

need to explain his thinking about the business to others. He only needs to think and execute by himself. Unlike the single entrepreneur, however, business enterprise requires continuity beyond the life span of any one generation. Unlike the organizations of the past, today's business enterprise brings together a great many talented people at practically every level of the organization, each of whom make decisions of some kind in the course of business. Common vision, common understanding, and unity of direction and effort of all members of the organization require definition of the company's purpose and mission, i.e., "what our business is and what it should be."

Drucker also adds, "Only a clear definition of the mission and purpose of the business makes possible clear and realistic business objectives. It is the foundation for priorities, strategies, plans and work assignments."

Drucker cites concrete examples of how different companies have considered the question of "What is our business? What should our business be?" One example is the success of AT&T around 1900 when it redefined its business by declaring "Our business is service." This stands in stark contrast to the example of the American railroads, which have floundered because they had never thought through to any definition of their business.

However, Drucker writes that "What is our business and what should it be?" is almost always a difficult question and the right answer is usually anything but obvious. He explains that not only did it take AT&T years to work out the answer, but it was bitterly resisted from many people across the company when it was announced.

Drucker notes that answering the question "What is our business?" is the first responsibility of top management. How-

ever, when brought up, the question always reveals differences in opinion within the top-management group itself. “People who have worked side by side for many years and who think that they know each other’s thoughts suddenly realize with a shock that they are in fundamental disagreement.”

I believe that Drucker makes a sharp point here—one that only he could make based on his experience observing real-world business situations. I work as a management consultant for small and medium-sized companies. In some cases, the president of a client company may have a great personality and be a trustworthy person, and we may share similar values. Nonetheless, even after quite a long business relationship, I am sometimes shocked at how large the differences in our thinking can be when we seriously discuss the question of “What is your business?” And in the end, if we are unable to bridge those differences, I sometimes have no choice but to end my business relationship with the company no matter how much I admire its president as a person.

Drucker says that there is never one right answer to the question “What is our business?” He writes, “The answer never emerges as a logical conclusion from postulates or from ‘facts.’ The answer rarely follows what ‘everybody knows.’ It should never be made on plausibility alone, never be made fast, never be made painlessly.” Drucker believes that finding the answer requires judgment and considerable courage.

**COLUMN**

**The Difficulty of Considering  
“What is Our Business?”**

Inspired by reading Drucker’s books, you might try thinking about the question “What is Our Business?” while mumbling at your desk. However, you will probably not find the answer, regardless of how diligently you work.

At business school, one of the first things students are asked to do when studying business strategy is to define the business domains of their companies. However, after working on this question at their desks, students inevitably arrive at one of the following conclusions: ① they define their existing business too narrowly and get stuck; ② they define the essential function of their existing business too broadly, and lose sight of what their business actually does; or ③ their ideas lose coherency as their thoughts expand to unrealistic, “pie in the sky” type ideas.

Let’s look at the example of a *ramen* noodle soup restaurant. One person might define the business as providing great-tasting *ramen* noodle soup. Another person might say that the business is a “service business revolving around the supply of *ramen* noodle soup.” Yet another person may define the business as “A business that realizes the happiness of mankind through food culture,” and try to enter all manner of fields possible.

However, these kinds of cookie-cutter definitions of business do not qualify as a true consideration of “What is our business?” The definition of a business must consider the contemporary times, the environment surrounding a company, and the company’s fields of expertise. For small and medium-sized companies in particular, the values, beliefs, ability, intelligence and other attributes of top management should also be reflected in the answer.

**(2) “Who Is Our Customer?” “Where Are Our Customers?”  
“What Does Our Customer Buy?”**

Answering the question “What is our business?” is extremely difficult. However, Drucker says that one key point to finding the answer is to start with the customer. “With respect to the definition of business purpose and business mission, there is only one such focus, one starting point. It is the customer.” He adds, “The question ‘What is our business?’ can, therefore, be answered only by looking at the company from the outside, from the point of view of customer and market.” All the customer is interested in is his own reality, his own wants, and his own values.

Drucker makes another sharp point here, giving us a roadmap to answering the difficult question “What is our business?”

The customer defines the business. The business only exists because the customer buys a product or service. You must calmly, objectively and earnestly consider who your customers are, and what they actually buy, from their perspective. That is the starting point for considering the question “What is your business?” The answer to the question “Who are our customers?” will largely determine how the company defines its purpose of business. However, this question is not easy to answer either.

Drucker uses the example of U.S. carpet manufacturers to explain how to think about customers. The rug and carpet manufacturers that lay carpet in homes have two customers: the homeowner and the home contractor. Traditionally, the carpet manufacturer defined its customer as the homeowner, but over time it realized that it must also make the home builder its customer. The carpet manufacturers changed how

they sold and laid carpet, and worked hard at getting the Federal Housing Administration, the government agency insuring home mortgages, to accept floor covering as part of the capital investment in the house. Drucker shares this story to show how the carpet industry turned itself around by asking “Who are our customers?”

It is also important to ask “Where are our customers?” Drucker often cites the example of Sears, which used to be one of the largest American retailing companies. Sears became hugely successful by establishing a catalog sales system and business model for the provincial farmer who was unable to go to town to visit stores. Times had moved on, and the provincial farmer had become mobile and was beginning to buy in town. This made Sears realize early, ahead of most other American retailers, that the location of its customers had changed. Sears went on to achieve new success through its store location strategy.

The final question about customers is, “What does our customer buy?” Drucker uses the example of the automaker Cadillac to explain this question. The customer who buys a Cadillac does not buy a means of transportation. The Cadillac customer buys status. If so, one begins to realize that Cadillac is competing with diamonds and mink coats, not other cars.

We tend to consider “value to the customer” to be quality and price. We think that ultimately, high-quality products at a low price will sell. That notion certainly contains a grain of truth, but “value to the customer” is much more than just quality and price. For example, the teenage girl purchases her shoes with emphasis on high fashion, while once she is a little older, the most important selling points are comfort. There are no irrational customers. Customers almost always without exception behave rationally in terms of their own realities and their

own situation.

Drucker writes that price is secondary and a limiting factor rather than the essence of value. The teenage girl wants a pair of shoes that matches her desire for high fashion. If the shoes satisfy her values, she would want the shoes no matter how high the price. However, in actuality, customers would be unable to purchase a product based on their respective economic situations if the price is too high. That is why Drucker describes price as a secondary and a limiting factor.

Drucker explains “value to the customer” using several examples. Xerox defined price as what the customer pays for a copy rather than what he pays for the machine. After all, what the customer wants are copies rather than a machine.

A company making lubricating compounds for heavy earth-moving equipment succeeded by selling maintenance services and an offer of compensation for any losses caused by lubricating failure, instead of selling the lubricating compounds themselves. That is, the lubricating compound manufacturer offers to pay the owner of heavy earth-moving equipment the full cost of any hour of down-time caused by lubricating failure. The only condition attached to this offer is that the construction company adopt and follow a maintenance program designed by the manufacturer’s service representatives. For users of heavy earth-moving equipment, the real issue is down-time caused by breakdowns of their machinery. They do not want the lubricating compounds themselves.

In these ways, Drucker provides several different perspectives that help us to see customers from a broader point of view. However, we must still conclude that it is difficult to define “Who are our customers?” and “What is our business?” There is no easy answer. After all, even Drucker himself, who

always thinks and writes with great clarity, says that the answer to the questions “Who are our customers?” and “What is our business?” is never obvious.

## COLUMN

### **First Forget Oneself, Then Think of Oneself**

I work as a management consultant for presidents of small and medium-sized companies, providing support for so-called corporate functions in fields such as strategy and planning, personnel and organization, and accounting and finance. If I were asked “Who are your customers?” and “What is your business?” I could only reply, “My customers are presidents of small and medium-sized companies, and my business is management consulting.”

However, when I look closely at my consulting practice, I find that at almost all of my client companies, my customer is not just the president. My customers are also management-level personnel including middle managers. And when I consider what my customers buy from me from their perspective, I realize that it is not just the management knowledge and information that I provide.

I believe that one of the things that my customers “buy” from me is my character. Of course, I do not mean in any way to suggest that I have a great character. On the contrary, I often have a cold personality, and I am not the greatest at socializing. I also say unpleasant things bluntly when I must. In fact, I often feel an aversion to my own personality. However, I work hard and strive in earnest to tackle the problems faced by my client companies, and spare no effort in working together with my customers to solve problems. I feel that my customers put high marks on my approach in these respects.

Another thing that my customers “buy” from me is my abil-



ity to untangle complex problems, identify the essence of problems, and prioritize solutions. I am also able to draw up a plan and backup their efforts to steadily execute those solutions.

By considering what the customer is really “buying” from me from their perspective, I feel that I have understood what my core competencies are and what I need to value as such, as well as which capacities I should hone going forward. I have also realized that my core consulting competencies have been put to good use in other business fields of mine such as education and training, and writing. Basically my core competency is to untangle complex problems, and make them easy to understand. However, it also took many years for me to arrive at this conclusion.

However, I keenly feel that it is the customer who defines the business, as Drucker says. As I said earlier, my book *Trinity Method: Understanding Financial Statements* was created because of the realities and needs of the president of a small and medium-sized company. And the resounding success of my book has gone on to help me define my company’s business.

Having said that, particularly when starting a new business, I don’t think it is very meaningful to sit at a desk and spend a long time pondering “Who is my customer?” and “What is my business?” To decide on “what your business is,” you must know the reality of your customer. It is reality, not conjecture, that shapes a business. (Even so, as I said earlier, Drucker also said that “the answer never emerges as a logical conclusion from “facts.”)

To be fair, it is important to confirm what your business is, and what it represents, as well as the underlying basic concept, values, policies and beliefs. However, it is the customer who will answer the question “What is your business?” I believe that when a company first works together with, and works as one with its customers to solve the customer’s issues and satisfy the

customer's wants, the company will begin to see what it should truly do.

Speaking from my experience alone, I stopped thinking about what I wanted to do at my desk, put aside my own basic concepts, values, and beliefs, and visited the business sites of my customers. I thought earnestly only about the customer until I completely broke through the shell of "myself": my likes and dislikes and what I wanted to do. Only then was I able to see what I should do for the customer, or put differently, find the answer to "What is my business?"

Drucker writes, "A business—and for that matter, any institution—is determined by its contribution; everything else is effort rather than result." Companies generate higher sales only when they perform and contribute to their customers.

After a company clearly understands how it can contribute to customers, the next step is to reconsider what it is, what it represents, and what kinds of basic concepts, values, policies and beliefs it holds. In doing so, I believe the company will be able to arrive at a true definition of the business that fits the company.

### **(3) "What Will Our Business Be?" "What Should Our Business Be?"**

Drucker tells us that it is too late to consider "What is our business?" when our business is in trouble. Drucker also notes that although individual business owners do not need to think about this question, it must be addressed once the business succeeds on a larger scale. The reason is that success always creates new realities. It always creates its own and different problems, compared to those in the past. In this sense, when a management attains the company's objectives, it should always ask seriously, "What is our business?"

**COLUMN**

**Achieving Goals Creates a New Reality**

My company has received many more requests for accounting seminars since my book *Trinity Method: Understanding Financial Statements* was published in 2007 and became a bestseller. Based on current needs for accounting seminars, I feel that my company would have much more potential to increase its sales if I would just recruit salespersons and seminar instructors.

However, after considering the question “What is my business?” I chose not to follow the path of increasing sales in the accounting seminar field. To meet extra demand for accounting seminars that I could not fulfill on my own, I teamed up with a partner company, and entrusted this company with sales and implementation of the seminars. And at my company, I decided to narrow down my business to fields that involve untangling complex problems and identifying the essence of each problem—which I believe is my core competence and what my customers expect the most from me.

Indeed, this book represents the crystallization of this philosophy. The book was written for people who find Drucker’s management thinking difficult to understand. It provides them with an overall view of his management thinking and clearly conveys its essential principles. My approach to this subject is identical to how I approached *Trinity Method: Understanding Financial Statements*.

I felt that choosing this path would make even better use of my unique strengths and allow me to make a greater contribution to society. However, I do not know whether this was the right choice. It is a choice I made by giving priority to my unique strengths and my personal values. It was a small decision, but as Drucker said, it required judgment and considerable courage.

Besides considering the question “What is our business?” when the company attains its objectives, Drucker also notes that management must also answer the questions of “What will our business be?” and “What should our business be?” This is because society is always changing. No matter how brilliant the answer management gives to the question “What is our business?”, the answer eventually becomes obsolete.

The next question after “What is our business?” is “What will our business be?” This question aims at adaptation to anticipated changes. Drucker writes that management must identify what changes are already discernible that are likely to have a high impact on the business. The market, its potential and trends, is the starting point. Management must also ask which of the consumer’s wants are not adequately satisfied by the products or services offered him today.

The second question, “What should our business be?” has a different aim than “What will our business be?” Drucker tells us that “What should our business be?” is a question that concerns how to redraw the boundaries between a company’s business fields. In the course of examining long-term plans, it is important for companies to consider “What should our business be?” or in other words, redraw the boundaries between their business fields.

The starting point is not “Which new businesses should we enter?” but “Which businesses should we abandon or cut back?” It is crucial first to abandon and cut back businesses that are no longer essential, in order to enable the company to set objectives, develop strategies, to concentrate resources and to go to work. Drucker tells us that this approach alone enables a business to be managed for performance. We must first abandon before we can gain. This might be a fact of life.

**COLUMN**

**The Risk of Considering Business Fields  
Based Solely on Profits**

Currently, my company has three main business fields: consulting for small and medium-sized companies, leading management seminars, and the writing of business books. In terms of the amount of profit and profit efficiency, my consulting work is the least efficient. In general, a management consultant cannot claim a fee for consulting services that justifies the immense input of time and effort required.

If I were to discontinue this low-margin, inefficient consulting work, my company would see a higher amount of profit and profitability in the short term. However, if efficiently making money were my only goal, and I were to leave the frontlines of business by giving up consulting, my company would ultimately go out of business. Why? The reason is that almost all of the key ideas in my training seminars and business book writing come from initiatives and trial-and-error undertaken in real-world consulting situations. I would be unable to give talks that resonate with the hearts and minds of participants of training seminars simply by reading lots of business books. Neither would I be able to write business books that strike a chord with readers.

My training seminar participants and business book readers are working at the forefront of business. It is clear that if I remove myself from the realities of real-world business situations, I would no longer be able to produce anything new. Nothing can be initiated unless it is grounded in a real-world feel for “Who is the customer?” and “What is value to the customer?”

The foundation of all business is what kind of new value (innovation) can be created based on an understanding of real-world situations (marketing). It is just as Drucker teaches us.

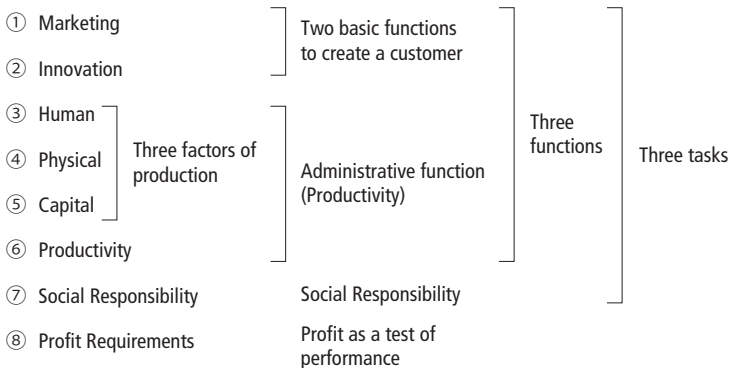
## 2-4. How to Produce Results

### (1) *The Power of Objectives and Eight Key Areas for Setting Objectives*

Organizations must fulfill their own purpose and mission. Each business has a specific purpose and mission. The question we must ask to define this purpose and mission is: “What is our business?” To fulfill its purpose and mission, a company must first define its business.

However, a company cannot produce results simply by defining its business. To produce results, a company must clearly define its objectives. Otherwise, the definition of the business, purpose, and mission will remain empty words. Drucker notes that objectives have to be set in the following eight key areas.

When we are suddenly told that “objectives have to be set in eight key areas,” we might wonder why there are eight key areas. However, Drucker has consistent thinking. This can be easily understood by classifying the objectives as shown in the following illustration.



Let's take a look at the above illustration starting from the

right-hand side. I explained earlier that there are three tasks of management:

- A. Fulfill the purpose and mission of the institution
- B. Productive work and worker achieving
- C. Social impacts and social responsibilities

Task B, “Productive work and worker achieving,” has two meanings. One meaning is to make the organization productive to produce results. I also explained that a company must possess the following three basic functions to fulfill its purpose of creating a customer.

- I. Marketing function
- II. Innovation function
- III. Administrative function of companies

The economic aspect of “III. Administrative function of companies” above is productivity. In terms of managing resources to increase productivity, resources can be classified into three factors of production, namely human resources, physical resources and capital resources. There is a productivity objective that encompasses the respective objectives for human, physical and capital resources, as well as the combination of these three factors of production. Next is the objective concerning social responsibility, the third task of management. Finally, there is an objective concerning profit requirements for conducting business activities, which also serves as a condition for a company’s continued existence. In this way, Drucker’s management thinking is logically connected.

Drucker also provides a clear explanation of the definition

of objectives themselves and how to use them. Drucker states that objectives are always based on expectations, and expectations are, at best, informed guesses. As far as these features are concerned, objectives express an appraisal of factors that are largely outside the business and not under its control. The external environment is always changing. In other words, objectives reflect expectations or informed guesses regarding the level of performance management expects to achieve assuming no major changes in the external environment.

Drucker clearly explains how to use objectives by looking at the example of the way an airline uses schedules and flight plans. Flight plans represent objectives used by airlines. The flight plan is an objective that provides a rough estimate of when an aircraft will reach its destination assuming no major changes in external factors. This is what is meant by an appraisal of “factors that are largely outside the business and not under its control.” However, if the pilot encounters turbulence or other such major changes in external factors, the airline will use this feedback to produce a new schedule and flight plan. In other words, Drucker writes that objectives are not fate; they are direction. They are not commands; they are commitments.

Drucker believes that objectives do not determine the future; they are means to mobilize the resources and energies of the business for the making of the future.

## ***(2) Objective Setting and Main Points***

Marketing and innovation are the foundation areas in objective setting. It is performance in these two areas for which a customer pays. In all other areas of the eight objective areas, the purpose of doing is to make possible the attainment of objectives in the areas of marketing and innovation.



*The Practice of Management* provides an explanation of objective setting in the area of marketing that is easier to understand than the explanation in *Management*. Therefore, I will go over the subject matter of *The Practice of Management*.

In considering marketing objectives, Drucker takes the view that absolute sales figures alone are meaningless, and that market share must be the primary focus. Before marketing objectives can be set, the decision on concentration and the decision on market standing are necessary.

Drucker tells us that wherever we find a business that is outstandingly successful, we will find that it has thought through the concentration alternatives and has made a concentration decision. Profit can only be generated by supplying products and services that have value for the market and for which customers are willing to pay. Drucker notes that products and services that have value are attained only through a leadership standing in the market.

As long as management resources are limited, a company will produce no results unless it concentrates on specific fields of business. Of course, concentration strategy is highly risky. However, unless management adopts a concentration strategy, it will be unable to allocate business resources in such a way that leads to performance against marketing and innovation objectives.

Companies with a small share of the market will struggle to survive. That said, not all companies can become the market leader. Therefore, a company must decide in which segment of the market, with what product, what services and what values it should be the leader.

**COLUMN**

**STP Strategy Taught in Business School**

Drucker’s theory on strategies related to concentration and market standing are taught in business school as STP strategy. “STP” stands for the following keywords:

- Segmentation (Segmentation of market)
- Targeting (Determination of target market)
- Positioning (Attributes and differentiation needed to win → Establish leadership)

Whatever the business, one must first clearly identify who the business will target, and what means (attributes and differentiating factors) will be employed to compete successfully. Let’s take a look at a specific example that clearly illustrates STP theory. Although slight dated, the example is the PC “Let’s Note” made by Panasonic. As a PC manufacturer, Panasonic was a fairly late entrant into the market. When Panasonic launched its PC business, we can assume that STP theory guided its thinking.

As shown in the following table, the PC market can be broadly divided into three market segments: the desktop, laptop and mobile PC segments. Looking at market conditions when Panasonic launched its PC business, the mobile PC market had been continuously expanding, driven by the development of wireless LAN environments, a growing number of one-man business owners known collectively as the small office/home office (SOHO) sector, and an increase in consulting-based sales

**Positioning of Panasonic’s PC business**

	Desktop	Laptop	Mobile
PC			Light-weight, long-life batteries, sturdiness

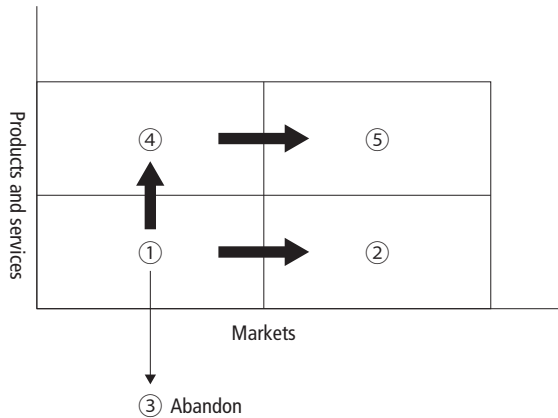
using IT.

In the mobile PC market, the most important factors are to ensure that batteries are light-weight and long lasting, and that products are sturdily built. In this market, Panasonic made the most of its development capabilities to develop a sturdy PC based on an automobile engine hood structure, while keeping the total weight under 1 kg and achieving a battery life of more than 10 hours. Although Panasonic was a latecomer to the PC market, it achieved a resounding success in the mobile PC field.

Drucker tells us that to be able to set market-standing objectives, a business must first find out what its market is— who the customer is, where he is, what he buys, what he considers value, and what his unsatisfied wants are. Based on this, Drucker notes that seven distinct marketing goals are necessary:

- ① The desired standing of existing products and services in their present market
- ② The desired standing of existing products and services in new markets
- ③ The existing products that should be abandoned
- ④ The new products and new services needed in existing markets and their desired standing
- ⑤ The desired standing in new markets that new products and services should develop
- ⑥ The distributive organization needed to accomplish the foregoing marketing goals and the pricing policy appropriate to them
- ⑦ A service objective concerning the company's products and services, sales and service organization

In setting the above objectives, Drucker's thinking is also logically consistent. Let me explain his logic using the following illustration.



First, a business must set objectives for existing products and services in their present market (①). Next, the business must set objectives for developing existing products and services in new markets (②). Then, after abandoning existing products and services as necessary (③), the business must consider the new products needed in existing markets (④) and set objectives for the new markets that new products and new services should develop (⑤). The distribution channels and pricing strategy needed to attain these objectives must be considered (⑥). At the same time, the business must consider the services that will be supplied as a whole (⑦). The word “service” within objective (⑦) undoubtedly refers not just to customer service, but also “service” in a broader sense, including promised delivery deadlines, guarantee policy, payment conditions, and so on.

With regard to setting innovation objectives, the second

objective area, *The Practice of Management* provides an explanation of objective setting that is easier to understand than the explanation in *Management*. Therefore, I will go over the subject matter of *The Practice of Management*.

Drucker tells us that although innovation objectives will be focused on markedly different innovations depending on the industry and company, we must consider the following two factors when setting innovation objectives.

- ① Forecast the innovations needed to reach marketing goals
- ② Appraise developments arising or likely to arise out of technological advancement in all areas of the business and its activities

Drucker adds that the aforementioned forecasts must be grouped according to the time-span. This means looking a short time ahead and projecting fairly concrete developments, which, in effect, only carry out innovations already made; and looking a long time ahead and aiming at what might be. On this basis, Drucker notes that the following five innovation goals are needed:

- ① New products or services that are needed to attain the desired market standing
- ② New products or services that will be needed because of technological changes that may make present products obsolete
- ③ Product or service improvements needed to anticipate expected technological changes
- ④ New processes and improvements in old processes—for

instance, manufacturing improvements to make possible the attainment of pricing objectives

- ⑤ Innovations and improvements in all major areas of activity—in accounting or design, office management or labor relations—so as to keep up with the advances in knowledge and skill

Based on the foregoing, we can see that innovation extends to all areas of the business, not just new products and new services. Drucker also tells us that deliberate emphasis on innovation may be needed most where technological changes are least spectacular. This is because the less spectacular or prominent technological change is in a business, the greater is the danger that the whole organization will ossify. I will discuss the question of how to obtain the capacity to achieve innovation in detail in Chapter 4.

After setting marketing and innovation objectives, we must address the next three areas (third to fifth areas) where objectives must be set. That is, these objectives concern the sourcing and use of human, physical and capital resources—the three factors of production—as well as productivity.

Drucker tells us that among these three business resources, the areas of human resources and of capital are “marketing areas.” In other words, a company must consider how it can attract the people and capital it needs. The first sign of decline of an industry is loss of appeal to qualified, able and ambitious people. Furthermore, Drucker tells us that it is no longer adequate to say “This is what we need; how much do we have to pay for it?” Managers have to also say, “This is what is available; what do we have to be, how do we have to behave, to get the fullest benefit?”

In his books written about 40 years ago, Drucker touched on the three factors of production: human, physical and capital resources. In the modern age, we must consider the additional perspective of how to gather the needed information and efficiently use it to increase productivity.

The sixth area is productivity. Drucker notes that productivity is the first test of management's competence. The task of a business is to work with resources to produce results. Productivity is in fact one of the true tests of management skill. The reason is that productivity includes all the efforts the enterprise contributes; it excludes everything it does not control. The only thing that differentiates one business from another in any given field is the quality of its management on all levels. Productivity objectives that show how well human, physical and capital resources are utilized, as well as overall productivity, are needed. Drucker says that we need multiple yardsticks of productivity, and he stresses the importance of overall productivity, encompassing human, physical and capital resources. Productivity objectives are critical to a company. Without productivity objectives, the company has no guidelines, and without productivity yardsticks, the company has no way to control productivity.

The seventh area of social responsibility is an important theme that has a direct bearing on the survival of companies. The social responsibility of companies will be explained in more detail in "2-6. Corporate Social Responsibility" later in Chapter 2.

Finally, the eighth area is profit requirements. This means asking how much profit is needed to attain the foregoing seven objectives. Costs must be incurred to attain the foregoing seven objectives. Profit is needed to provide for those costs. Profit

planning is necessary. But it is planning for a minimum profitability needed to attain the foregoing seven objectives, rather than for the meaningless notion of “profit maximization.”

Even so, Drucker points out that the minimum profit may well turn out to be a good deal higher than the profit goals of most companies, let alone their actual profit results. Drucker probably thought that most companies are not doing enough in the areas of marketing, innovation and in increasing productivity.

#### COLUMN

### Did Drucker Struggle with Accounting?

Drucker very seldom refers to accounting in his books. For this reason, some people suggest that Drucker may not have been good at accounting. However, nothing could be further from the truth.

In *Management*, Drucker shares his perspectives on the cost of capital as the minimum rate of profitability adequate to the needs of a business, and his thoughts on depreciation in times of inflation (with a shrinking currency in an inflationary period, existing depreciation rapidly becomes inadequate). Reading these and other passages shows that Drucker had a profound understanding and insight into the field of accounting.

Drucker writes that double-entry bookkeeping and all its offsprings and variations is still the only truly universal “management science.” He declared, “No other management tool designed since can compare with it in simplicity, elegance, and utility.” Clearly, Drucker put a premium on double-entry bookkeeping.

It is inconceivable that no less a thinker than Drucker could be ignorant of the workings of accounting.



### **(3) Balancing Objectives and Budgeting, and Execution**

That concludes my explanation of the eight key areas in which objectives must be set. One of the hallmarks of Drucker's management theory is to see things from an overall perspective. Drucker tells us that a business must balance its objectives, in addition to setting them individually. He notes that the following three kinds of balance are needed in setting objectives:

- ① Balance objectives against attainable profitability
- ② Balance the immediate future against the long range
- ③ Balance objectives against each other

Objectives have to be balanced against each other. Sometimes, efforts to achieve a certain objective can have the impact of hindering the achievement of another objective. In particular, management always has to balance the immediate future against the long range. Sometimes, long-range growth must be jeopardized for the sake of short-run performance. Conversely, immediate results may need to be sacrificed for the sake of long-range growth.

There is no formula for balancing objectives. The desired balance may be different at different times. Drucker tells us that setting objectives always requires a decision on where to take risks.

The budget is a tool for mechanically expressing how balanced objectives are set. The budget is expressed in monetary values. Drucker notes that budgeting is commonly conceived as a financial process since the notation is financial. However, the decision-making itself still represents a risk-taking decision.

Drucker tells us that two types of expenses are particularly important in the budget: managed expenses, such as expenses

on research, on people development, on customer service and on advertising; and capital expenses, such as those on facilities and equipment. The reason is that these are the only two expenses that are truly under management's control. Management cannot control variable expenses. Variable expenses are proportional to output. Fixed expenses, expenses with respect to past decisions (depreciation, insurance premiums to protect assets, etc.), are also basically beyond the control of management.

The expenses under management's control are the expenses for the future, namely managed expenses and capital expenses, and it is these two expenses that express management's risk-taking decisions. That means that these two expenses express the priorities which management sets. Setting priority is a risk-taking decision.

That is not the end of objective setting. One final step remains: to convert objectives into doing. Once objectives are set, we must act based on those objectives. The purpose of objectives is action rather than knowledge.

Drucker writes that the aim of setting objectives is to focus the energies and resources of the organization on the right results. The end product of business analysis, therefore, is a work program and specific and concrete work assignments with defined goals, with deadlines, and with clear accountability. Unless objectives are converted into action, they are not objectives; they are dreams.

That concludes my discussion of Drucker's perspectives on objectives. After reading Drucker's explanation of objectives, we can see just how misguided the discussion of sales and profit targets at many companies can be. Sales are determined by customers, and profits are merely the outcome of business

activity. The objectives that should be set are specific objectives in marketing, innovation and productivity—the underlying factors behind sales and profit.

A business can only generate sales in its chosen field by creating a customer through marketing and innovation. To create a customer, objectives are set in the areas of marketing, innovation, the use of resources (human, physical and capital resources) and productivity. And a cost is incurred to attain those objectives. That is why a business requires profit: to provide for those costs.

## **COLUMN**

### **Management is Courage**

Reading Drucker's books serves as a powerful reminder of the importance of courage to management. Courage is needed because management always requires risk-taking decisions in crucial situations.

Here is a list of situations where Drucker points out that management has to make risk-taking decisions: When defining the business; when making concentration decisions in the course of setting objectives; when balancing objectives; when balancing the short-term future against the long range, and when setting priorities for managed expenses and capital expenses, among other situations.

In every situation, something has to be chosen. Choosing something means abandoning something else. There is no absolutely correct answer when making these decisions. Managers have to make decisions and take responsibility for the results.

## **2-5. Making Work Productive and the Worker Achieving**

### ***(1) The Difference between “Work” and “Working”***

From here, I will explain in detail the second task of management: “making work productive and the worker achieving.” On page 27, I said that “making work productive and the worker achieving” has two meanings. The first meaning is to make the organization productive to produce results. The second meaning is to encourage employees to find happiness through their work by making work productive.

So far, I have explained the second task of management, “making work productive and the worker achieving,” with an emphasis on the first meaning, i.e., “make the organization productive to produce results.” From here, I would like to explain the second meaning, i.e., “encourage employees to find happiness through their work by making work productive.”

Drucker believes that it is not enough for an organization to fulfill its specific purpose and mission. In an age when large numbers of people work in organizations, Drucker believes that an organization will be unable to justify its existence unless it is able to encourage the employees working at the organization to find happiness.

As we begin to explore the nature of people working in organizations, let us first try to understand Drucker’s perspective on the difference between “work” and “working.” “Work” can be separated from people and expressed as an abstract concept. That is to say, work can be seen as “a something.” But “working” is done by a human being. It is a uniquely human activity. Drucker notes that working, therefore, is an activity involving such dimensions as physiology, psychology, society,

economics, and power.

What is needed to make work productive is quite different from what is needed to make the worker achieving. On page 27, I brought up the following words of Drucker: "Organizing work according to its own logic is only the first step. The second and far more difficult one is making work suitable for human beings." Here, Drucker is speaking of the relationship between "work" and "working."

Drucker writes, "personal satisfaction of the worker without productive work is failure; but so is productive work that destroys the worker's achievement."

Organizations must deal with the dual nature of "work" and "working" at the same time. The task of an organization is to make work productive and make the worker achieving. Organizations must combine both "work" and "working."

## ***(2) The Difficulty of Managing Knowledge Workers***

Only about a century ago, the great majority of people worked either by themselves or in very small groups. In the modern age, however, most people work in organizations. And most of the working population is shifting from the manual worker to the knowledge worker. From here, I will primarily discuss knowledge workers who work in organizations.

In the past, a large amount of research was vigorously carried out on the subject of how to make manual work more productive. However, there has not been enough research done on the topic of how to make knowledge work more productive. Drucker notes that the question of how to make knowledge work productive and the knowledge worker achieving may be the central social problem of the new, knowledge society.

Drucker points out that we cannot truly define, let alone

measure, productivity for most knowledge work. How do we measure the productivity of a salesman? Is it total sales or profit? These measures will vary tremendously with the product mix, sales territory, and the nature of customers served. How should we consider these factors? Perhaps a salesman's ability to hold old customers should be considered central to his productivity. Or perhaps it should be his ability to generate new accounts.

As we can see, the definition and measurement of the productivity of knowledge work are far more complex than that of manual work. Drucker notes that this problem is extremely difficult for the engineer, the research scientist and the manager, and almost hopeless for the teacher.

Achievement for the knowledge worker is even harder to define. No one but the knowledge worker himself can come to grips with the question of what in work, job performance, social status, and pride constitutes the personal satisfaction that makes a knowledge worker feel that he contributes, that he performs, that he serves his values, and that he fulfills himself.

In the developed countries today, economic prosperity and stability have been achieved, at least in traditional terms. Although the great majority of people have not lost their appetite for economic rewards, they have clearly started to demand that work produce more than purely economic benefits. To make a living from work is no longer enough. Work also has to create happiness in people's lives.

People expect work to provide nonmaterial psychological and social satisfactions. Drucker writes that they do not necessarily expect work to be enjoyable but they expect it to be achieving. Why "achieving"? This will be explained later in greater detail.

### **(3) The Logic that Applies to “Work”**

As I said earlier, “work” can be separated from people, and can be expressed as an abstract concept. It is “a something.” To work, therefore, applies the rule that applies to objects. Drucker thus notes that work has a logic, so it requires analysis, synthesis and control.

To increase work productivity, one must first analyze each job, and again synthesize what has been analyzed, and put it together into a work process. Work refers to the entire work process, not just for the individual job. Also, there must be a built-in feedback mechanism that properly controls the entire work process, while comparing actual performance with the desired results to make further improvements.

In addition to these three elements, Drucker also notes that proper tools must be supplied as the fourth element of increasing productivity.

Drucker further points out that a crucial first step is often missed prior to the three basic elements of analysis, synthesis and control. This is to determine what the desired results are. Before analyzing work, we must ask ourselves “What are we trying to produce?” and “What is our work?” An understanding of work must begin with the end result, or the output.

For example, let’s suppose that all members of a family decide to conduct spring cleaning of their home. First, the end result of the spring cleaning must be clearly defined. The father and mother may have different images of the end result of spring cleaning (as often happens in my household). Next, we must analyze the different jobs. These jobs might include washing windows, dusting furniture, and sweeping floors, as well as cleaning toilets, scrubbing sinks and cleaning kitchens. At this time, we must supply the tools needed for each cleaning job.

Next, we must decide on who will perform each job and in what order. In other words, we will put together the individual jobs we have analyzed into a work process. Naturally, dust will fall from high to low places, so it will be more efficient to dust off the furniture before sweeping the floors. We could also arrange a work process where each person cleans their own room. However, different tools are needed for washing windows and sweeping floors. Considering productivity, it may be more efficient to assign a certain type of job to each person, rather than adopt a work process where each person focuses mainly on cleaning their own room.

Moreover, we must control the entire work process to ensure that the work process decided upon proceeds smoothly. Since a small child cannot reach the higher parts of a window, or the top of furniture, the family must coordinate their efforts by helping each other out as it goes about cleaning. Furthermore, if a part of the house is not sufficiently clean after someone has finished cleaning, there may be a need to redo the cleaning work or have another person do the job again. Through these actions to control the entire planned work process and manage feedback, the family can further increase productivity and increase the quality of work.

The three elements of logical thinking are analysis, synthesis and control. From the standpoint of making work productive, they can be rephrased as analysis, synthesis of work process and feedback management. Those three elements are particularly important in knowledge work.

That said, knowledge work differs from manual work. Knowledge work does not directly create a product, so we cannot directly see the results. Here, Drucker incisively points out the essence of knowledge work: It results in a contribution of



knowledge to somebody else. The output of the knowledge worker always becomes somebody else's input.

We cannot directly see the output of knowledge work. It is even unclear whether the work has results or not. Due to the peculiarities of knowledge work, the output can be seen only by projecting backward from the needed end results.

Moreover, we cannot manage knowledge work based on progress because it is intangible. Although we understand the sequence of manual work thanks to Frederick Taylor and other researchers, we still do not know the sequence of knowledge work. That is precisely why knowledge work needs far better design. However, it cannot be designed by others for the knowledge worker. It can be designed only by the knowledge worker himself. That is why Drucker attaches importance to the concept of management of oneself.

#### ***(4) The Five Dimensions of "Working"***

Meanwhile, working is the activity of the worker; it is a human being's activity and an essential part of his humanity. Drucker tells us that working does not have a logic. It has only dynamics and dimensions. He adds that working has at least five dimensions, and explains each of them as follows.

The first dimension is the physiological dimension. Machines work best if they do simple tasks repetitively. Machines work efficiently if run in a prearranged sequence at the same speed and the same rhythm. In contrast, the human being excels in coordination. He excels in relating perception to action. He works best if the entire human being, muscles, senses, and mind, is engaged by the work. The human being works best at a configuration of operations rather than at a single operation. He works best if capable of varying both speed

and rhythm fairly frequently. If forced to work at unvarying speed and a standard rhythm, and to maintain a long attention span, the human being experiences fatigue, resistance, anger and resentment. While work is, therefore, best laid out as uniform, working is best organized with a considerable degree of diversity. Working requires latitude to change speed, rhythm, and attention span fairly often.

The second dimension of working is psychological. For human beings, work is both a burden and a need. Unemployment causes severe psychological disturbances, not because of economic deprivation, but primarily because it undermines self-respect. Work is achievement. It is one of the ways in which a person defines himself or herself, and measures his or her worth. Drucker notes that the workless society of the future utopia may, indeed, be ahead. Should it come, it would, however, produce a major personality crisis for most people. The task is to make work serve the psychological need of man.

The third dimension is the social dimension. Work has the dimension of forming social bond and community bond. Work largely determines status in society. For a man to say, "I am a doctor" or "I am a plumber" is a meaningful statement about his position in society and his role in the community. Drucker also notes that perhaps more importantly, work, since time immemorial, has been the means to satisfy man's need for belonging to a group. Work is for most people the one bond outside of their own narrow family—and often more important than family.

The fourth dimension of working is the economic dimension. Work is a means of earning a living, and nothing more needs to be explained.

The fifth dimension of working is the power dimension.

There is always a power relationship implicit in working within an organization. In any organization, there has to be a personal authority. The organization member's will is subordinated to an alien will. In an organization, jobs have to be designed, structured, and assigned. Work has to be done on schedule and in a prearranged sequence. Furthermore, people are promoted or not promoted. In other words, authority has to be exercised by someone. Drucker notes that the assertion that "organization is alienation" is correct. Authority is an essential dimension of work. It has nothing to do with ownership of the means of production, or democracy at the work place. It is inherent in the fact of organization.

That concludes my outline of the five dimensions of working explained by Drucker. How should these five dimensions be managed? Marx—and most other economists—saw the economic dimension as dominating everything else. Elton Mayo, who developed the study of human relations and became famous for his productivity research at the Hawthorne Plant, saw the psychological and social aspects as the dominant dimension. Drucker said that these five dimensions of working have to be managed together.

They have to be managed together, but they do not pull in the same direction. The demands of one dimension are quite different from those of another. Maslow, who proposed a hierarchy of five human wants, showed that wants are not absolute. Additionally, a want changes in the act of being satisfied. As the economic want becomes satisfied, it becomes less and less satisfying to obtain more economic rewards, and the next type of want appears.

Another example that is often seen in organizations is that people with the same positions within the company become

frustrated, envious or disappointed merely because of a small difference in salary. The problem is not absolute pay scales, but pay differentials. In this sense, pay becomes a more integral part of the social or psychological dimension rather than the economic one.

We do not know enough about the dimensions of working and about their relationships. At present, the configuration is so complex as to defy analysis. Drucker usually does not hesitate to clearly express his views on anything. However, the fact that he says, "Working has at least five dimensions," shows in itself that he viewed these human dimensions of working as extremely complex issues.

Nevertheless, Drucker tells us that the organization must find solutions—or at least accommodations—which will enable it to make work productive and the worker achieving, taking into consideration those human dimensions of working. The manager has to understand what the demands are.

It is clear that the manager cannot expect to succeed by continuing the past practices of viewing the human being as a physical resource. Drucker points out that it is the modern organization's role to come up with new approaches, new principles and new methods that take into account the human dimensions of working. Conversely, organizations that succeed in this role, where nobody has any clear answers, will also pave the way for their own success.

### ***(5) Why Focus on Worker Achieving?***

Mr. Atsuo Ueda translated the phrase "worker achieving" into Japanese using the Japanese equivalent of the phrase "Encouraging workers to produce results." Why does Drucker focus on "results" and "achieving"? To make work productive, manage-

ment must ensure that workers achieve something and produce results. However, Drucker does not emphasize worker achievement merely to increase an organization's performance and productivity.

Drucker tells us that it is because the workers themselves want to experience achievement through their work. Drucker cites several theories in psychology about working to support his view. These include Maslow's Hierarchy of Five Needs, McGregor's Theory X and Theory Y, Herzberg's Two-factor Theory, and McClelland's Theory of Motivation. While examining each of these examples, Drucker identifies "achieving" as a crucial keyword for workers to attain satisfaction through their work.

## **COLUMN**

### **Theories of Motivation**

Drucker's books do not provide detailed explanations of these theories. However, we should grasp the core principles of these theories in order to understand Drucker's management theory.

Maslow's Hierarchy of Five Needs is very well known. Maslow identified the basic needs that people have, in order of their importance, from lower to higher order needs. The sequence progresses from physiological needs to the need for safety, love/belonging, esteem, and self-actualization.

McGregor proposed two contrasting models of human behavior and a management style for each model. Theory X assumes that people are by nature lazy, dislike and shun work, and have to be skillfully controlled using both carrot and stick. Theory Y assumes that people have a psychological need to work and want achievement and responsibility. Therefore it is impor-

tant for workers to set their own goals and exercise self-control.

Herzberg's Two-factor Theory was considered to be revolutionary when it was first announced. Until then, it was generally thought that people experience satisfaction due to a certain set of factors, and when those factors are removed they feel dissatisfaction. Instead, Herzberg was the first to theorize that a certain set of factors lead to satisfaction at work (motivating factors) while a separate set of factors produce dissatisfaction at work (hygiene factors). Herzberg surveyed knowledge workers to find out when they feel satisfied and dissatisfied at work. As a result, he found that the motivating factors include achievement, approval, the nature of work itself, responsibility, and growth. In contrast, he found that the hygiene factors included company policies and management, supervision, and salary. When dissatisfied, the worker's attention was primarily directed at environmental factors. When satisfied, the worker's attention was primarily directed at the nature of the work itself.

McClelland's Theory of Motivation states that there are three motivating drivers that affect job motivation: the need for achievement, the need for power and the need for affiliation. The need for achievement refers to the desire to achieve something or perform. The need for power is the desire to influence or control others. The need for affiliation is the need to form friendships with others.

As you can see from these theories, in almost every theory the drive to achieve something, including self-actualization, has a significant bearing on job motivation.

Mr. Atsuo Ueda translated "worker achieving" into the Japanese equivalent of "making the best of workers," "encouraging people to achieve" and "self-actualization." On the other hand, Ms. Yuko Aruga, another translator of *Management*, translated "worker achieving" into the Japanese equivalent of "enabling workers to gain a sense of achievement," or "satisfying the

worker's desire to achieve." The phrase "worker achieving" has a broad meaning encompassing realizing one's own full potential. What we should take away from this discussion is that the word "achievement" is indeed a crucial keyword for all theories of motivation.

Of course, theories alone do not give us a complete understanding. In addition to the theories of these researchers, Drucker discusses the results of an essay contest on "My Job and Why I Like It," which was conducted by the U.S. automaker General Motors. As part of this contest, almost 190,000 workers wrote in and discussed their jobs. The results showed that what made people like their job were such things as finding some challenge in it, some achievement and satisfaction.

No matter how much we stress the keyword of achievement, we all know that there are many different types of people in the world, and people respond differently to different circumstances. Human actions and behaviors are essentially the reaction to something. Therefore, management styles must be changed according to the circumstance and the individual.

That said, Drucker asserts that the carrot-and-stick approach only works so far. In fact, he says that nowhere can it work for knowledge workers. The essence of the stick is fear. Traditionally, hunger and fear were used as a stick. However, people no longer starve if they lose their job, and people can gain access to a new job. In this day and age, therefore, the stick no longer works. The carrot of material rewards will grow stronger as a right if increased to a certain extent, and will cause much dissatisfaction if reduced. Even if material rewards are increased somewhat, they are no longer a very potent incentive.

Moreover, Drucker tells us that methods of controlling people through psychological manipulation merely replace material carrots and sticks with psychological ones, and are therefore nothing but abuse of knowledge. Drucker warns that managers who use psychological methods will come to ruin sooner or later. The main purpose of psychology is to acquire insight into, and mastery of, oneself. Managers should indeed know more about human psychology. However, psychology is not a tool to control one's subordinates. It is a tool for knowing oneself better.

Drucker adds that the relationship of healer and patient and that of superior to subordinate are different relationships and mutually exclusive. Drucker tells us that the integrity of the healer is his subordination to the patient's welfare. The integrity of the manager is his subordination to the requirements of the common task. I believe that this is a particularly important point that readers should keep in mind.

The carrot-and-stick approach has limitations. But neither will everything work out by simply applying McGregor's Theory Y. Maslow observed a company that tried to practice Theory Y, and pointed out that the demand for responsibility and achievement may well go far beyond what any but the strong and healthy can take. On these grounds, Maslow sharply criticized Drucker and McGregor, who proposed Theory Y, for their "inhumanity" to the weak. Out of consideration for the weak and others, Drucker notes that managers must provide substitutions for Theory X's security of command and of being looked after.

Nonetheless, we must recognize that there are a substantial number of people in the work force who want to achieve. Otherwise there is little hope. Drucker points out that fortunately, the evidence strongly supports the assumption that



many people want to achieve. For that reason, Drucker asserts that the manager must further accept it as his job to make worker and working achieving.

**(6) Responsibility as a Keyword**

What then should we do to create such an organization that enables its employees to feel achievement? Drucker notes that historically, the usual case where workers feel achievement is a great national emergency, in which the worker sees himself contributing to a cause. However, there are many examples of employees working with achievement outside of these sorts of special circumstances.

Drucker never fails to get at the heart of matters by looking at actual examples. Drucker looks at about three actual examples where managers and engineers vigorously work together with frontline employees. He concludes that employees must first be encouraged to take responsibility for their work, in order to experience achievement.

We experience achievement when we are entrusted with work, when we think about and do the work, and when we see that our work produces results. It is this way of working that makes employees feel proud of their work. No achievement is possible when employees are simply being commanded by someone else to do a job, and when they must merely do as they are told.

Through my experience in leading management training seminars, I have come to believe that there are certain common factors at play when people feel fulfillment and self-respect in their work. These factors overlap with Herzberg's motivating factors. In other words, in the course of being entrusted with work (responsibility), producing results (achievement), and earn-

ing recognition for the results by others (approval), employees achieve personal growth and are entrusted with larger jobs. It is in this process that employees feel that their work is worthwhile and rewarding.

## COLUMN

### **Intrinsic Motivation Theory of Edward L. Deci**

One interesting theory that emerged after Drucker wrote the book *Management* is the Intrinsic Motivation Theory of Edward L. Deci.

Before we examine intrinsic motivation, let's take a look at extrinsic motivation. Extrinsic motivation refers to the use of carrots and sticks outside of work to motivate people to work. On the other hand, intrinsic motivation considers how people are motivated by factors intrinsic to work, such as doing the work and the nature of the work itself.

Edward Deci theorizes three factors drive intrinsic motivation: competence, autonomy and psychological relatedness. Competence means knowing that you are talented and capable, such as when you feel that "I delivered results," "The job is going well," and "I can get this job done." Autonomy means knowing that "you have decided on something by yourself," and "you are doing something as you see fit." Psychological relatedness refers to relationships with others. This means "you are understood," "others are paying attention to you" and "others have expectations for you."

The concepts of competence and autonomy closely resemble the notions of "achievement" and "responsibility" that Drucker writes about. People feel that their work is worthwhile and interesting when they are entrusted with a job, perform the job as they see fit, and see that their work produces results.

How then can we get employees to take on responsibility? It is clear that nothing will change by merely telling them to take responsibility for their work. As Maslow pointed out, responsibility and achievement put a large burden on employees.

Drucker asserts that the following three conditions are necessary for employees to take responsibility for their work:

- ① Productive work
- ② Feedback information
- ③ Continuous learning

Drucker notes that to make the burden of responsibility bearable and acceptable to the worker, the focus has to first be on the job. The job has to make achievement possible. Otherwise, there is no way that an employee will take on such a burden as responsibility.

As Herzberg says, an employee's attention is directed at the work itself when he or she is satisfied with work. Of course, other aspects such as the work environment will also affect achievement. But if the job itself is not achieving, nothing else will provide achievement.

Drucker draws an analogy with a meat dish. A poor sauce can spoil the taste even of the best meat. But if the meat itself is poor, then a delicious meat dish is not possible no matter how great the sauce.

When I explained the difference between "work" and "working," I noted what is needed to increase the productivity of work differs from what is needed for employees to achieve. Why? Work is "a something," while working is a human activity.

Of course, there is a difference between designing work,

and designing it to be suitable for people. However, increasing the productivity of work actually leads to making work productive, and encourages employees to achieve. With this in mind, Drucker tells us the following:

To increase the productivity of work, a manager must have a profound understanding of the work itself. If the work is understood thoroughly, this understanding makes it easier for the manager to connect the job and human activity, i.e., connect work and working. In addition, the more deeply the work is understood, the more discretion can be handed to employees. In practice, there is no contradiction between taking a rational, impersonal approach to work and encouraging employees to achieve.

The second prerequisite for worker responsibility is feedback information on his own performance. Responsibility requires self-control. On hearing this, we realize that it is a sharp observation. Without self-control, there is no way to fulfill responsibility. When we are managed by someone else and work exactly as we are told by a manager, it is the manager who bears full responsibility for the result, not us.

Self-control requires continuous information on performance against standards. Feedback information is the tool of the worker for measuring his own performance and directing his own course. Therein lies the true value of feedback information.

The third requirement is continuous learning. Continuous learning does not replace training. Drucker tells us that continuous learning satisfies the need of the employee to contribute what he himself has learned to the improvement of his own performance, to the improvement of his fellow worker's performance, and to a better, more effective, but also more rational

way of working. Drucker points out that continuous training is also one way to come to grips with two basic problems: the resistance of workers to innovation, and the danger that workers will become “obsolete.”

These three prerequisites also represent the planning needed for the worker and the work group to take on responsibility for performance. They are therefore management responsibilities and management tasks. But in all areas the worker himself, from the beginning, needs to be integrated into the three plans. Drucker notes that from the beginning, the worker has to share in thinking through work and process, tools and information. His knowledge, his experience, and his needs must be to put to good use as resources in the planning process.

Furthermore, Drucker notes that planning and doing are separate activities, like reading and writing. But planner and doer, like reader and writer, need to be united in the same person. This is because the doer has to take a responsible part in the planning process for it to be effective at all.

Another requirement for making responsibility acceptable is that the worker needs to have the security of a clear authority structure. This is because the worker has to know what areas and decisions are beyond his power.

Drucker notes that the knowledge worker, especially the advanced knowledge worker, cannot be motivated by anyone else. No one can supervise him. The knowledge worker has to motivate himself to do his job. Drucker points out that the knowledge worker can be productive only if he is responsible for his own job.

**COLUMN**

**The “Worker Achieving” from a Seminar Instructor’s Perspective**

Even after reading the explanations provided so far, some readers may be wondering—and somewhat skeptical—about whether “achievement” is the only way for people to find happiness through work.

Over the past 10 years, I have served as an instructor of management training seminars for middle managers of public-service institutions and major companies. At these seminars, I always ask trainees to write down answers to the question “When does your motivation increase, and when does it decrease?” on a piece of paper, and to discuss their answers in groups.

As shown below, the ideas frequently brought up at actual training seminars alone are teeming with variety. There are many different reasons why a person’s motivation increases or decreases. What’s more, in almost all cases, a complex web of factors is at play. However, I personally make sense of the situation by classifying the factors that increase or decrease motivation into the following five categories:

The first category is “the nature of work itself.” This category encompasses a variety of meanings, such as performance, responsibility, contribution, autonomy, and competence. These factors have to do with feeling happy through work and feeling happy about the work itself. Also, in almost all cases, the reasons for decreased motivation are factors stemming from “the nature of work itself.” These cases include the inability to perform, an unclear outlook for the future, and feelings of incompetence and anxiety. They also include cases where the work itself is not productive and uninteresting.

The second category is “relationships with people.” This

*What Should Be Done by Organizations?*

Factors Increasing Motivation	Factors Decreasing Motivation
<p><b>1. The Nature of Work Itself (Performance, Responsibility, Contribution, Autonomy, Competence, etc.)</b> Producing results; Achievement; Clear objectives and targets; Contribution; Entrusted with important work; Work done as seen fit; Fulfillment; Worthwhile; Personal growth; Expectations; Challenge</p>	<p><b>1. The Nature of Work Itself (Incompetence, Anxiety, Becoming stereotyped, etc.)</b> Unable to produce results; Stuck in a rut; Failure; No clear objective; Unclear outlook for the future; Anxiety; Not entrusted with important work; Routine work; Meaningless work; Becoming stereotyped</p>
<p><b>2. Relationships with People (Good human relationships, approval, etc.)</b> Good boss; Trusted; Understood; Recognized; Higher than expected evaluation; Praised; Cohesion; Common direction</p>	<p><b>2. Relationships with People (Problems with human relationships, Differences in opinion, etc.)</b> Problems with boss; Poor human relationships with others; Not trusted; Not expected to perform; Not recognized; Differences in values and opinions</p>
<p><b>3. What One Wants to Do</b> Desired job; Assigned to desirable department; Interesting work</p>	<p><b>3. What One Wants to Do</b> Not assigned to a department as expected; Undesirable work</p>
<p><b>4. Advancement and Promotion</b> Advanced or promoted</p>	<p><b>4. Advancement and Promotion</b> Fell behind in advancement and promotion; No more prospects for promotion</p>
<p><b>5. Mental and Physical Health</b></p>	<p><b>5. Mental and Physical Health</b> Illness; Poor physical condition; Fatigue and stress</p>

includes factors such as human relationships and approval. The relationship with a boss is extremely important. Trust and approval from the boss can have a tremendous impact on the first category, i.e., fulfillment through “the nature of work itself.”

The third category concerns “what one wants to do.” This differs from “the nature of work itself” in the first category. The third category has to do with not having the chance to do desired work or not being assigned to a department as expected. Certainly, motivation can decrease considerably in such cases as when one is assigned to a different department than expected.

However, what is interesting about this category is that people sometimes find that a previously unwanted job can be surprisingly interesting, or that their job became enjoyable when they worked hard at it and performed well. Some people also say that they became interested in their work because they were fortunate to have a good boss. That said, the fact is that if a job doesn’t match a person, motivation cannot help but remain low.

The fourth category is advancement and promotion. In practice, advancement and promotion can tremendously impact the motivation of people working in organizations. However, this is not something that is within one’s own control. Advancement and promotion are determined by performance on the job and human relationships.

The fifth category is health condition. The main feature here is that health condition usually has only a negative impact on motivation in cases where a person suffers from poor health. Like breathing air, most people do not feel particularly happy simply because they are healthy. They feel unhappy only when they become unhealthy. Incidentally, although this may seem obvious, we are fortunate to be healthy, and if we can be thankful for our health, we may be able to enjoy greater happiness in



life.

Although I have spoken at length on this topic, I believe that Drucker's phrase of "worker achieving" corresponds to my first category of "the nature of work itself." It encompasses a variety of meanings, such as performance, responsibility, contribution, autonomy, and competence. The main point of the first category is that people experience fulfillment, achievement and satisfaction when they are given responsibility, work autonomously and perform well. To do so, the work itself must first be productive, and the worker must feel that doing the work is meaningful.

From my experience, I have found that the content of the first category of "the nature of work itself" accounts for most factors behind increases or decreases in motivation. Drucker discusses the second category of "relationships with people" and the third category of "what one wants to do" in different sections. I will explain these matters later on in the book.

For these reasons, I believe that Drucker uses the phrase "worker achieving" to collectively refer to most of the factors behind changes in motivation.

Drucker cites an example of the workings of a Japanese company in the good old days to explain the relationship between work achievement and responsibility. I originally worked as an engineer at a Japanese steelmaker. My first assignment was a new plant construction site at a steel mill. At the site, as Drucker pointed out, managers and engineers were working together with the site's workers. The workers were deeply integrated in the process beginning with the new plant's planning stages. They actively expressed their opinions on facility specifications, work flows, tools to be used and so forth. The site's workers took responsibility for their work, and were proud of

their work.

However, Drucker tells us that the successful approaches of Japanese companies have already started to fall behind the times. In *Management*, which was published in 1973, Drucker points out that Japanese management will need major innovations from an overall perspective, citing Japan's seniority-based wage structure and social structure with very little mobility of workers as examples of areas where reforms will be needed. I believe that the absence of major innovations in these areas in the past 40 years or so since then has led to Japan's stagnation today.

Drucker devotes an entire chapter to explaining that one condition for workers to take responsibility for their work is that they must be free of the fear of losing their job or income. Drucker tells us that to accept the burden of responsibility, the worker needs a fair measure of security of job and income. There are not many people who will take on heavy responsibilities in an organization if they were afraid of losing their job and income.

Drucker also points out that there is very little resistance to change and innovation at companies that offer a certain degree of job and income security. This can be seen easily. If people are fearful of losing their job and income, they will fear changes in their work. This is because they feel that change will result in the loss of their jobs or position.

However, it is no easy feat for companies to guarantee job and income security. This is all the more true in these times of rapid change. Drucker explains the Rehn Plan, which was developed in Sweden in the early 1950s. The Rehn Plan is designed based on the assumption that workers will become redundant as a result of technological development and changes in eco-

conomic conditions. In Sweden, industries and companies are not being encouraged to maintain employment. If employees become redundant, the Rehn Board underwrites the income of the redundant employees, trains them, and finds new jobs for them.

The Rehn Plan assures job and income security for employees, while promoting the mobility in the work force that is needed for development of new industries. It explains in large measure the economic transformation of Sweden. As late as 1950 Sweden was still almost an underdeveloped country for most of her population. Today, Sweden has produced many innovative companies and has achieved significant economic advancement. This success is largely attributable to the Rehn Plan.

### ***(7) What Is Important Is Whether People Execute***

Up to here, we have looked at Drucker's views on "work" and "working." Drucker has certainly offered sharp insights up to this point. However, I believe that the material that follows truly shows Drucker's incisive powers of insight. It is Drucker at his best.

Although many managers are fond of saying, "Our greatest asset is people," the reality is that only a few companies actually put this approach into practice. With this in mind, Drucker points out the following fact: Most managers know perfectly well that of all the resources, people are the least utilized and that little of the human potential of any organization is tapped and put to work.

One reason why human resources are not fully utilized is that managers do not delegate responsibility to subordinates. The reason why managers are unable to do so is a confusion

of power with authority in managerial minds. Drucker tells us that managers resist as abdication of authority the demand for worker responsibility. They see their authority undermined by “giving up power.”

Power and authority are two different things. Let’s move away from the topic for a moment, and take a look at how these words are defined in the dictionary. Power is the ability to make other people obey your will. On the other hand, authority is the influence you have to make people obey your will. Authority means having influence because someone or something is recognized as superior in a certain field. For example: “He is recognized as an authority in the field of brain surgery.”

Management has no power. Management has only responsibility. It needs and must have the authority to discharge its responsibilities. Drucker tells us that management has authority only as long as it performs, i.e., discharges its responsibilities.

The central figure who enables managers to perform in an organization is the employee who is granted responsibility. Unless a manager can discharge his responsibility of producing the results of the organization, the manager will lose authority. If so, managers have only one way to discharge their responsibility of producing the results of the organization: they must demand responsibility from employees, and make sure that employees perform. This is the only way for the manager to maintain his authority.

A great manager does not need to be warm, outgoing, or affable. A great manager must make uncompromising demands of employees, and take responsibility for his own work and performance. Drucker tells us that it is such a high-performing manager who ultimately wins the confidence and respect of subordinates.

Ultimately, management will not succeed with paternalism. There is no shortage of examples of companies that have failed by recklessly expanding business to protect jobs. Paternalism is not an approach for managing people. It is an approach for helping people. Drucker notes that for knowledge workers welfare paternalism is altogether inappropriate as a management method.

In addition, there is a tendency to see personnel management (including recruitment, training, selection, salaries) as an approach to the management of people. However, Drucker argues that personnel management is not the same as the management of people.

Managing people means making the strengths of people effective. To make the employee “achieve” demands that managers look upon the employee as a resource. In other words, Drucker asserts that managers must accept responsibility for making the strengths of employees productive.

People cause problems, and create chores. And people are a cost and a potential “threat.” But these are not the reason why people are employed. The reason is their strength and capacity to perform. Drucker reminds us that the purpose of an organization is to make the strengths of people productive and their weaknesses irrelevant.

We need something more powerful than meetings, seminars and training to act on the profession that “people are our greatest asset.” Above all, we need practices. Drucker discusses the following two specific practices.

First is the practice of building responsibility and achievement into job and work force. There need to be objectives for every job, set together by the man who is to attain the objectives, together with his manager. The work itself has to be made

productive so that the worker can work at making himself achieving.

Second, the manager must treat the people with whom he works as resource to himself. In other words, he has to demand of them that they accept it as their responsibility to enable their manager to do a better and more effective job himself. The manager needs to build upward responsibility and upward contribution into the job of each of his subordinates.

Drucker proposes that one way to do this is to ask each subordinate to think through and answer a few simple questions, as follows:

- “What do I do as your manager, and what does your company do that helps you the most in *your* job?”;
- “What do I do as your manager, and what does the company do, that hinders you the most in *your* job?”; and,
- “What can you do that will help me, as *your* manager, do the best job for the company?”

Drucker tells us that the things the manager does in order to help his people perform their jobs usually do not help at all. Instead, the question of what subordinates might have to do to enable their manager to perform better force both manager and subordinate to focus on common performance. They both focus on the purpose of their relationship. Drucker asserts that these questions will make the manager look to subordinates as their resource, but will also guide them to looking to the manager as their resource.

What do you think? After reading what Drucker wrote in this section, I was amazed at his sharp observations. I believe that one of the key points we should take away from Drucker’s

management thinking is this practice of managers in real-world situations, focusing on common performance together with subordinates.

I'm sure that readers of this book have begun to see what they should be doing as managers. As explained on page 84, the integrity of the manager is his subordination to the requirements of the common task shared by the manager and the subordinate.

## **2-6. Corporate Social Responsibility**

### ***(1) The Essence of Social Responsibility and How to Respond***

Drucker points out the essence of social responsibility from a broad perspective. The nature of social responsibilities has shifted from the ethical issues of individual businessmen to what business should or might do to tackle and solve problems of society. This transformation reflects the fact that the success of management has led society to put greater expectations on management than before.

The success of corporate management has lifted roughly one-third of humanity out of poverty into affluence within a century. Society expects that these same efforts could surely be put to better use in terms of more active engagement in social problems, and contributing to society's values and building an even better society. In years past, aristocrats and the priesthood were the leaders of society. Today, the new leadership groups are managers of business enterprises.

However, Drucker points out that the essential problem with corporate social responsibility is not the irresponsibility, incompetence, or greed of managers, but that it is the problem of good intentions, honorable conduct, and high responsibil-

ity gone wrong. Drucker supports this observation with several examples. One such example is the pollution problem of the Union Carbide plant in Vienna, West Virginia. This tragedy was set in motion when Union Carbide built a barely profitable plant using obsolete processes in order to create employment in the long economically depressed Vienna region. Although the plant was started with the most up-to-date antipollution equipment, right from the beginning the plant was obviously unable to generate the revenues needed to be rebuilt to deal with the pollution problem consequently caused.

Drucker asserts that social responsibilities are areas in which business “has to think through its role, has to set objectives, has to perform.”

Drucker tells us that all institutions bear social responsibilities in two areas. The first is responsibilities emerging out of the social impacts of an institution itself. This refers to such things as noise, heat, fumes and traffic jams caused by larger numbers of employees driving on roads near a company. The second is responsibilities that arise as problems of the society itself. This means responsibilities such as those arising from the impact of racial discrimination on a company. Companies cannot be divorced from social problems, because companies live of necessity in society and community.

Companies should address the first responsibility, namely the impact of the institution on society, by minimizing or eliminating them. Drucker tells us that ideally, a company should attempt to make elimination of a social impact into a business opportunity. That is, it should develop pollution countermeasures and technologies into businesses in their own right. Drucker adds that if the problem is too great for a single company to tackle, then the industry should consider imposing its



own set of regulations.

With regard to the second responsibility, i.e., responsibilities arising from problems in society, Drucker tells us that if the social problem is seen as a dysfunction of society, then it must present a business opportunity. It is the function of business to make resolution of a social problem into a business opportunity. Sears identified the poverty, ignorance, and isolation of the farmer as a social problem and converted it into a business opportunity.

Management has to identify the issues, the crises, the problems in society and community, and to work at the innovations that will make their solution into a profitable opportunity. Drucker points out that every institution needs to organize its R&D for society and community fully as much as it had been organizing it for technology.

## ***(2) What Must Never Be Promised and What Must Always Be Promised***

The foregoing encapsulates Drucker's thinking on how to deal with the two areas of social responsibility. However, the most serious social problems, such as racial discrimination and slums, cannot be solved by the approach of making them into a business opportunity. How should companies face these sorts of problems?

Drucker asserts that each institution has its specific purpose and mission, and performance of its function is the institution's first social responsibility. He tells us that managers need to find the optimal balance between the performance of an institution's specific purpose and the discharge of social responsibilities.

In particular, companies need to know the minimum prof-

itability required by the risks of the business and by its commitments to the future. Drucker tells us that no matter how good and honorable its intentions, whenever a business has disregarded the limitation of economic performance and has assumed social responsibilities which it could not support economically, it has soon gotten into trouble. Drucker takes up the popular pun, "It is not enough for business to do well; it must also do good." To this Drucker adds, "But in order to 'do good,' a business must first 'do well' (and indeed 'do very well')." Accepting a responsibility beyond the scope of the capacity of a business is irresponsible. Drucker tells us that managers are not being paid to be heroes to the popular press. They are being paid for performance and responsibility.

Drucker notes that an institution must take responsibility for its own impacts on society, but must deal with social problems that it has not caused only within the limits of its existing performance capacity.

In the 1960s, American universities attempted to solve social problems in the big city, but almost all of these attempts ended in failure. This was because the skills needed were those of the politician, namely those of compromise, and of setting priorities, rather than those related to the "finding of truth" which constitutes excellence in academia.

Drucker urges companies to take action in fields where performance is measurable, where they excel. Companies cannot make their strengths productive in areas where results cannot be measured, like solving social problems. In such areas where it is possible to define goals clearly, such as providing job training for minorities, companies can make their strengths productive. In the course of solving social problems, management must think through what, if any, part of the task can be

made to fit the competence of the institution.

Another key point that must be recognized is that responsibility and authority are different sides of the same coin. In other words, Drucker points that if a business is attempting to assume responsibility for a social problem, it should ask, “Does business have the authority and should it have it?” Each institution has a specific purpose, and supports society through specific performance in a specific area. The greatest social irresponsibility is to impair the performance capacity of these institutions by tackling tasks beyond their competence or by usurpation of authority in the name of social responsibility. What cannot be done must never be promised.

What then should the manager of an organization promise with respect to social responsibility? Managers are professionals. Drucker notes that as a professional, a manager stands under the demands of an ethic of responsibility. The first responsibility of a professional was spelled out clearly, 2,500 years ago, in the Hippocratic oath of the Greek physician: *primum non nocere*—“Above all, not knowingly to do harm.”

No professional, be he doctor, lawyer, or manager, can promise that he will indeed do good for his client. All he can do is try. But he can promise that he will not knowingly do harm. And the client and customer, in turn, must be able to trust the professional not knowingly to do him harm. Otherwise he cannot trust him at all.

The manager who fails to think through and work for the appropriate solution to an impact of his business because it makes him “unpopular in the club,” such as in the industry or within the company, knowingly does harm. This is stupid and always in the end does untold harm to the business or the industry. Drucker adds that this constitutes a gross violation of

professional ethics.

How about the accident at the Fukushima No.1 Nuclear Power Station of Tokyo Electric Power Company? Were professional ethics upheld? Perhaps now is the time for us to strongly reaffirm the professional ethic of “Not knowingly to do harm.” It is a crucial task that companies must fulfill.

## **2-7. Management of Public-Service Institutions**

### ***(1) Why Management Is Unsuccessful***

Institutions that exist in society, be they a company or a service institution, must contribute to society as long as they are organs of society. Drucker asserted that the task of management is to perform the specific purpose and mission of the institution. The three tasks of management, which were covered at the beginning of Chapter 2, are common to all institutions.

Around the world, service institutions have been singled out for their poor efficiency. In general, business executives are the ones who point out the poor efficiency of service institutions. However, the support organizations and research organizations within companies are not necessarily very effective either.

In other words, the real issue is the characteristic of an organization. It is not a difference between companies and service institutions. In organizations that cannot clearly define performance or measure results, or in other words organizations that are operated through the allocation of a budget, people have a superlative ability to get their budgets funded and are producing a rapidly growing literature related to their work. However, Drucker points out that it is by no means clear that many of them make a contribution.

Organizations that give top priority to the interests of the people working in the organization, not to performance and contribution, are those that exist for solely for the sake of the organization itself. We tend to criticize such organizations as afflicted with red tape and bureaucracy.

There are three popular explanations for the common failure of service institutions to perform, but Drucker does not accept these as valid explanations. They are as follows:

- ① Their managers aren't businesslike;
- ② They need better men;
- ③ Their objectives and results are intangible.

What businesslike means in a service institution is control of cost. However, there is no point in cutting back on essential services for the sake of greater efficiency. It is effectiveness and not efficiency which the service institution lacks. The basic problem of service institutions is not the efficiency of the people working there but their effectiveness, i.e., whether they are successfully delivering the right results.

Neither is the problem a lack of better people. Drucker tells us that the senior officials in the French government service are elite, yet few government services are as ineffectual and as bureaucratic as the French. Having conducted seminars for the middle management staff of service institutions, I also feel that service institutions have talented people in great numbers.

At first glance, the most plausible explanation for the non-performance of service institutions is that the objectives of service institutions are "intangible" and so are their results. This is at best a half-truth. The definition of what "our business" is also intangible. To say, as AT&T did, "Our business is service to the

customer," is extremely abstract. Yet as these businesses have shown, it is not too difficult to derive from such intangible definitions concrete and measurable goals and targets.

Achievement is never possible except against specific, limited, clearly defined targets. Only if targets are defined can resources be allocated to their attainment, priorities and deadlines set, and somebody be held accountable for results.

Drucker explains the nonperformance of service institutions as a problem of institutions that are paid out of a budget allocation. In such a budget-based organization, the objective is to obtain the budget, and efforts are directed at spending the entire budget. The reason is that the budget of the institution for the next period will be cut if it has not been spent to the hilt.

Being dependent on a budget allocation militates against setting priorities and concentrating efforts on specific fields. Companies can concentrate on the people who purchase their products and services, while service organizations are destined to try to placate everyone. Yet nothing is ever accomplished unless scarce resources are concentrated on a small number of priorities.

In general, the budget-based organization does not face competition. The functions of the organization cannot be replaced with another. This is true of service institutions, as well as of corporate support organizations and research organizations. In the absence of competition, budget-based organizations lack any mechanism for automatically abandoning the wrong things, the old, and the obsolete. Business enterprises are forced to withdraw from the market when they can no longer make a profit. That is, they go bankrupt. Because business enterprises are evaluated by performance, unproductive

and obsolete companies are killed off by customers.

Furthermore, in a capitalist society, the suppliers of capital are outside the company, so the profits of a company that prospered in a certain age are ultimately returned to the suppliers of capital. And if the company that once prospered no longer has a mission to fulfill due to the changing times, the capital earned by the company can be used by the suppliers of capital to invest in a new company that better fits the needs of the times. Societies that have a mechanism for abandoning what is unproductive and obsolete are therefore able to adapt to the changing times.

However, budget-based service institutions that do not have such a mechanism for automatically abandoning what is unproductive and obsolete within the organization will continue to survive as an inefficient organization. This is even truer of self-serving bureaucratic organizations.

## ***(2) The Exceptions and Their Lessons***

What then should be done to manage service institutions effectively? When we look around the world, we find that there are several examples of exceptional service institutions that achieve effectiveness. First, let us learn from the lessons they have to offer.

First, let's take a look at an educational institution. Drucker was always concerned about education. He noted that education would be the slowest to adapt to the changing times, and that schools will need to make drastic changes at all levels.

In Chapter 1, I shared an account of my first class taught by Drucker. He said that every nation that devoted effort to higher education had achieved immense success a century later. There was actually more to this story. Drucker went on to say, "Unfor-

tunately, higher education in Japan has declined.” Japanese students do not study as much as their counterparts around the world. Study alone will not suffice. Even so, Japanese higher education is currently plagued by no shortage of problems.

On the other hand, the U.S. is home to a large number of globally prestigious, distinctive universities. Drucker puts the success of the American university down to the definition of a clear purpose and mission for each university. During the building of the modern American university from 1860 to World War I, each American university defined a unique and clear purpose and mission, as follows:

Harvard University:	Educating a leadership group with a distinctive style
Columbia University and University of Chicago:	Systematic application of rational thought and analysis to the basic problems of a modern society—education, economics, government, foreign affairs
John Hopkins University:	Producer of advanced knowledge; A focus on advanced research
Cornell University:	Producing an educated public

Thereafter, the 20th century saw all these universities converge toward a common type. Even so, Drucker notes that what underlay the American university’s high effectiveness and high achievement was, above all, a clear commitment to one specific definition of purpose and mission, and exhaustive efforts to fulfill that purpose and mission.

As mentioned earlier, AT&T, as a service institution conducting business, came up with a definition of its business. Telephone systems, postal systems and other such services are natural monopolies. In general, these services are supplied by service institutions. This was also true of Japan in years past.

AT&T clearly defined the purpose and mission of the



organization as “Our business is service.” On this basis, it set specific goals to attain this purpose, and established customer-satisfaction standards and service-satisfaction standards. Drucker explains that these standards created, in effect, nationwide competition between telephone managers in various areas across the U.S., and became the measurements by which the managers were judged and rewarded.

If we have a system that generates profits based on performance and results, and a system that is being financed out of budget allocations, it is clear which system will be more likely to achieve. Even in a budget-based organization, it is essential to clarify the tasks the organization must fulfill and the expected performance. And it is important to allocate resources to produce results and on the basis of results. Drucker notes there is a need to direct energies toward performance and results by linking rewards to performance and results.

### ***(3) How to Manage Public-Service Institutions for Performance***

Drucker tells us that all service institutions must consider and execute the same principles to perform. There are six requirements, as follows:

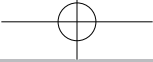
- ① They need to define “what is our business and what should it be.” That means clarifying the institution’s function and mission. They need to bring alternatives of definition into the open, and to think them through carefully, perhaps even to work out the balance of different and perhaps even conflicting definitions of “what our business is and what it should be.”
- ② They need to derive clear objectives and goals from their definition of function and mission.

- ③ They then have to think through priorities of concentration which enable them to select targets, to set standards of accomplishment and performance, that is, to define the minimum acceptable results; to set deadlines; to go to work on results, and to make someone accountable for results.
- ④ They need to define the measurements of performance.
- ⑤ They need to use these measurements to feedback on their efforts, that is, to build self-control from results into their system.
- ⑥ They need a mechanism for sloughing off obsolete and unproductive activities.

Of the foregoing requirements, the sixth and last requirement is the most important one. No success is “forever.” Yet it is far more difficult to abandon yesterday’s success than it is to reappraise failure. Success breeds its own hubris. It creates emotional attachment, habits of mind and action, and, above all, false self-confidence. Drucker points out that in a service institution particularly, yesterday’s success becomes “policy,” “virtue,” “conviction,” if not holy writ.

To prevent this from happening, the institution must impose on itself the discipline of thinking through its mission, its objectives, and its priorities, and of building in feedback control from results. That is, the institution must build abandonment into its system within the organization.

In this manner, Drucker observes that to make service institutions perform, does not require great men. It requires instead a system.

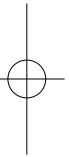


## **CHAPTER 3**

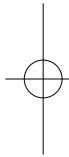
# **What Should Be Done by Managers?**

### **(1) The Five Basic Operations in the Work of the Manager and Essential Qualities**

As I noted in Chapter 2, human resources are the only true resource. How the manager manages employees is what makes the real difference in the organization's performance.



Drucker tells us that managers can be defined as people who are responsible for contribution to and results of the enterprise. In this sense, managers must have a higher perspective than employees and career professionals. Drucker notes that a manager has two specific tasks, as follows:



- ① To create a productive entity that turns out more than the sum of the resources put into it; and,
- ② To harmonize in every decision and action the requirements of immediate and long-range future.

Drucker adds that the first task requires the manager to make effective whatever strength there is in his resources—above all, in the human resources—and neutralize whatever there is of weakness. The second task requires the manager to be responsible for the performance of the whole enterprise and of his own component in it.

With this in mind, Drucker proposes that there are five basic operations in the work of the manager, as follows:

- ① Setting objectives
- ② Organizing
- ③ Motivating and communicating
- ④ Measuring performance
- ⑤ Developing people

Considering that a manager is a person responsible for contribution and results, not just someone who looks after subordinates, a manager must first set broad objectives, decide what has to be done to reach these objectives, communicate objectives to subordinates, and guide them to the attainment of each objective.

The second task is to organize. This means analyzing the activities and relations needed. These must be classified into manageable activities and jobs. The manager groups these units and jobs into an organization structure, and selects people for the management of these units and jobs to be done.

There is no need for detailed explanation of the third to fifth operations. The manager's task is to create a productive entity that turns out more than the sum of the resources put into it. To do so, the manager must communicate well with his subordinates, and increase his subordinates' performance and motivation. A manager must also establish performance yardsticks for evaluating results, and communicate those performance yardsticks to all relevant people. Without such performance yardsticks, the organization does not know whether objectives have been attained. The final operation is to develop people.

As I introduced to you earlier, in Japan, the book *“What If Drucker”* popularized the word “integrity.” Integrity is connected with the foregoing five basic operations. To conduct the above five basic operations, Drucker tells us that each operation requires different qualities and qualifications, such as analytical ability, synthesizing ability, social skills, and integrity.

The first operation of setting objectives requires analytical ability and synthesizing ability. The second operation of organizing also requires analytical ability. But organizing deals with human beings, and therefore stands under the principle of justice and requires integrity. Analytical ability and integrity are similarly required for the fifth operation, development of people. The skill needed for the third operation of motivating and communicating is primarily social. Justice takes precedence over economy, integration and synthesis are needed more than analysis, and integrity is important above all. The fourth operation of measuring performance requires, first and foremost, analytical ability.

In this manner, Drucker’s analysis shows us that different qualities and qualifications are needed for each of the five basic operations of the manager. That said, the five operations are formal, classifying categories. Only a manager’s experience can bring them to life, concrete and meaningful. Being able to set objectives does not make a man an outstanding manager, any more than the ability to tie a small knot in a confined space makes a man an outstanding surgeon. Drucker tells us that a manager becomes a better manager by improving his skill and performance in all categories of his work.

The manager works with a specific resource: man, who is unlike capital or physical resources. The human being is a unique resource requiring peculiar qualities in the manager

who attempts to work with it. “Working” the human being always means developing him. The direction which this development takes decides the productivity of the human being. Drucker asserts that it is important for a manager to help subordinates to grow and become bigger and richer persons.

One can learn certain skills and systems in managing people (skills to conduct an interview, practices in a promotion system, etc.). However, developing men still requires a basic quality in the manager. Drucker tells us that this quality is integrity of character.

Drucker notes that liking subordinates, helping them, and getting along with them are never enough as qualifications for a manager. It is the cold, unpleasant, demanding boss that often teaches and develops more men than anyone else. The manager that commands respect demands exacting workmanship of himself as well as of his men. As I said earlier, the integrity of the manager is his subordination to the requirements of the common task shared by the manager and subordinate.

What a manager does can be analyzed systematically. What a manager has to be able to do can be learned. But one quality cannot be learned, one qualification that the manager cannot acquire but must bring with him. Drucker tells us it is not genius; it is character.

#### **COLUMN**

#### **On Integrity of Character**

Drucker notes that character is the most important attribute of managers, and integrity is the most important aspect of character. Upon closer reflection, I feel that this observation is some-

thing that anybody can embrace wholeheartedly.

Managers work with people—a peculiar resource. What are the most important aspects of the manager's fundamental relationship with people? They are personality and sincerity. Words such as "The state cannot function without trust," "Sincerity can move heaven," "There is no wisdom like frankness," and "Sincerity and conviction alone makes man worthy," show us that in all times and places, wherever we may venture, sincerity is held to be one of man's highest virtues.

In the course of my career as a management consultant, I have worked with many top management executives of small and medium-sized companies. One of the major reasons why a company falls into a rut is that the president is lacking in sincerity. The same president who cuts employees' salaries may reward himself behind their backs. But he will soon find that nobody will come to his aid when the company runs into serious trouble. As Drucker says, people who lack integrity destroy everything.

That said, Westerners seem to think of "integrity" much differently than how the Japanese see concepts like "sincerity." For the Westerner, "integrity" is a crucial concept tied to human virtue and a person's entire character. Besides honesty and sincerity, "integrity" carries the meaning of internal fortitude and an unshakable moral foundation—what is needed to merit trust as a human being.

While Drucker stresses the importance of integrity, he acknowledges that integrity is difficult to define, and does not propose a clear definition. However, he does manage to offer the following example of integrity.

There was a bookkeeper who worked loyally for a company over many years and grew with it until he found himself controller of what had become a large company. Nevertheless, the times had changed and he was totally out of his depth. How-

ever, where loyalty has been received, loyalty is due. To fire him would be wrong. It would violate the organization's sense of justice and decency. Integrity is extremely important to the spirit of an organization. A manager of integrity will take these cases exceedingly seriously.

This example also shows that a person of integrity is someone who can be trusted personally, in terms of character. Upon reading this example, I felt that "integrity," for a Westerner, may be construed as a concept that combines the Five Virtues of Confucianism (Kindness, Righteousness, Sobriety, Wisdom, Trustworthiness). Professional translators also find it extremely difficult to translate the word "integrity" into Japanese. Depending on the context, "integrity" might be translated into the Japanese equivalent of "principled," "spirited," "faithfulness," "devotion," and "honor."

In *Adventures of a Bystander*, Drucker points out the following: Leadership is needed in diplomacy, but this leadership must be based on integrity, not cleverness. Martin Luther King, Jr. was influential precisely because of his integrity. In other words, Drucker believes that in one-on-one personal relationships, integrity is of the first importance.

"*What If Drucker*" made the word "integrity" extremely popular. The only part of "*What If Drucker*" that I would take issue with is the part on "Who is the customer of the baseball team?" In the course of explaining Drucker's management thinking by applying it to management of a baseball team, this part was probably unavoidable. However, I believe that integrity for a high school baseball team is "to go all out to win." I believe that it should be acceptable for a team to make "winning" their primary purpose. I believe that personal integrity for athletes engaged in sports is to rally the whole team behind an all-out effort to play baseball and strive toward the goal of "winning."

I believe that the image Drucker had of a talented manager



of an organization was someone like an outstanding manager (or head coach) of a high school baseball team. Such a manager would be very fond of each player and would treat him kindly. However, the manager would be uncompromising and extremely strict in practice and in games. He would set the clear objective of winning the pennant at Japan's National High School Baseball Championship Tournament (Koshien). He would demand that the players attain this objective, and the players themselves would be highly motivated to do so. The manager would go all out to reach this common objective together with the players. He would be strict, but would create a highly cohesive team with strong emotional ties. I feel that it was this type of person that Drucker envisioned as a manager in real-world business situations.

I believe that integrity for a business manager and a high school baseball team manager are one and the same. The integrity of a businessperson is to firmly remain committed to the performance of the organization. To this end, the businessperson must be willing to take on onerous tasks, and must also speak sternly at times. A kind and earnest person does not necessarily always demonstrate integrity. Such a person, if only kind and earnest, would be lacking in the most important requirement of a businessperson. Managers involved in business must produce results and contribute to society. Kindness towards others is perhaps needed as a foundation. But Drucker has in mind the strict boss, who is relentlessly focused on results, when he thinks of a manager with integrity. Of course, the result is not to raise profit. It must be to "create a customer" and thereby contribute to society.

## **(2) Management by Objectives and Self-Control**

Each member of an enterprise must contribute toward a com-

mon goal. The performance that is expected of the manager must be directed toward the performance goals of the business. The manager's results are measured by the contribution they make to the success of the enterprise. However, Drucker writes that in practice, the managers are not automatically directed toward a common goal. Drucker cites four powerful factors of misdirection as reasons for this.

The first reason is the specialized work of most managers. Here, Drucker discusses the old story of stonecutters as an example. The story is as follows: Three stonecutters were asked what they were doing. The first replied, "I am making a living." The second replied, "I am doing the best job of stonecutting in the entire country." The third one said, "I am building a cathedral."

The first man is clearly not a manager. Drucker tells us that it is the second man who is a problem. Certainly, it is important for an organization to demand of its members the highest workmanship they are capable of. However, workmanship is not meaningful unless it is related to the needs of the whole organization. The third man is the true manager. The manager must be responsible for the performance and the results of the business. However, in every enterprise, the overwhelming majority of managers are preoccupied only with their own specialized function, like the second stonecutter.

The second reason why managers are unable to pursue common objectives lies in misdirection by the boss. Subordinates are often swayed by the most casual remarks of the boss. For example, when instructed by the boss to conduct some sort of survey, the subordinates often do not know what lies behind the instructions, and must often work without understanding how important the job might be.

The third reason is the problem of the hierarchical structure of management. An organization has various levels of management and each level has differences in concern and function. This problem cannot be solved by "better communications." The reason is that there is usually a lack of common understanding and a common language among the different levels of management. The same problem is seen by the accountant in the accounting department from the standpoint of money, by the marketer in the marketing department from the standpoint of customers, and by the production foreman in the production department from the standpoint of engineering.

The fourth reason is misdirection by compensation. For example, if compensation is based on return on investment (ROI), divisional executives will hesitate to make investments needed for the future. This is because in almost all cases, investments do not produce results immediately.

Drucker notes that objectives must always be set based on the goals of the business, because there is a real danger that the aforementioned four factors of misdirection can arise.

Furthermore, Drucker asserts that managers must understand that business results depend on a balance of efforts and results in a number of areas. To obtain balanced efforts and results, management perspectives should be keyed to both short-range and long-range considerations.

Concentration is certainly important. However, Drucker points out that if management directs a company in such a way that it cuts inventories for four weeks, then cuts costs for four weeks, and follows this with four weeks of human relations and a month of improving customer service and courtesy, management will find that inventory is back where it was when the cutting inventories was started. Many readers know that this

could very well happen at their own companies.

The goals of each manager's job must be defined by the contribution he has to make to the success of the larger unit of which he is a part. Higher management must, of course, reserve the power to approve or disapprove these objectives. However, Drucker notes that their development is part of a manager's responsibility; indeed, it is his first responsibility.

It means, too, that every manager should responsibly participate in the development of the objectives of the higher unit of which he is a part. The manager's aims should reflect the objective needs of the business, rather than merely what the boss—or he himself—wants. Drucker asserts that the manager must know and understand the ultimate business goals, what is expected of him and why, what he will be measured against and how.

There must be a meeting of minds within the entire management of each unit. Drucker adds that this can be achieved only when each of the contributing managers is expected to think through what the unit objectives are and is led to participate actively and responsibly in the work of defining them. And only if his lower managers participate in this way can the higher manager know what to expect of them and can make exacting demands.

Drucker stresses the vital importance of this point. To underscore its importance, he introduces the practice of a certain company of having subordinate managers write a "manager's letter" twice a year. The letter contains the following:

- ① Each manager first defines the objectives of his superior's job and his own job as he sees them.
- ② He then sets down the performance standards which he

believes are being applied to him.

- ③ Next, he lists the things he must do to attain these goals—and the things within his own unit he considers the major obstacles.
- ④ He lists the things his superior and the company do that help him and the things that hamper him.
- ⑤ Finally, he outlines what he proposes to do during the next year to reach his goals.

To eliminate misdirection, special efforts are needed. Mutual understanding can never be attained by “communications down.” Drucker observes that mutual understanding can result only from “communications up.” It requires both the superior’s willingness to listen and a tool especially designed to make lower managers heard (such as the “manager’s letter”).

I believe that one reason why “management by objectives” systems falter in the real world is that the objectives are managed improperly: companies and superiors impose objectives on their subordinates, and the superiors only control them.

Drucker observes that the greatest advantage of management by objectives is that it makes it possible for a manager to control his own performance. One of the major contributions of management by objectives is that it enables us to substitute management by self-control for management by domination. To be able to control his own performance a manager needs to know more than what his goals are. He must be able to measure his performance and results against his goal.

Management by objectives and self-control asks for self-discipline. It forces the manager to make high demands on himself. Management by objectives and self-control starts out from the assumption that people want to be responsible, want

to contribute, want to achieve. Drucker himself admits that this is a bold assumption. As mentioned on page 84, McGregor's Theory Y alone is not enough to produce results. However, no progress is possible unless managers assume that there are many people in the world who want to achieve. That said, Drucker reassures us that fortunately the evidence strongly supports this assumption.

At the same time, Drucker says that we know that people largely act as they are expected to act. A manager who starts out with the assumption that people are weak, irresponsible, and lazy will get weakness, irresponsibility, and laziness. He corrupts.

A manager who assumes strength, responsibility, and desire to contribute may experience a few disappointments. But Drucker tells us that the manager's first task is to make effective the strengths of people, and this he can do only if he starts out with the assumption that people—and especially managers and professional contributors—want to achieve.

#### **COLUMN**

### **People Act as They are Expected to Act**

Drucker observes that management by objectives and self-control is based on the bold assumption that "people want to be responsible, want to contribute, want to achieve." Yet we know that "people largely act as they are expected to act." That is why Drucker said that managers must start out by holding such expectations for people.

I would now like to present a theory that explains why "people act as they are expected to act." It is called the Pygmal-

ion effect. The Pygmalion effect was so named after the story of King Pygmalion in Greek mythology. It is derived from the following fable: Pygmalion carved a statue of a woman and fell in love with it because of its great beauty. He prayed day and night for the statue to come to life. In answer to his prayers, the gods breathed life into the statue, and Pygmalion lived happily ever after with the statue that had come to life.

The Pygmalion effect was explained by the following experiment carried out by Rosenthal et al. of the U.S. The researchers conducted a certain meaningful test of elementary school students, and provided teachers with a list of the highest performing students, telling them that they were identified as good students. In fact, the researchers had not conducted any such meaningful test, and had simply told the teachers that the highest performing children, who were chosen randomly, were good students. One year later, the children who were chosen were the only ones with strong academic results. In other words, the Pygmalion effect is showing us indeed that “People act as they are expected to act.”

Pygmalion management applies the Pygmalion effect to the world of business. Research findings that corroborate the effectiveness of the Pygmalion effect in business abound. Examples of such studies include cases where groups of employees selected at random are entrusted to bosses who are told that the employees are high performers. The studies find that these groups are the only ones that achieve significant results.

As Drucker says, no matter how high your expectations of your subordinates, you may only be disappointed at times. However, managers have no other choice—they must start out by holding high expectations for the people under their charge.

Drucker writes, “I do not use the word ‘philosophy’ lightly; indeed I prefer not to use it at all; it’s much too big a word.” Hav-

ing thus prefaced his remarks, Drucker says that management by objectives and self-control may properly be called a philosophy of management. Here, “philosophy” means a “constitutional principle.” In other words, Drucker takes the view that “management by objectives and self-control” embodies a constitutional principle. It expresses what an organization should aim for and what human beings should aspire to.

Organizations must contribute to society as organs of society. That contribution is defined by the first task of an organization—to fulfill its specific purpose and mission—and the organization’s second task—making the worker achieving through work.

The “objectives” in “management by objectives and self-control” should be set based on the goals of the entire organization—regardless of who the goal is set for. In this context, the management of individual goals should be carried out through management by self-control, not management by domination by others. Put simply, Drucker tells us that management by objectives and self-control makes a person act not because somebody wants him to but because he himself decides that he has to. He acts, in other words, as a free man.

This might not be complete freedom. However, as Drucker says, there can be no such thing as a perfect social system. I feel that in these words too, we can see how Drucker thought in ultra-realistic terms, believing that man had no choice but to compromise by paying a price—i.e., allowing the market to shut out human values in the industrial society—while continuing to chase after the dream of a free society.

Even so, Drucker notes that it is management by objectives and self-control that makes “genuine freedom” possible. For the conversion of objective needs into personal goals ensures that



this freedom is based on contribution and responsibility. “To do one’s own thing” is not freedom. Genuine freedom gives freedom because it gives responsibility.

Back when I was a salaried worker, my boss told me that the role of a manager is to match the individual’s goals with the organization’s goals. At the time, I did not understand his words at all. Having studied Drucker’s management thinking, however, I now know exactly what he meant. Individuals should lead free and vibrant lives. Otherwise, the individual cannot be truly happy. However, a member of an organization must behave in such a way that his or her free actions are aligned with the organization’s performance.

### **(3) The Spirit of Performance and Practices**

The first task of a manager is to create a productive organization that creates something more than the sum of the resources put in. To get out more than is being put in is possible only in the moral sphere. This cannot be accomplished by mechanical means. A mechanical contrivance can, at its theoretical best, only conserve energy.

What then, is the spirit of an organization that can produce more than is being put in? Morality is key. However, morality does not mean preachments. Morality, to have any meaning at all, must be a principle of action. That means it must be practices. Drucker explains that to produce more than the resources put in, the following practices are needed:

- ① The focus of the organization must be on performance.
- ② The focus of the organization must be on opportunities rather than on problems.

- ③ The decisions that affect people: their placement and their pay, promotion, demotion and severance, must express the values and beliefs of the organization.
- ④ In its people decisions, management must demonstrate that it realizes that integrity is one absolute requirement of a manager, and must demonstrate that it requires the same integrity of itself.

The constant temptation of every organization is safe mediocrity. To produce more than the resources put in, managers first need to set high standards of performance for themselves.

Furthermore, an organization will have a high spirit of performance if it is consistently directed toward opportunity rather than problems. It will have the thrill of excitement, the sense of challenge, and the satisfaction of achievement if its energies are put where the results are, and that means on opportunities.

People tend to overreact to the people decisions of management—the decisions on promotion, placement, and so forth. These decisions, in effect, spell out to the organization what management's values and beliefs really are.

The final proof of the sincerity and seriousness of a management is uncompromising emphasis on integrity of character. Drucker notes that it is character through which leadership is exercised; it is character that sets the example and is imitated.

Drucker observes that integrity may be difficult to define, but what constitutes lack of integrity is not. Drucker warns us that a man should never be appointed to a managerial position if he lacks integrity, providing the following five examples:

- ① A man whose vision focuses on people's weaknesses rather than on their strengths

- ② A man who is more interested in the question “Who is right?” than in the question “What is right?”
- ③ A man who considers intelligence more important than integrity
- ④ A man who has shown that he is afraid of strong subordinates
- ⑤ A man who does not set high standards for his own work

Example ① needs no explanation. Managers have no choice but to make people’s strengths effective if they want to produce results. Drucker notes that a manager whose vision is focused on people’s weaknesses will undermine the spirit of the organization.

A little explanation is needed as to why a manager who is more interested in the question “Who is right?” than in the question “What is right?” is lacking in integrity, as shown in Example ②. As I said earlier, being a manager means having responsibility. The objectives of managers should reflect the objective needs of the business, not what the superior or the manager himself wants. It is certainly important to meet the expectations of the superior. However, what is more important is for the manager to take an interest in whether those expectations are aligned with the larger objectives of the organization. If decisions are made based on “Who is right?” and not on the objective needs of the business, decisions will follow the mistaken path of being made based on “What is acceptable to a particular person?” Drucker tells us that a stronger interest in “Who is right?” encourages people to play safe and to “cover up” their mistakes.

I trust that no explanation of Example ③ is needed. Integ-

ity is of the highest importance to a manager. Drucker notes that people who think along the lines of Example ④ show immaturity, and are usually incurable.

As I have noted repeatedly, the integrity of the manager is his subordination to the requirements of the common task shared by the manager and subordinate. Examples ④ and ⑤ are related to the integrity of these managerial duties. Example ④ shows weakness as a manager. People to whom examples ④ and ⑤ apply will undermine the task that all managers should fulfill, namely the task of attaining strong performance.

Drucker notes that a man might himself know too little and perform poorly, lack judgment and ability, and yet not do too much damage as a manager. But if he lacks in integrity, he destroys everything. He destroys people, spirit and performance. Drucker further observes that because the spirit of an organization is created from the top, the situation is particularly serious when the people at the head of an enterprise are lacking in integrity.

#### **(4) Communication with Subordinates**

There is no need to point out just how important communication is within an organization. Drucker also offers sharp insights into communication. Drucker lists the following four fundamentals of communication:

- ① Communication is perception.
- ② Communication is expectation.
- ③ Communication makes demands.
- ④ Communication and information are different.

Looking at this list alone, it is hard to grasp what Drucker means. Let's go over each item individually. In the first item, the word "perception" appears again. As I explained in Chapter 1, I believe that "perception" is an extremely important word to understanding Drucker. In Chapter 1, I noted that "perception" is the nominal form of the verb "perceive." "Perceive" has the nuances of "taking notice," "understanding," and "seeing (the true state, etc.)."

The first meaning of the statement "Communication is perception." is that communication is possible only when the message has been understood by the recipient. This means that it is the recipient who communicates, not the person who emits the communication, the so-called communicator. Communication will not be understood unless we use words that the recipient can understand, and we communicate what lies within the recipient's range of perception. Drucker introduces the words of Socrates, who pointed out that "one has to use carpenter's metaphors when talking to carpenters." Although this sounds very obvious when it is brought to our attention, many people are unable to follow this rule.

The second meaning of the statement "Communication is perception." is that understanding what people are saying involves many different elements other than the spoken language, including the tone of voice and facial expressions. To paraphrase an old proverb, "One cannot communicate a word; the whole man always comes with it." Communication is "seeing (the true state, etc.)" from all of these elements.

The second statement, "Communication is expectation." is also one that we can readily accept when it is brought to our attention. We see largely what we expect to see, and we hear largely what we expect to hear. People pay attention only to

what interests them. Before we communicate, we must, therefore, know what the recipient expects to see and hear.

What does the third statement, "Communication makes demands." mean? When communicating, the emitter always wants "to get something across." Communication, in other words, always makes demands. It always demands that the recipient become somebody, do something, believe something. If, in other words, communication fits in with the aspirations, the values, the purposes of the recipient, it is powerful.

The fourth statement, "Communication and information are different." can also be easily understood with a little explanation. Information is logic. As such, information is purely formal and has no meaning. The more it can be freed of the human component, that is, of such things as emotions and values, expectations and perceptions, the more valid and reliable it does become. On the other hand, communication is highly interpersonal, and involves perception of the entire character, as noted earlier.

That said, Drucker tells us that not only are communication and information different, but that they are also interdependent. All through history, the problem has been how to glean a little information out of communications. Conversely, the more information the greater is the communication gap likely to be. The information explosion demands functioning communications.

Based on these four fundamentals of communication, what should we watch out for when communicating in real-world business situations? Here too, Drucker offers sharp insights.

Until now, we have attempted communication in organizations "downward." This assumes, in other words, that the utterer communicates. However, as we can see from the four

fundamentals of communication, the downward communication frequently carried out in organizations is not effective. All we can communicate downward are commands. One cannot communicate downward anything connected with understanding, let alone with motivation. In organizations, upward communication is needed.

Does that mean then that superiors only need to start listening to their subordinates? The recent approach to communication puts emphasis on listening. Superiors must first be willing to listen. However, Drucker asserts that listening cannot, by itself, work. Listening assumes that the superior will understand what he is being told by the subordinate. It assumes, in order words, that the subordinates can communicate.

Let us revisit the four fundamentals of communication. Can all subordinates speak in the language of their superiors? Do subordinates understand what their superiors expect of them? Unless subordinates can speak in the language of their superiors, and understand the expectations of the superior, it will be difficult to communicate. Drucker points out that it is hard to see why the subordinate should be able to do what his superior cannot do.

It is important to first establish upward communication, and for superiors to be willing to listen. However, that is not enough. Drucker notes that the upward communications must be focused on something that both superior and subordinate can understand, and on something that is common to both of them. This can be done by practicing management by objectives.

As explained in the manager's letter, the subordinate should be required to think through and present to the superior his own conclusions as to what major contribution to the organization he should be expected to perform and should be held

accountable for. What the subordinate comes up with is rarely what the superior expects. This will bring out the divergence in perception between superior and subordinate, and will prompt a variety of debate. In the process, both parties will be able to bring out one another's thinking and begin to understand and to show consideration for one another.

As I noted in the Preface, Drucker wrote, "To realize that they see the same reality differently is in itself already communication." These words refer precisely to this situation. People have different positions, thinking, amounts of information, values and worldviews. Try to recall some examples of communication problems in real-world business situations. You will see that in most cases the reason why communication breaks down is that two parties are seeing the same reality differently.

Drucker offers an even sharper insight into communication. As noted earlier, communication and information are different. Drucker tells us that perfect communication has no relationship with logic; perfect communication may, indeed, be "shared experience" itself.

He is probably thinking of a situation where two parties can understand one another regardless of logic. People who share a certain background, situation and position, can understand everything simply by making eye contact. For example, if a certain urgent situation occurs in the course of work, a superior and a subordinate that share the same background, situation and position may understand who must do what simply by making eye contact. What is important is not information, but "perception." The best communication, in other words, is communication that does not require words.

Good communication requires shared experience. There can be no communication if it is conceived as going from the

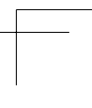
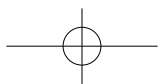
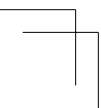
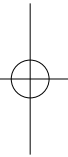
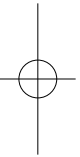
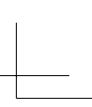
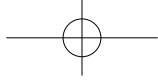
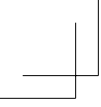


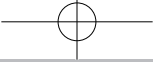


*What Should Be Done by Managers?*

“I” to the “Thou.” Communication works only from one member of “us”—a group with a shared purpose and objectives—to another. Drucker observes that communication in organization is not a *means* of organization. It is the *mode* of organization.

What do you think? There can be no communication if we strive only to improve our ability to listen to what others are saying, as is frequently recommended in communication training courses. Subordinate and superior must discuss their shared purpose and objectives and build a relationship of “us.” Building such a workplace is what communication is all about.

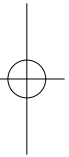




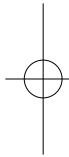
## **CHAPTER 4**

# **What Should Be Done to Achieve Innovation?**

### **(1) The Need for Systematic Innovation**



After reading Chapter 2, I'm sure that you have understood just how important innovation is to companies. The first purpose of a company is to "create a customer," not to "satisfy a customer." Companies must proactively act to supply products and services that the customer has never seen before, let alone noticed the need for them before. Unless this can be accomplished, a company's worth will be reduced in half. Furthermore, the needs of society and people are in a constant state of flux. Companies must adapt to those changes, anticipate those changes, and create those changes themselves.



In the two decades from 1965 to 1985, the United States created approximately 40 million jobs. During this period, large companies in traditional heavy industries, i.e., the so-called "smokestack" industries, lost large numbers of jobs. Who then created these jobs? Drucker explains that most of these jobs were created by small and medium-sized businesses, and a great many of them, if not the majority, were new businesses that did not even exist 20 years ago. This means that it was the entrepreneurial economy that created jobs in those years.

Although Drucker says in advance that he "does not have any explanation," he tells us that all of a sudden there were large

numbers of young people willing both to work like demons for long years and to choose grave risks rather than big organization security. Come to think of it, this was around the time when Bill Gates of Microsoft and Steve Jobs of Apple founded their businesses. The growth sectors were not confined to the high-tech industries, but encompassed a wide array of sectors, including manufacturing, healthcare, and education, as well as the public-private partnership sector, where public services are contracted out.

Drucker asserts that what has made possible the emergence of the entrepreneurial economy in America is new applications of management to new enterprises, small enterprises, non-businesses other than companies, and to systematic innovation. McDonald's did not succeed because of technological innovation or because it revolutionized the taste of hamburgers. It succeeded because it applied management to the hamburger business.

Innovation does not have to be technical. Installment buying, which was invented in the 19th century, was a new method that transformed the economy. The invention of the containership roughly quadrupled the productivity of the marine shipping industry. The German *Meister* (Master) system and *Lehrling* System (apprenticeship system), which combines practical training (*Lehre*) on the job and schooling (*Ausbildung*) in the classroom, became the foundation of Germany's industrial strength. Few technical innovations can compete in terms of impact with social innovations. Drucker tells us that all of these are new innovations based on the new application of knowledge to human work.

Drucker points out that in the history of technology, one of the great achievements of the nineteenth century was the

“invention of invention.” He explains that before then, invention was considered to be the product of a “flash of genius.” However, “invention” evolved into “research,” a systematic, purposeful activity, which is planned and organized with high predictability both of the results aimed at and likely to be achieved.

Something similar now has to be done with respect to innovation. Management must be applied to innovation and entrepreneurship. Successful entrepreneurs should not be reliant on a “flash of genius.” Drucker tells us that whether one conducts innovation in an organization or outside an organization, those who want to succeed as entrepreneurs should fundamentally pursue purposeful innovation and engage in systematic innovation. The reason is that the world is in very short supply of geniuses.

Drucker asserts that innovation and entrepreneurship can be achieved through effort and practices. There are companies in the world such as Proctor & Gamble and 3M, which practice systematic innovation. Most successful innovations are prosaic: they simply exploit change. Therefore, Drucker tells us that the discipline of innovation consists in a systematic examination of the areas of change.

Drucker notes, “Every practice rests on theory. Entrepreneurship rests on a theory of economy and society.”

- ① The theory sees change as the norm and indeed as healthy.
- ② The theory sees the major task in society—and especially in the economy—as doing something different rather than doing better what is already being done.

In other words, the entrepreneur always searches for

change, responds to it, and exploits it as an opportunity. Furthermore, Drucker takes the view that companies need to pursue purposeful and organized research into opportunities of change and innovation.

## **(2) Sources for Innovative Opportunity within the Enterprise or Industry (The First Set: Four Sources)**

How then should we go about searching for opportunities for innovation? Based on a survey of more than 1,000 examples of innovation, Drucker teaches us that systematic innovation means monitoring seven sources for innovative opportunity, as follows:

- ① The unexpected;
- ② The incongruity;
- ③ Innovation based on process need;
- ④ Changes in industry structure or market structure;
- ⑤ Demographics (population changes);
- ⑥ Changes in perception;
- ⑦ New knowledge.

The first four sources lie within an organization or industry, while the last three sources involve changes outside the organization or industry. Drucker notes that although the lines between these seven source areas are blurred, and there is considerable overlap between them, the order in which these sources are listed is not arbitrary. That is, they are listed in descending order of reliability and predictability. First, let me explain the first four sources of innovation within an organization or industry, which have the highest reliability and

predictability.

The first source area is unexpected success or failure. Drucker believes that no other area offers richer opportunities for successful innovation than the unexpected success. Here too, I believe that Drucker's integrity shines through.

Drucker urges us to conduct systematic innovation. At the same time, however, Drucker is well aware of the limitations of human recognition and thinking, and knows very well that people are prone to misunderstandings and mistaken beliefs.

Even if we sit at our desks and ponder questions like "What is change?" and "What should change be?," we will never find the answer. We cannot see the future by thinking about it. All we can do is analyze the events and the symptoms of what is happening now. The real problem is to ask ourselves, "What are these events a symptom of?"

Unexpected successes are symptoms of a fundamental change in the values, expectations, and behavior of consumers. What is important is whether one tries to see through to the essence of the unexpected success. I believe that here too, Drucker is telling us that "perception" is just as essential as rigorous logical analysis.

#### **COLUMN**

##### **The Unexpected Creates the Chance for Innovation**

The unexpected success can perhaps be understood easily by going over the example of Komy Co., Ltd.—a continuous innovator in the field of specialty mirrors. (Incidentally, Komy President Sakae Komiyama is a member of the Drucker Workshop.) President Komiyama has been using the opportunity of unex-

pected success to grow the company's business. The first opportunity was when rotary mirrors Komy developed for displays were unexpectedly used for security purposes. This opportunity helped to expand Komy's security mirror business. Next, security mirrors, which the company thought would be used for security purposes, were being unexpectedly used as a tool to improve servicing for customers. As a result, the applications of security mirrors expanded to include an even broader array of uses.

The unexpected success is not just an opportunity for innovation; it demands innovation. It forces us to ask, "What basic changes are now appropriate for this organization in the way it defines its business? Its technology? Its markets?" Drucker tells us that it is precisely because the unexpected jolts us out of our preconceived notions, our assumptions, our certainties, that it is such a fertile source of innovation.

This is indeed borne out by Komy's example. President Komiyama notes that the foundation of Komy's development has been its ability to take notice of its mistaken assumptions.

On the other hand, Drucker notes that a good many failures are nothing but mistakes, the results of greed, stupidity, thoughtless bandwagon-climbing, or incompetence whether in design or execution. Yet if something fails despite being carefully planned, carefully designed, and conscientiously executed, that failure often bespeaks underlying change and, with it, opportunity.

Drucker points out that in any case, you must not just call for more study and more analysis. Failure demands that you go out, look around, and listen. Komy President Komiyama also notes that he had to muster courage to go out and listen to the reasons for an unexpected success. As he made his way to see his



customers, Mr. Komiyama recalls that he was anxious that the customer might rail against him with complaints. He was worried that the customer might say that the product was ordered only by mistake, and that he wished that he had never bought such a thing in the first place. Nonetheless, we must go out and investigate the reason for unexpected successes and failures.

To ensure that unexpected successes are exploited in an organized manner as innovative opportunities, someone should always be designated to analyze an unexpected success and to think through how it could be exploited. Innovative opportunities require more than mere luck or intuition. Drucker urges us to work on innovation in a purposeful and organized manner.

The second source of innovative opportunity is incongruities. Drucker defines an incongruity as a discrepancy, a dissonance, between reality as it actually is and reality as it "ought" to be. This is the same as the definition of a problem. A problem is a gap between what is and what "ought" to be. The opportunity to innovate indeed lies in such problems. Drucker notes that like the unexpected event, whether success or failure, incongruities are symptomatic of changes that have already happened or that can be made to happen.

Drucker says there are several kinds of incongruity. In this book, we will take a look at what Drucker refers to as "an internal incongruity within the rhythm or logic of a process." This kind of incongruity occurs when there is only one problem in a work process. Drucker illustrates this with an example. He notes that one of the most common surgical operations is the operation for senile cataract in the eye. Eye surgeons had conducted the operation with total control, but there was one procedure that greatly bothered them. This problem was solved by a pharmaceutical company that developed a preservative for a

special enzyme that aided the procedure.

This sort of incongruity within the rhythm or logic of a process is usually known by everyone within a given industry or service. What is important to exploiting it as an innovative opportunity is to be willing to listen and to take seriously what everyone is saying.

#### COLUMN

### **Discover Incongruities by Listening to the Voice of the Frontlines**

Several years ago, I bought a storage shed from a company called Takubo Industrial Co., Ltd. A home improvement center worker visited my home to install the storage shed. I had some spare time, so I went outside to help with the installation. The worker said, "Takubo's storage sheds are great. Usually, a storage shed that is about 180 cm-wide cannot be assembled by one person because one does not have enough reach. But Takubo's storage sheds have been ingeniously designed so that they can be assembled by just one person. There is a hook attached to the joint parts on the ceiling side of the roof panel to hang one corner of the 180 cm-wide roof on. This enables one person to assemble the storage shed all by oneself. The salespeople from the company often visit us and ask us about any assembly problems and other issues. Our feedback is always reflected in subsequent changes in model. Whenever there are complaints, if the products are made by other companies, we usually must deal with the problem only by ourselves. However, Takubo is the only manufacturer that always sends their staff to meet with the customer directly."

The seeds of innovation lie in the frontlines. I felt that this was indeed exactly as Drucker had pointed out.

The third source of innovative opportunity is “Innovation based on process need.” Drucker notes that the needs that provide opportunities for innovation are generally “process needs” and “needs arising from demographics (population changes).” Process needs refer to a certain part of a process that has become a bottleneck. I will not go into this in detail because it is similar to “incongruities in processes,” which I explained earlier. Needs arising from demographics refer, for example, to the need for using robots because of the declining population. Indeed, these needs are good examples of the old proverb, “Necessity is the mother of invention.”

The fourth source of innovative opportunity is “Changes in industry structure or market structure.” This requires very little explanation. For example, in regional towns across Japan, almost all of the shopping streets in front of train stations are shuttered, and nearly everyone does their shopping at large suburban shopping malls. Those large shopping malls contain numerous specialty stores that sell mainly one type of product, like shoes or innerwear. Aggregation and specialization are proceeding at the same time. These changes in ways of doing business still offer many more opportunities for innovation. Indeed, innovation is still expected from the shopping streets in front of train stations as well. Changes in industry and market structures offer an exceptional opportunity for systematic analysis and innovation. Drucker tells us that entrepreneurs can always expect to find that opportunities lie therein.

Drucker points out that innovations that exploit changes in industry structure are particularly effective if the industry and its markets are dominated by one very large manufacturer or supplier, or by a very few. In these sense, innovation is demanded in sectors such as banking, insurance and university

education. The banking and insurance industries have already seen new players emerge who have made a break with the past, such as Internet-only insurers and retailer-affiliated insurers. And universities certainly require major innovation if they are to truly contribute to the development of knowledge workers.

A change in industry structure offers exceptional opportunities, highly visible and quite predictable to outsiders. But the insiders perceive these same changes primarily as threats. Electric vehicles are expected to become increasingly popular in the future. This change has the potential to dramatically alter the landscape of the automobile and related industries.

### **(3) Sources for Innovative Opportunity Outside the Enterprise or Industry (The Second Set: Three Sources)**

Next, I will explain sources for innovative opportunity outside the enterprise or industry. The first opportunity is demographics (population changes). This is an extremely important area. The reason is that demographics changes are the only area where predictions about the future can be made with near certainty.

Demographic changes include not just changes in population, but also changes in age structure, family composition, and income distribution. Projected increases in the elderly population, women's participation in the workforce, increase in single-person households, and growing income disparity will offer significant opportunities for creating innovation.

Analysis of demographic changes begins with population figures. However, we must ask what are the values and the expectations, the needs and wants of the people we are studying, in order to determine, for example, what kind of innovation

will be needed when the elderly population increases. In other words, Drucker points out that for those genuinely willing to go out into the field, to look and to listen, changing demographics is both a highly productive and a highly dependable innovative opportunity.

Next is “Changes in perception.” It is people who buy products and services. Changes in perception, therefore, are an extremely important area to look for opportunities for innovation. Changes in perception, such as health, environmental and spiritual consciousness, and a stronger affinity for the authentic, the gourmet, and so forth, have already created a variety of innovations. Thirty years ago, very few people could foresee that there would be so many people running indoors on jogging machine conveyor belts as can be seen in today’s sports gyms.

That said, it is not easy to clearly tell whether a change in perception is a fad or permanent. This is particularly true of Japan, where all manner of things instantly rise to popularity, only to disappear from public view just as quickly. Timing is of the essence in converting changes in perception into opportunities for innovation. One has to be first. However, Drucker also points out that precisely because it is so difficult to determine the nature of a change in perception, perception-based innovation has to start small and be very specific.

The final source of innovative opportunity is “New knowledge.” This is what entrepreneurship is all about. In other words, as Drucker says, knowledge-based innovation is the “super-star” of entrepreneurship. Knowledge-based innovation, however, is not necessarily scientific or technical, and can also include knowledge-based social innovations such as the invention of installment buying mentioned earlier. Given that

knowledge-based innovations rank high amongst the history-making innovations, Drucker devotes a considerable number of pages to explaining this type of innovation.

Using a host of examples, Drucker points out that one characteristic of knowledge-based innovation is that it is based on the convergence of several different kinds of knowledge. For example, the Wright Brothers' airplane was a convergence of aerodynamics and the gasoline engine.

That said, Drucker adds that knowledge-based innovation has long lead times, a high failure rate, and is hard to predict and manage. Drucker illustrates this point with many different examples, including the diesel engine, computer, and antibacterial drugs, and tells us that the lead time for knowledge to become applicable technology and begin to be accepted on the market is between twenty-five and thirty-five years. The risks of knowledge-based innovation are high. Drucker points out that the high risks put a much higher premium on foresight, both financial and managerial.

That wraps up my explanation of the seven sources for innovative opportunity. Even if one tries to think about how to create innovation on his or her own, almost everyone will struggle to find the answer. As mentioned earlier, Drucker tells us that the discipline of innovation consists of a systematic examination of the areas of change. He says that the entrepreneur always searches for change, responds to it, and exploits it as an opportunity.

Where, then, should we search for change? The answer lies in Drucker's seven sources for innovative opportunity. Let us once again summarize the seven source areas identified by Drucker and their characteristics, as follows:

- |   |   |
|---|---|
| ① The unexpected                                    | (Analyze changes close at hand and notice their symptoms);      |
| ② The incongruity                                   | (Innovative opportunities lie where there are problems);        |
| ③ Innovation based on process need                  | (Necessity is the mother of invention);                         |
| ④ Changes in industry structure or market structure | (Therein always lie major opportunities for innovation);        |
| ⑤ Demographics (population changes)                 | (The only thing for which the future can be clearly predicted); |
| ⑥ Changes in perception                             | (Is it a fad or temporary? Timing is of the essence.);          |
| ⑦ New knowledge                                     | (The “super-star” of innovation).                               |

#### **(4) Don't Chase After the Bright Idea**

Although I have concluded my explanation of the seven sources for innovative opportunity, Drucker points out that there is actually one more extremely important area other than the seven sources. It is innovations based on a bright idea. Drucker observes that innovations based on a bright idea probably outnumber all other categories taken together. Seven or eight out of every ten patents belong here. A very large proportion of new businesses are built around “bright ideas.”

A little thought will show that this is true. The origin of numerous businesses can be traced back to a flash of inspiration by the founder. And many people would like to know where this flash of inspiration comes from, and how one can experience such a flash of inspiration. What's more, many of us may be secretly thinking that we too could succeed if we only had such a flash of inspiration. The most pressing question that

many readers may want to ask Drucker may very well be “How does one get such a flash of inspiration?”

Why, then, doesn't Drucker show us the methodology for innovation based on a bright idea? Drucker notes that the reason is that the probability of success is extremely low, and the process for coming up with such an idea is not understood.

Around 10 years ago, I resigned from my job as a salaried employee of a company. I did not necessarily resign because I wanted to pursue other opportunities. For a time, I first thought that it would be nice to develop a utility model patent and thereby make a comfortable living. I actually filed an application for one utility model patent. However, it is not that easy to start a business in reality. In hindsight, this is obvious. I am embarrassed to think that I did not take notice of this fact.

Drucker notes that no more than one out of every hundred patents for an innovation of this kind earns enough to pay back development costs and patent fees. A far smaller proportion, perhaps as low as one in five hundred, makes any money above its out-of-pocket costs.

Innovations based on bright ideas are not predictable, cannot be organized, cannot be systematized. Drucker warns that the entrepreneur is well advised to forgo innovations based on bright ideas, however enticing the success stories.

However, Drucker also highly commends bright-idea innovation, because it offers an extremely high value, and because it represents qualities that society needs: initiative, ambition, and ingenuity. Let me also add that Drucker says society should not exclude or discourage the individual who tries to come up with a bright-idea innovation, by raising patent fees, for instance.



## **(5) Principles of Innovation**

In the field of medicine, patients sometimes recover from illnesses miraculously. Drucker tells us that only a bigot denies that such cures happen and dismisses them as “unscientific.” They are real enough. Yet it would be meaningless to put “miracle cures” into a medical textbook. After all, they cannot be replicated, cannot be taught, cannot be learned.

The same thing happens in the world of innovation. Some innovations are the result of a “flash of genius.” But such innovations cannot be replicated. They cannot be taught and they cannot be learned. Drucker tells us that what can be presented as the practice of innovation is only systematic innovation.

What, then, do we mean by systematic innovation, and what should we do to conduct systematic innovation? What conditions are necessary to make a success of innovation? Drucker presents the following five “do’s,”—things that have to be done, along with three “dont’s”—things that had better not be done—and three conditions.

### <The Do’s>

- ① Begin with the analysis of opportunities;
- ② Go out to look, to ask, to listen;
- ③ Make the innovation simple;
- ④ Start small;
- ⑤ Aim at leadership.

We must not aim for “flashes of genius” that cannot be replicated. If we are to conduct innovation purposefully, we must begin with an analysis of the aforementioned seven sources of innovative opportunities. Furthermore, innovation requires

more than just analysis. "Perception," or awareness, is also needed. To this end, it is important to go out to look, to ask, to listen by visiting customers.

Furthermore, every successful innovation is extremely simple. It is crucial to start out with simple innovations, and to start out small. Grandiose ideas, plans that aim at "revolutionizing an industry," are unlikely to work.

Finally, innovation must be carried out with the aim of leadership. Methods and strategies for converting an innovation into a business will vary greatly. But if an innovation does not aim at leadership from the beginning, it is unlikely to be capable of establishing itself as an innovation in the true sense.

<The Dont's >

- ① Don't try to be clever;
- ② Don't diversify;
- ③ Don't try to innovate for the future, innovate for the present.

"Dont's" ① and ② are the opposites of the "Do's." Innovations will not succeed unless they are simple and focused. Innovations that could become a business twenty years later are bound to fail. Innovations must be immediately useful today to be successful.

<Conditions for Successful Innovations>

- ① Innovation is work;
- ② To succeed, innovators must build on their strengths;
- ③ Innovation is an effect in economy and society.

Innovators conduct activities in a specific area. Innovators rarely work in more than one area. For all his tremendous innovative capacity, Edison worked only in the electrical field. Drucker is telling us, in other words, that in innovation, specialized knowledge of a particular field, as well as talent, ingenuity and predisposition are needed. Innovation, as in any other work, also makes very great demands on diligence, on persistence, and on commitment.

In regard to Condition ②, Drucker notes that innovation must be based on one's strengths. Successful innovators look at opportunities over a wide range. But then they ask, "Which of these opportunities fits me, fits this company, puts to work what we (or I) are good at and have shown capacity for in performance?" In this respect, of course, innovation is no different from other work. But it may be more important in innovation to build on one's strengths because of the risks of innovation and the resulting premium on knowledge and performance capacity.

In regard to Condition ③, Drucker observes that innovation always has to be close to the market, focused on the market, indeed market-driven.

When we think of innovation, the "flash of genius" of business founders may come to mind. However, we cannot learn how to become geniuses. Next, a groundbreaking innovation based on new technology or knowledge may come to mind. However, this sort of innovation requires an extremely long lead time.

When we think along these lines, many of us can begin to understand how we should start conducting innovation. First, we must visit the customer, and investigate the reasons for unexpected success or failures. We must go out to the frontlines

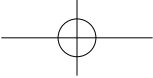
to look and to listen, and to understand the values and expectations, and needs and wants of the customer. Having done so, we should then be tackling innovation by solving the problems and satisfying the needs of the customer. To this end, Drucker lists the sources of innovative opportunity in descending order of reliability and predictability. I believe that in the area of innovation too, Drucker is urging us to make the customer the primary focal point.

That wraps up my explanation of innovation. Before moving on to the next chapter, let's summarize marketing and innovation, the two basic functions of a business enterprise.

Drucker tells us that in regard to marketing objectives, a business' first priority is to set a market-standing objective. To set the market-standing objective, Drucker notes that the business must first know what its market is, who its customers are, where its customers are, what they buy, and what they consider to be value, and what their unmet needs are.

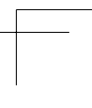
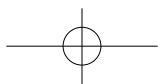
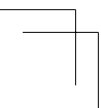
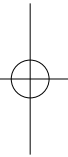
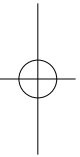
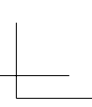
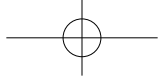
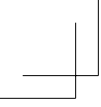
Furthermore, in regard to innovation, Drucker tells us to monitor seven sources for innovative opportunity. In descending order of reliability and predictability, the first three sources are "The unexpected," "The incongruity," and "Innovation based on process need." In order to pursue innovation in these source areas, it is important to visit the customer and investigate the reasons for unexpected successes and failures, and go out to the frontlines to look and to listen, and to understand the customer's values, expectations, and needs and wants. Having done so, it is crucial to solve the problems facing the customer and satisfy their needs.

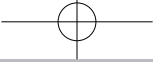
The first purpose of a business is "to create a customer." Marketing and innovation are crucial functions for fulfilling this purpose. As we may expect, we can clearly see that the



*What Should Be Done to Achieve Innovation?*

customer is the starting point for making these two functions effective in the true sense.



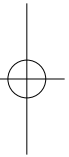


## CHAPTER 5

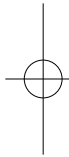
# What Should Be Done to Address the New Age and Achieve Self-Fulfillment

### (1) What Will the New Age Be Like?

In the final chapter of this book, I will summarize Drucker's views on how we should live in the new age, with a focus on the individual.



Today, we are facing a new age. What is this new age like? Drucker examined broad societal changes as a "social ecologist." He wrote that the age of continuity, which had lasted for some time through the 1960s, had changed dramatically. In the *Age of Discontinuity*, a book published in 1969, Drucker defined four types of changes: "The New Entrepreneur," "From International to World Economy," "The New Pluralism" and "The Knowledge Society." He pointed out that from around that time, new industries never seen before started to come into existence one after the other, globalization proceeded apace, and large numbers of people began working at large organizations. These large organizations started to splinter not only into business enterprises but also government institutions, education and healthcare. Knowledge work replaced manual work and became central to society.



Considering that Drucker pointed this out more than 40 years ago, these changes may perhaps not be properly described as "the new age." However, these changes indeed capture the

essence of what we are facing today. They provide an outline of the new age that we should pursue.

If we view these changes in the times positively, we can say that we are living in an exciting age when we can make use of our knowledge and ingenuity to work on a variety of jobs in many different places. The knowledge worker now has a central role to play in the aforementioned four types of changes. This means that how we lead our lives and work will be transformed dramatically.

In *Managing in the Next Society*, a book published in 2002, Drucker writes that the New Economy (A thriving economy based on IT and globalization) may or may not materialize, but there is no doubt that the Next Society will be with us shortly. The characteristics of the Next Society are the rapid growth in the older population and the rapid shrinking of the younger generation, the transformation of the workforce and its splintering into one where knowledge workers will be the dominant group, and the steady decline in manufacturing. Drucker observed that these changes would fundamentally reshape companies.

Because knowledge workers own the knowledge that is vital to business, knowledge workers provide “capital,” just as much as a provider of money. Companies and workers become equals, and the structure of the workforce diversifies as it becomes less dominated by full-time employees. Desirable management becomes disintegrated rather than integrated. Furthermore, unlike the past, when manufacturers and other suppliers held most of the information, customers will come to hold larger amounts of information than the suppliers, and these better informed customers will have greater power over the suppliers.



In this manner, Drucker highlights a variety of characteristics of the new age. However, the core characteristic is that knowledge workers become central to society. One factor behind the success of developed countries has been the increase in productivity of manual workers. In the years to come, the central challenge will be to make knowledge workers productive. Knowledge workers will hold the key to the success of business enterprises. How to attract the best of the knowledge workers, how to increase their productivity, and how to hold them will therefore become key priorities for business enterprises.

Because the “value” of knowledge workers basically belongs to the workers, they will be able to move between organizations more freely than before. Moreover, in a knowledge-centered world, change will happen much faster than before. Knowledge workers not only move freely between organizations, but individuals now live far longer than the average lifetime of a successful business of 30 years.

An age when knowledge workers become dominant is one where people frequently change the organizations they work for, and one where the nature of one’s specialty is in a state of constant flux. In other words, we will be living in an age when what you have studied, experienced and learned, will steadily become obsolete.

In this sense, the new age will have dimensions other than that of an exciting age. Universal access to knowledge means we will live in a society where all of us can be upwardly mobile if we work hard. However, this also means that society will become fiercely competitive. Because not everyone can win, Drucker tells us that the Next Society will be an age that permits both successes and failures.

The 21st century will be an age when knowledge work-

ers take center stage. And the times will change, work styles and the content of work will change, and society will also continuously change. However, one thing will remain constant no matter how much everything changes: results and contribution will be demanded of all knowledge workers.

In the modern age, people do not go out hunting and gathering their own food as did the hunting-and-gathering tribes of ages past. Work has diversified and society has become complex. That said, no matter what job one performs, modern society is structured in such a way that one cannot earn money without making any contribution to someone else. Business enterprises receive money from customers because they provide something useful to society; civil servants receive money in the form of taxes because they provide useful services to residents; and employees receive a salary because they are useful to an organization. What, then, should knowledge workers do to deliver a strong performance?

## **(2) Learning from Organizational Management Methods**

Organizational management methods can be applied directly as means to boost individual performance. The purpose of organizations is to contribute to society. This means, in other words, that performance is demanded of the organization. Management is a technique for delivering effective performance for society.

Drucker sets forth a specific methodology that an individual can use to perform. I will explain this methodology in detail later in the book. Here, let us first apply the organizational management methods presented by Drucker to management

of the individual.

First, let's review. There are two tasks that an organization must perform:

- ① the specific purpose and mission of the institution; and,
- ② making work productive and the worker achieving.

If we apply these two tasks to the individual, we can see that in order for the individual to contribute to society, the individual must perform the following two tasks:

- ① the specific purpose and mission of oneself; and,
- ② making one's work productive and oneself achieving.

Let's recall what we must do to define the specific purpose and mission of oneself. For a business enterprise, this meant asking, "What is our business?" For an individual, this means asking, "What is my job?"

When defining "What is our business?," businesses must first think through the questions of "Who is our customer?" and "What does our customer buy?" Applying this to an individual means asking, "To whom do I contribute?" and "What do the people to whom I contribute expect of me?" For employees, "the customer" is the superior, the division to whom they belong, the colleagues with whom they work, the company, the customers of the company, and society at large. I will further explain some tips on considering the question "What is my contribution?" in "(4) The Perspective of 'What Should I Contribute?'" on page 166.

Just as the purpose of a company is to "create a customer,"

the purpose of the job of a high-achieving employee should not be merely to satisfy the boss. Regardless of the type of boss, the person should be an employee to whom the boss can wholeheartedly entrust a job. At the same time, he or she must aim to be the sort of person whose work colleagues and customers can say "This job can only be given to Mr. (Ms.) XXX." Put simply, you must be someone that your boss, colleagues and customers want to work with. You should aim to be the kind of person who can "create a boss," "create a colleague" and "create a customer."

What should you do to achieve this goal? The answer is the same as in the case of business enterprises: "marketing" and "innovation." You must have a good understanding of the goals, expectations, and values of your boss, colleagues and clients, who will become your "customer." You must also have a good understanding of the philosophy, purpose and objectives of the division you belong to and your company.

The key point that we must grasp is that work is not about what you want to do; it is about identifying precisely what we should do. I believe that this is a crucial point that Drucker brings to our attention.

Innovation is also essential to performing at a high level. If you only do the same work in the same way, as it has always been done by everyone before, you will not attract attention as an individual and your efficiency will not improve. You should approach your work with the attitude that the way you are doing your job now still has much more room for improvement.

What I have discussed so far is related to the methods and approaches needed to fulfill the specific purpose and mission of oneself. From here, I would like to discuss certain ideas on how to make your own work even more worthwhile, and how

to ensure that you can do your job energetically and positively. Unless your job is worthwhile, and gives you a sense of achievement, it will not make you happy, nor can you expect to produce results at a high level.

Let us recall what is needed to make work worthwhile. The keyword is “responsibility.” To take responsibility, you must make work productive, and arrange things so that you can receive feedback on your performance, and engage in continuous learning.

One important tool here is “Management by Objectives and Self-Control.” One way to use this tool, for example, is to try writing your own “manager’s letter,” as explained on page 120. The “manager’s letter” is not for managers only. Ordinary employees can also use it exactly as it is. Here, please think of this as a “letter to the manager” that will be written and addressed to your manager.

- ① You define the objectives of your superior’s job and of your own job as you see them.
- ② You then set down the performance standards that you believe are being applied to yourself.
- ③ Next, you list the things you must do to attain these goals—and the things within your own unit you consider the major obstacles.
- ④ You list the things your superior and the company do that help you and the things that hamper you.
- ⑤ Finally, you outline what you propose to do during the next year to reach your goals.

By writing this letter to the manager, holding in-depth discussions with your manager, understanding your manager’s

expectations and thinking, and communicating effectively, you should take the initiative to build a relationship with your manager where both of you work together toward common objectives. Ultimately, you should be free to work as you see fit. However, the purpose and objectives of your work must be aligned with the purpose and objectives of your company and your manager. And you must take responsibility for your own job performance.

Recognizing that “integrity” of a businessperson is his or her subordination to attain common performance objectives together with colleagues in the company, you must have an unrelenting focus on performance. At the same time, you have to recognize that integrity is of the utmost importance in human relations. It is essential to behave and adopt a mentality that earns the trust and confidence of people.

In the foregoing discussion, I have taken the liberty of applying Drucker’s study of organizational management to methods for attaining individual effectiveness. In the course of my career, I have been involved in a variety of work. My career began as a salaried employee of a company, specifically as a mechanical engineer. However, I went on to work in other areas of the company such as personnel management, corporate planning and M&As. After leaving the company, I have been working in such roles as a consultant, training seminar instructor and author. When I was young, I felt uneasy every time my job changed. However, from some time ago I have held the belief that “Every job rests on the same foundation.” The following two principles are common to all forms of work.

- ① All work demands results; and,
- ② All work is done through other people.

If you live up to the aforementioned two principles at a high level, I am certain that you will be very much sought after at any workplace, in any company.

### **(3) How to Be Effective and Conditions for Raising Productivity**

Next, I will explain the methods for attaining effectiveness that Drucker discusses specifically. In the *Effective Executive*, Drucker presents the following five practices—five habits of the mind—that have to be acquired to be an effective executive:

- ① Knowing where his or her time goes.
- ② Focusing on outward contribution.
- ③ Building on strengths.
- ④ Concentrating on the few major areas.
- ⑤ Making effective decisions.

Among the five practices, the first practice concerns time. Time is a resource that is given to all people equally. How efficiently an executive uses time can have a huge bearing on effectiveness.

In *Managing the Non-Profit Organization*, Drucker notes that the following three steps are needed to be effective:

- ① Deciding what are the right things to do.
- ② Deciding your priorities, where to concentrate.
- ③ Working with your own strengths.

These three steps to effectiveness may be easier to under-

stand than the above five practices. Drucker believes that the key to effectiveness is to start by thinking about the results. In other words, one must first consider what is performance, what is contribution and what should one do. Next is concentration. Although this applies to everyone and to any activity, a high level of performance is not possible unless energy is concentrated. In the section on marketing, Drucker also stressed concentration. The final step to effectiveness is to work with your own strengths. Drucker says that the first priority for one's own development is to strive for excellence. That brings satisfaction and self-respect. Furthermore, Drucker notes that people can grow only when they concentrate on their distinctive strengths.

In *Management Challenges for the 21st Century*, Drucker identifies the specific conditions for improving knowledge-worker productivity. The conditions are different from those for improving the productivity of the manual worker. Drucker tells us that there are five major conditions, as follows:

- ① Considering "What is the task?"
- ② The individual knowledge workers themselves bear the responsibility for their productivity. Knowledge workers have to manage themselves. They have to have autonomy.
- ③ Conducting continuing innovation.
- ④ Conducting continuous learning and continuous teaching.
- ⑤ Understanding that knowledge-worker productivity is a matter of quality over quantity.

When considering increasing productivity, the major dif-



ference between manual work and knowledge work is that the task of knowledge work is not obvious. In manual work, the task is always given. What a manual worker is supposed to do is always clear. Their only question is “How does the manual worker best do the job?” However, in the case of knowledge work, one must start by thinking about what the knowledge worker is supposed to do. The wrong answer will result in a huge amount of inefficient work. I will go over this in more detail in the next section, “(4) The Perspective of ‘What Should I Contribute?’”

I will cover “management of oneself” and “autonomy,” which is referred to in the above condition ②, in more detail in “(5) How to Find Where You Belong” on page 168. One of the main features of Drucker’s management thinking is this notion of “autonomy.”

Conditions ③ and ④ are extremely important in an age when change is the norm. One will only fall behind if one simply adapts to change, and people basically cannot predict the future. People themselves must create change. In addition, continuous learning is essential in an age when all manner of things rapidly become obsolete. The knowledge and skills one has obtained will rapidly become obsolete and lose utility. Furthermore, people learn the most when they teach others. Condition ⑤ is self-evident.

Drucker tells us that effectiveness is not a matter of talent; it is more a matter of habits of behavior and of a few elementary rules, as explained so far. The reason why personnel departments of companies prefer to recruit students from prestigious universities and sports-oriented students, is not just because the former students are smart, and the latter students are used to teamwork. I believe it is because both types of students have

experience in thinking about what they should do to achieve results and in executing what they need to do.

#### **(4) The Perspective of “What Should I Contribute?”**

Drucker said that one must first “Decide what are the right things to do” in order to be effective. But that does not mean doing whatever you like. As members of society, organizations and individuals should fulfill their tasks of contributing to society. What is important is performance, contribution, tasks and responsibility.

Giving several examples, Drucker stresses the importance of doing not what one wants to do, but what one should do.

When Jack Welch became CEO of GE, he originally wanted to develop business overseas. However, Drucker notes that Welch succeeded by realizing that what GE needed to do was to get rid of businesses that could not be number one or number two in their industries.

Another example is President Truman. Originally, Truman was totally concerned with domestic issues, but he realized that foreign affairs would be America’s dominant concern after World War II. Drucker tells us that Truman gave up what he wanted to do, and instead concentrated on what he had to do, that is, on foreign affairs.

By the 1960s in America, the careers of knowledge workers were already considered to be something to be planned by the individual worker, not the company or the personnel department. In other words, the knowledge worker thought about what he wanted to do and people were told that “to do one’s own thing” was the way to contribute. However, Drucker points out that very few of the people who believed that “doing

one's own thing" leads to contribution, to self-fulfillment or to success achieved any of the three.

In Drucker's posthumous work, *The Effective Executive in Action*, Drucker identifies the first key point for effectiveness as "getting the right things done."

I believe that this statement is an extremely important observation by Drucker, and it is a point that many people get wrong. Most business leaders and managers think only of what they would like to do. However, in almost all cases, even if you do what you want to do, it will not be useful to anybody, and it will not make yourself happy. Rather than dwell on what we want to do, we must first consider "What should my contribution be?" When considering one's own contribution, Drucker tells us that we should balance the following three elements:

- ① "What does the situation require?"
- ② "How could I make the greatest contribution with my strengths, my way of performing, my values, to what needs to be done?"
- ③ "What results have to be achieved to make a difference?"

Drucker notes that knowing what we should do leads to the action conclusions: what to do, where to start, how to start, what goals and deadlines to set.

Drucker then adds the following, "To 'do one's own thing' is, however, not freedom. It is license. It does not have results. It does not contribute. But to start out with the question 'What should I contribute?' gives freedom. It gives freedom because it gives responsibility." The critical factor for achieving success is also responsibility. People can obtain self-respect and self-

confidence when they focus on responsibility.

Drucker emphasizes results and responsibility. What would happen if organizations and individuals had no responsibility and did not perform? The freedom and independence of the organization and individual would be lost, and making individual self-fulfillment impossible. Drucker tells us that responsible autonomy would be replaced by tyranny based on terror.

### **(5) How to Find Where You Belong**

One keyword for knowledge workers to be effective is “autonomy.” Drucker tells us that in the New Age, knowledge workers will have to learn to manage themselves. To do so, Drucker observes that knowledge workers will have to ask the following six questions:

- ① Who am I? What are my strengths? How do I work?
- ② Where do I belong?
- ③ What is my contribution?
- ④ What is my relationship responsibility?
- ⑤ What will be the second half of my life?

When the book “*What If Drucker?*” caused a huge buzz in society, my high-school daughter asked me, “What’s the book all about?” I replied, “It’s about putting every person’s unique strengths to work.” My daughter said, “Really? Is that all? That’s obvious.” According to my daughter, even elementary school children do this. For example, when the schoolchildren go on a school trip, the lively kid who is full of ideas comes up with games and other events, while the diligent, reliable one

is entrusted with the accounts. In short, my daughter said that the children would be given roles that make the most of their unique capacities.

That is certainly true. Drucker points out the obvious—things that even children do. Although they are obvious, adults have forgotten about them at some point. That is probably why they are so arresting—they make us stop and reflect when they are brought to our attention.

That said, in reality it is extremely difficult to answer questions like “Who am I?” and “What are my strengths?” Drucker notes, “Most people think they know what they are good at. They are usually wrong. People know what they are not good at more often—and even there people are more often wrong than right.”

Drucker tells us that there is only one way to find out: The Feedback Analysis. The feedback analysis, when implemented, will reveal several action conclusions. If one reads the content of the feedback analysis carefully, one will find that strengths are not merely casual interests such as “I enjoy English.”

For example, the feedback analysis will show where a person needs to improve skills or has to acquire new knowledge. Drucker observes that almost everyone can learn foreign languages, or major disciplines, whether history or economics or chemistry. Furthermore, Drucker notes that human resources people often pride themselves of their ignorance of elementary accounting, and accountants tend to think it unnecessary to know about people. In other words, one must work on acquiring the skills and knowledge needed to make one’s strengths fully productive.

Furthermore, Drucker writes that the most brilliant planners far too often stop when the plan is completed, and that a

person may fail to obtain results because he or she lacks manners. In other words, we cannot make our strengths fully productive by insisting on doing only a particular kind of work, such as by saying "I only do planning," or "I am only an engineer."

Of course, we should work on acquiring the skills and knowledge that make our strengths productive on the job. We cannot make our strengths productive or have results if we completely avoid people simply because we may be poor at human relationships. Instead, there are fields that we see as the primary focus of our work, where we decide to compete. Those areas should be the fields where we can make our strengths productive.

The second question we must understand about ourselves is how we perform. Drucker observes that how a person performs is a "given," just as what a person is good at or not good at is a "given." Drucker notes that there are two types of people: readers and listeners. The former understands things by reading, while the latter understands things by listening. He also says that some people work best as team members with people, while others are loners who are better at working alone. There are also people who are good at making decisions, while others perform best as advisors. Drucker also observes that some people perform well in a large organization, while others are successful in a small organization.

To explain this using myself as an example, I still do not know what my strengths are at an age of over 50. The more I think of my own strengths, the more I start to think that the right answer may be that I have no such thing as strengths. That said, looking back at my life, what I can say with near certainty is that I am better at mathematics than languages, and I am better at logical thinking rather than memorizing. I am also

better at working to create something alone, rather than a job that involves interacting with other people. I am also a reader rather than a listener: I understand things by reading about them rather than listening. Although I do talk a lot, I actually believe that writing is much more compatible with my personality than talking. I am not good at making decisions at all. I am indecisive, and I cannot make a decision about anything on the spot.

I feel that the content of my work and how I work have gradually become better suited to me as I grow older. Although I was not very good at it, I studied English quite hard out of necessity. However, I do not intend to continue making fields that require English the primary focus of my work. Human relations have always been an area that I have found to be very stressful. However, I have not tried to avoid people altogether. Yet, I will not choose to work in a position like a salesman, where I must constantly be in touch with people. I believe that writing books as a self-employed author, as I am doing now, is best suited to my nature.

Drucker does not say that we do not have to do what we do not like to. We must acquire the skills and knowledge needed to make our strengths fully productive. One can only perform with one's strengths. One cannot build performance on weaknesses. Also, we should ensure that we perform how we perform; i.e., perform in such a way that makes the most of our unique strengths. Furthermore, Drucker says that our strengths and how we perform are a "given." In these areas, Drucker tells us that whatever you do, do not try to change yourself—it is unlikely to be successful.

The third thing you must understand about yourself is "What are my values?" It is extremely important to know what

your values are. To work in an organization the value system of which is unacceptable to a person, or incompatible with it, condemns the person both to frustration and to nonperformance. When there is a conflict between your strengths and your values, Drucker tells us that values are and should be the ultimate test.

I believe that it is one's own values that are revealed clearly by feedback analysis. When I quit my job as a salaried employee and decided to pursue an independent career, I spent a considerable amount of time identifying my values. What have I valued in my life so far, and what do I want to value hereafter? I focused particularly on identifying the reasons why I made big decisions in the past. I calmly thought through the reasons for the major decisions in my life, such as advancement to university, finding a job, getting married, studying abroad and resigning from my job. As a result of this feedback analysis, I clearly realized that my values, spelled out in words, were "contribution," "creation," "challenge" and "change." I am the happiest when I am able to do these things.

Drucker notes that having our own answers to the foregoing three questions—What are my strengths? How do I perform? What are my values?—should enable us to decide where we belong. An individual growth requires belonging to the right organization and being engaged in the right assignments where the individual is able to perform by making the most of his or her strengths. And if an organization's values are unacceptable or the organization is corrupt, or one is in the wrong place, or one's performance is not recognized, Drucker tells us that quitting is the right decision.

However, I believe that the decision to change jobs is also an extremely difficult one to make. The reason is that it is very



hard to look at oneself calmly and objectively. While Drucker says, “quitting is the right thing,” he also urges, “you cannot allow the lack of resources, of money, of people, of time (always the scarcest) and of the world to overwhelm you and become the excuse for shoddy work.” People tend to blame their environment for why they cannot achieve results on the job. However, the reason why one cannot have results most often lies within oneself.

Furthermore, when we are young, it is difficult to find a place where we can make our strengths productive. Drucker observes that people do not really know themselves straight out of school. The first job is like drawing a lottery: the likelihood of finding the right job from the beginning is very low.

Drucker writes that most people, and especially highly gifted people, do not really know where they belong till they are well past their mid-twenties. This is probably based on Drucker’s own personal experience. Drucker changed jobs quite frequently until his late-twenties, from a trading company to a securities company, newspaper, bank and so forth. This is true even of Drucker. For me, it seems that I started to understand where I belong only well past my mid-forties. Even so, I am not sure whether I truly know where I belong.

In an interview in 1968, Drucker said, “Here I am, 58, and I still don’t know what I am going to do when I grow up. My children and their spouses think I am kidding when I say that, but I am not. Nobody tells them that life is not that categorized.” Life cannot be built from a plan. That is reality.

Drucker tells us that he is always asking himself “What do I want to be remembered for?” And he writes that it is a question that induces you to renew yourself, because it pushes you to see yourself as a different person—the person you can become.

## **(6) Relationship Responsibility**

Once we understand what we should do, the next thing we need to be aware of is the issue of human relationships. Almost all work is done through people. Drucker points out that the issue of human relationships involves the following two parts:

- ① Understand the people with whom one works
- ② Take responsibility for communications

Just as you have your unique strengths, performance modes, and values, other people also have their own strengths, performance modes and values. Unless this is understood, one cannot work effectively with other people.

Relationships with bosses are particularly crucial. One cannot work in an organization effectively unless one is able to “manage” the boss. Bosses also have different strengths, ways of working and values from yours. Drucker tells us that it is the duty of subordinates to understand this, to observe how their bosses work, and to adapt themselves to the way the bosses are effective, and to enable the bosses to do their work.

Even while working for nearly 20 years in an organization, I did not understand this point very well. I confused flattering my boss with serving my boss. As discussed in “(3) The Spirit of Performance and Practices” in Chapter 3, I thought I was maintaining my integrity on the job by putting “What is right?” before “Who is right?” In other words, I thought I was making decisions based on the objective needs of the business (what is important to the company) rather than what the boss wanted. However, I regret that my approach was quite self-centered and put emphasis only on my own values in many respects.

I had conflicts with my boss and often criticized my boss, and lacked the perspective of asking what I could do to help my boss achieve results.

Another point that Drucker makes is that we should take responsibility for communications. For time immemorial, people did the same work as those around them. Farmers planted rice together, and shoemakers made shoes together. For that reason, it was unnecessary until very recently to tell anything to anybody.

Today, people work in the same organization with others who do different things. That is why people need to take responsibility for communications. For example, Drucker notes that if a marketing vice-president does not understand what high-grade knowledge specialists are doing in areas other than sales, it is primarily their fault, and not that of the marketing vice-president.

Drucker writes that whenever anyone goes to his or her associates and says: "This is what I am good at. This is how I work. These are my values. This is the contribution I plan to concentrate on and the results I should be expected to deliver," the response is always: "This is most helpful. But why haven't you told me earlier?"

In today's organizations it is extremely crucial for people to understand one another. Drucker tells us that organizations are no longer built on force. They are increasingly built on trust. Trust does not mean that people like one another. It means that people can trust one another. And this presupposes that people understand one another.

## **(7) Preparing for the Second Half of Your Life**

Drucker's last message regarding managing oneself is to prepare for the second half of one's life.

As said before, individuals can now expect to outlive organizations. In our fast-changing age, this trend will only become more prominent. People get bored in the same job. Also, not everyone in an organization will succeed. In a large organization, only a very few people will become directors.

Drucker observes that it is vitally important for the individual that there be an area in which the individual contributes, makes a difference, and is somebody. If one is not successful in an organization, one might succeed by moving to a different organization. One can expand one's horizons not just by working at a company, but also by pursuing a parallel career, such as working at a non-profit organization or working as a consultant in an area of one's expertise.

I have an acquaintance who makes a living as a life insurance advisor, but has been making use of flexibility in working hours of the main job to successfully launch a variety of non-profit organizations (NPOs). I feel that this person is leading a very fulfilling life.

That said, Drucker points out that there is one requirement for managing the second half of one's life: to begin creating it long before one enters it. For example, if one does not begin to volunteer before one is forty or so, one will not volunteer when past sixty.

Almost all people are still in good health when they reach retirement age. Due to increased life expectancy, life after retirement has become much longer. Some people will be quite happy spending time doing what they please, be it playing

golf or going fishing. While there is nothing wrong with that, I also think that life become much more fulfilling if one has the means and the place to contribute to society even after retirement. Knowing that one is being useful to others can make one happy.

Drucker also says that the upward mobility unique to the knowledge society is accompanied by a high price. Because the knowledge society is such an advanced, competitive society, the psychological pressures and emotional stress associated with that competition become very large. Drucker notes that knowledge workers should develop a non-competitive lifestyle and community outside their main jobs while they are young.

#### **COLUMN**

### **Find Where You Belong with an Expansive Perspective**

Almost all people who are eager to climb the organizational ladder will eventually stumble. The disappointment can be hard to bear. Some people lose all motivation to work thereafter. Based on my experience working as a salaried employee in a company, I know what this can feel like.

In my younger years, I was frustrated by seeing middle-aged and senior people in my company who were basically doing no work. However, when I turned 50, I started to understand how those people must have felt. Due to its very structure, an organization contains systems that can be cruel to the individual.

That said, when we look at the people who fall behind in the corporate rat race from outside the organization, we can see that such a person is just as worthy as before. Promotions are

decided based on a variety of factors. Because the organization is made up of people, there will be, in fact, some people who climb the ladder by flattering their bosses. Organizations act according to the organization's value system. Promotions can also be a matter of good or bad luck. However, for people outside the organization, the organization's value system is not meaningful. What makes an important person of mine worthy does not depend at all on whether or not the person climbs the corporate ladder. The person is just as worthy as before.

I would like as many people as possible to live with an expansive perspective. I would like people to find where they belong not in one particular organization, but in the world at large.

What is Drucker trying to convey to us through the essence of management? We cannot find true happiness by merely doing whatever we want, or trying to find what we want to do in life. Furthermore, we must live in reality, which is an extremely competitive society.

In this demanding reality, there is only one way for us to achieve freedom. As members of society, we should give first priority to our contribution to organizations and society outside ourselves. We should understand the tasks demanded of us. We should align the objectives of the organization with our objectives as individuals. We should accept responsibility and work autonomously by making our unique strengths productive. We should achieve specific results, and thereby fulfill our tasks and responsibilities and contribute to organizations and society.

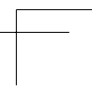
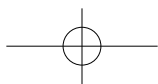
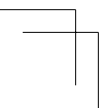
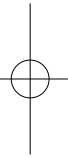
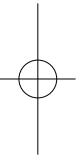
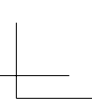
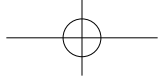
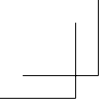
In this sense, what organizations, managers and individuals should aim for is essentially the same.



*What Should Be Done to Address the New Age and Achieve Self-Fulfillment*

Drucker tells us the following. Managers are servants. They serve the organizations they manage. Managers have no power. They have only responsibility. People are only truly motivated when they are given responsibility.

At this point, we can begin to understand the true meaning of why Drucker's great work *Management* is subtitled "Tasks, Responsibilities, Practices."





## Appendix

### (1) Drucker's Thinking on the Future of Education

This book was written to explain Drucker's management thinking. However, I could not end this book without touching on Drucker's thinking on education. As I wrote in Chapter 1, Drucker was extraordinarily passionate about the education of young people.

Drucker examines education in various parts of his books. This material is concentrated in *The Frontiers of Management*, *The New Realities*, *Managing the Non-Profit Organization* and *Post-Capitalist Society*. Here, I would like to summarize Drucker's thinking on education based on what he has written in these books.

Drucker was concerned about the current state of education. He said that education must—and should—change in many different respects. What, then, did Drucker see as the problems of education and what did he think needed to change?

Drucker's greatest concern about education was that the current educational system and schools no longer fit the realities of the New Age—i.e., the knowledge society and the society of organizations. Drucker writes that “To equip individual students with the tools to perform, to contribute, and to be employable is the first social duty of any educational system.”

For 75 years from the early 20th century, the real hourly income of the blue-collar worker increased around forty- to fiftyfold. This reflects the rise in productivity during this period. Productivity, in the end, always determines the level of real incomes. However, Drucker points out that the educational system and schools have hardly done anything to improve the

productivity of knowledge workers. Therefore, Drucker says that the role and function of the educational system and schools should be rethought.

Besides imparting knowledge, Drucker tells us that schools must also teach people how to be effective in organizations. The basic approaches of Drucker's management thinking, which have been explained in this book, should serve as a basis for this methodology. Drucker consistently discusses contribution and results in the knowledge society and the society of organizations. In the future society of organizations, individuals must be able to achieve results in the organization.

Drucker observes that no educational institution tries to equip students with the ability to present ideas orally and in writing, briefly, simply, clearly; ability to work with people; ability to shape and direct one's own work, contribution, career; and altogether, skill in making organization a tool for one's own aspirations and achievements and for the realization of value.

Furthermore, Drucker tells us that the goal should be to develop the educated person. The educated person is equipped both to lead a life and to make a living. Drucker tells us that education in the knowledge society must teach the skills of effectiveness as well as transmit "virtue." Because knowledge workers of the future will need to have responsibility, moral education will be essential.

In this sense, the humanities and the liberal arts must be made more meaningful to daily life. In fact, Drucker observes that many people are strongly interested in the humanities and the liberal arts, but these subjects are not explained in a context that is relevant to students' lives and needs, so students have lost interest. The fact is that our valuable history and the great traditions on which civilization and culture rest are being pre-

sented only as mere data.

Furthermore, Drucker tells us that a technological revolution will transform the way we learn and the way we teach within a few decades. Historically, the birth of printing technology and the invention of the printed book transformed how we learned. The printed book made it possible for people to learn at their own speed at any time or place they wished.

Drucker believes that the computer will assume that role in the future. People have different ways of learning, and they learn at different speeds. Rather than having teachers instruct students as “teaching assistants,” computers will perform these roles, allowing more personalized, effective learning for each student.

My high school daughter currently goes to a Japanese “juku,” or a “cram school,” where she uses a computer to watch videos of classes given by popular instructors via the Internet. My daughter, who is busy with extracurricular activities, says the videos are an efficient way to learn because they let her study at her most convenient time. I have also seen the videos. I thought that watching videos of first-rate instructors was far more effective than attending a boring instructor’s class in real time.

What, then, will be the roles of teachers in the future? One clue to answering this question is to recognize that learning and teaching are different. There are things that one acquires only by learning, and things that one acquires only by being taught. Subjects can be learned on your own. On the other hand, Drucker tells us that some things have to be taught: values, insight, and meaning. In particular, no educational system has ever been value-free.

Furthermore, an even more important role of the teacher

is to identify the student's strengths, focus on those strengths, motivate, direct, encourage, set an example, and lead students to achievement. In other words, schools should not teach "students," but should teach "each individual." Drucker writes, "One learns a subject. One teaches a person."

No other institution in society faces challenges as radical as those that will transform school education and schools. Drucker observes that schools will have to assume responsibility for performance.

In the early 20th century, the school was, by and large, the only way out of grueling poverty and total insecurity. Hence there was enormous community pressure on the school to maintain standards and to demand performance. The students themselves must have worked very hard to climb out of such poverty and insecurity.

Drucker tells us that schools today do not inculcate discipline. In the knowledge society, people have to learn how to learn. Because change is the norm in the knowledge society, continuing learning and lifelong learning are essential. How should one acquire the capacity for continuous learning? What is needed is to focus on the strengths and talents of learners and to make them achieve. For this, we need a discipline of learning, notes Drucker. I believe that what Drucker is basically trying to say is that achievement requires rigorous, disciplined, persistent work and practice.

One of the keywords of Drucker's management thinking was "achievement." As said before, the task of teachers is to guide students to achievement. Drucker observes that achievement requires a focus on the individual's strengths along with persistently building up those strengths.

Pianists, athletes and surgeons achieve results by improv-

ing the level of their skills by constantly practicing simple exercises over and over again. One cannot achieve simply by having fun. Outstanding instructors can instill the motivation needed for persistent work and practice, which must be accompanied by the strict discipline that is vital to continuous learning. Drucker stresses that achievement is addictive. But such achievement does not mean doing a little less poorly what one is not particularly good at. The achievement that motivates is doing exceptionally well what one is already good at. Put simply, achievement has to be based on the student's strengths.

Drucker observes that America's colleges are just "caring" rather than "demanding." This certainly is also true of today's Japanese universities. Until now, all that the students needed from a university was to be qualified as a university graduate in order to hunt for a job. For that reason, parents did not put any real demands on universities. However, we are now living in times when students cannot find jobs even if they graduate from universities. What should the university provide in order to survive in the New Age—i.e., the knowledge society and the society of organizations? Looking ahead, parents and society will start putting much more stringent demands on universities. This is indeed what Drucker refers to as responsibility for performance.

Historically, after the printed book was invented, it became important for scholars to "specialize." Specialization became the royal road to the acquisition of new knowledge and its transmission. This specialized knowledge is not meaningful unless it is useful to large numbers of people. However, Drucker points out that this specialized knowledge has become mere data; something that many people do not find useful at all.

## COLUMN

### **Can Japanese Universities Succeed in Their Present Form?**

Part of the problem is that educational methods in universities are based on the method for developing a specialist. The way to become a specialist is to investigate something, analyze it, form a hypothesis about it and refine that hypothesis through discussion. It is certainly true that this critical thinking and analysis methodology serves as the basis for all work. However, to achieve results in an organization, it is not enough to learn how to become a specialist.

Nowadays, more and more parents around me are surely telling their children that they do not need to go to university. I often share the same view. Even if children go to today's university, I worry that they may not acquire the skills needed to live through the new age, let alone become a virtuous person. I feel that there is a real risk that if children go to today's universities, they may lead undisciplined, slovenly lifestyles and may become the kind of people who only seek pleasure in life. However, the reality is we have no other institutions than universities to which we can entrust the higher education of our children.

Many in our parents' generation could not go to university, even if they wanted to, due to economic reasons. After entering the workforce, they often suffered bitter humiliation due to differences in educational background. Therefore, they wanted to send their children to university at the very least. They were convinced that if they sent their children to university, their children would find happiness. Not a few of them cut back on living expenses, and even went into debt, to send their children to university.

However, the university that children go to has become a play land. Students in large numbers spend their student years enjoying leisurely gatherings styled as “club activities,” and do nothing but work in part-time jobs. At interviews during business recruitment exams, they talk only about their club activities and part-time job experiences—topics that have very little substance from the standpoint of adults.

From their late teens to early twenties, young people have fresh perspectives, flexible and absorbing minds, and are full of physical vitality. They have both powers of persistence and concentration. This is an invaluable period for them to think seriously about their lives and the relationship between themselves and society. What should young people really learn, and what should they really be taught in these years? I believe that the time has arrived for Japanese society as a whole to give thought to these issues of higher education in Japan.

Drucker notes that the educational field is bound to see different kinds of institutions enter the field. Specifically, Drucker provides several examples, including companies marketing to other companies the executive-management program which they developed for their own managers; the Japanese “juku,” or cram schools; and companies setting up new types of schools as for-profit organizations.

There are many different ways to learn and teach. Different people learn differently and at different speeds. In society long ago, one school was all the small village could support. However, in developed countries most people now live in metropolitan areas. The learner can choose between schools, according to what best fits his or her individual learning profile. Due to the demands for continuous learning and lifelong learning

in the knowledge society, Drucker also notes that schools will need to become open systems and accept a wider range of age groups.

Drucker observes that education in the knowledge society of the future will see the line between the school and the workplace become blurred. This is because practical work will be essential to learning how to obtain results, what Drucker called “yield,” from knowledge. This is evident in the field of medicine, where advanced knowledge must be used to achieve results. Without on-site practical experience, medical theory will not lead to results. Educational systems that combine learning and practical training, like the German Meister system, have delivered significant results in the field of engineering. Drucker believed that both academics and work needed to be balanced a little better.

Many different new institutions should enter the field of education. In fact, they must do so. With knowledge the central resource in society, the school will come to fulfill an increasingly important social role. Therefore, the school is bound to be challenged by many different players because it is a crucial field. Drucker notes that some of the competitors are bound to succeed. I believe that this shows that he had high hopes for the emergence of new players in this field.

Drucker also observes that the greatest change is that the school will have to commit itself to results. It will have to establish the performance for which it should be held responsible. The school will finally become accountable.



## Appendix

### (2) How to Read Drucker's Books

Finally, I would like to provide readers who have become interested in Drucker with some guidance on how to go about reading his books.

If you are interested in Drucker, the first book to read is *The Essential Drucker*. This is an introduction to management compiled from Drucker's writings on management over the past 60 years, including *Management: Tasks, Responsibilities, Practices* (hereinafter, "*Management*"), which represents the culmination of Drucker's management thinking.

After you have understood the general outline of Drucker's management thinking by reading *The Essential Drucker*, you should definitely try reading *Management*.

Once you have grasped an overall view of Drucker's management thinking, I would next recommend *Innovation and Entrepreneurship* and *Management Challenges for the 21st Century*.

As I wrote in the Chapter 1, the second and third chapters of this book explain *Management*, while the fourth chapter explains *Innovation and Entrepreneurship* and the fifth chapter explains *Management Challenges for the 21st Century*.

By "explain," however, I mean that these chapters explain only certain parts of each book. While it is certainly important to grasp an overall view of Drucker's management thinking, readers can also expect to discover amazing truths scattered throughout Drucker's books. I urge you to explore every corner of these books for yourself.

For those who were interested in "management of one-

self," a topic discussed in the fifth chapter of this book, I believe that *The Effective Executive in Action* will also be useful.

And if you become interested in Drucker as a person, I would urge you to read *Adventures of a Bystander*. Drucker wrote this autobiographical work at the age of 69. Reading this book will give you an understanding of the main sources of Drucker's ideas. Among Drucker's books, *Adventures of a Bystander* is my personal favorite, and I find it to be the most interesting. This book contains writings about what we should value as human beings, such as a larger purpose, ideals, convictions, and ambitions, as well as the compassion of people, the impermanence of life, an affirmation of human diversity and the sense of assurance this brings. Furthermore, after reading *Adventures of a Bystander*, I understood for the first time that Drucker embraced a highly realistic approach, even as he embraced high ideals.

If reading the aforementioned books has increased your interest in Drucker further, I would recommend reading the rest of Drucker's books in the order that they were written. If you read the books written by Drucker in the run-up to his magnum opus, *Management*, you will understand what Drucker was interested in at that time. You will also appreciate the background to the keywords that appear in *Management*. This will give you a deeper understanding of Drucker's management thinking. I have provided details in "(4) The Lineage of Drucker's Philosophy" in the first chapter of this book. Here, I would like to briefly go over these books. First, there are the following three titles:

*The End of Economic Man*  
*The Future of Industrial Man*  
*Concept of the Corporation*

In *The End of Economic Man*, Drucker writes about how the masses turned to fascist totalitarianism after the failure of two social structures based on economics: bourgeois capitalism and Marxist socialism. In *The Future of Industrial Man*, a book written during World War II, Drucker suggested that the postwar years would become an industrial society in which industry would play a central role. The book discusses whether the industrial society can truly take center stage in society. The book examines the theme of “legitimacy” as well as people’s “status” and “function” in society, etc., which are fundamental concepts that also appear in *Management*. We can understand what captured Drucker’s interest as a social ecologist. *Concept of Corporation* was published based on Drucker’s research of GM. It marks the starting point of Drucker’s management research.

Thereafter, Drucker published the following three works:

*The Practice of Management*

*Managing for Results*

*The Effective Executive*

It was these three Drucker books that I encountered and read first. *The Practice of Management* was the first book to provide a systematic study of the field of management. The book presents approaches such as “What is your business?,” “Marketing and innovation” and “Management by objectives.” In *Managing for Results*, Drucker discusses the approach of focusing on opportunities, such as by building on strengths. And *The Effective Executive* primarily explains how to achieve effectiveness. In this book, Drucker discusses approaches such as time management and concentration.

Drucker's next book is *The Age of Discontinuity*. As said before, Drucker defines four major contemporary changes: "The New Entrepreneur," "From International to World Economy," "The New Pluralism" and "The Knowledge Society." In the context of these major contemporary changes, Drucker's insights into the field of management finally culminated in his great book *Management*.

From here, I recommend that readers continue reading Drucker's books that were subsequently published, according to their individual interests. Here are the titles of some of Drucker's major books published after his magnum opus *Management*, along with a brief outline of each.

#### *The Frontiers of Management*

---

First published in 1986, this book is a collection of articles and essays published in various periodicals, classified into Economics, People, Management, and the Organization. The common theme running through all the articles and essays is "Change is opportunity."

#### *The New Realities*

---

First published in 1989, this book assumes that the New Age discussed in *The Age of Discontinuity* (1969) had become reality in the ensuing 20 years. The New Age is discussed in terms of politics, economics and society.

#### *Managing the Non-Profit Organization*

---

First published in 1990, this book explains management of non-profit organizations. Drucker explains matters unique to non-profit organizations, such as how to raise money and what

are “results,” along with management of the board.

*Managing for the Future*

---

First published in 1992, this book is a collection of articles and essays published in various periodicals, classified into Economics, People, Management and the Organization. Drucker notes that the years from 1986 to 1991 saw the most turbulent changes.

*The Ecological Vision*

---

First published in 1992, the book is a collection of articles and essays written by Drucker over more than 40 years. They cover a wide range of fields such as Economy, Society, and Civilization, but all of the writings address the dynamics of social ecology.

*Post-Capitalist Society*

---

First published in 1993, this book discusses the age that will come after the capitalist society. Drucker discusses the transformation to a knowledge society in 12 chapters organized into three broad parts: Society, Polity, and Knowledge.

*Managing in a Time of Great Change*

---

First published in 1995, this book is a collection of articles and essays published in various periodicals, classified into the following parts: Management, The Information-Based Organization, The Economy, and The Society. The book discusses changes that have already irreversibly happened that executives should base their decisions on, rather than attempting to predict the future.

*Management Challenges for the 21st Century*

---

First published in 1999, this book is premised on the notion that the realities of the 21st century will differ from those of the 20th century. How should organizations and people act in the New Age? Drucker examines topics such as the Change Leaders, the Information Revolution, the productivity of knowledge work, and self-management.

*Managing in the Next Society*

---

First published in 2002, this book is a collection of articles and essays published in a variety of periodicals. Drucker writes about rapid changes in society, such as demographic changes, changes in the position of the manufacturing industry and the diversification of the workforce, along with how to deal with those changes.

All of these books are highly engaging and interesting. Most of the titles concern the future, but none of the books attempts to predict the future. In these books, Drucker examines the signs of changes that have already happened, or changes that are happening now, and what should be done now to stay on top of those changes. One keyword common to all these books is “knowledge worker.”

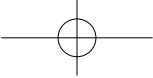
For those interested in Drucker’s thinking on education, I would recommend the following four books:

*The Frontiers of Management*

*The New Realities*

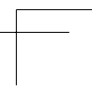
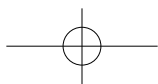
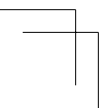
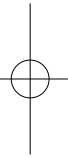
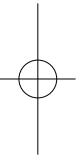
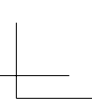
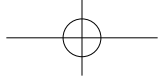
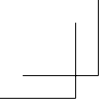
*Managing the Non-Profit Organization*

*Post-Capitalist Society*



Appendix 2

Although this goes without saying, those who wish to acquire a deep understanding of Drucker will need to read as many of his books as possible. As I wrote in this book, in regard to objective setting in marketing and innovation, I believe that the relevant parts of *The Practice of Management* provide an explanation that is easier to understand than that of *Management*. Furthermore, in regard to Drucker's thinking on education, I was able to understand certain aspects of Drucker's thinking only after reading *The New Realities* and *Post-Capitalist Society* together, and putting together the writings of both of these books.



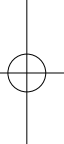




## In Closing

I wrote this book because I had the singular desire to provide readers with an overall view of Drucker's management thinking and an understanding of its essential principles. I also wanted readers to have his teachings actually applied in real-world situations.

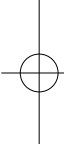
I trust that the book has shown you that Drucker's management thinking is interconnected, like the current of a large river, with every part striking at the heart of matters. Drucker has logically and systematically developed an overall view of management. He teaches us what we should think about, and what actions we should take in organizations.



The key themes underlying Drucker's management thinking are contribution, results, achievement, tasks, and responsibilities, all focused on customers. All of us have the task of contributing to society. To contribute, we must produce results. By fulfilling our responsibility to produce results, we make ourselves achieving and attain self-fulfillment.

If both the "results of organizations" and the "self-fulfillment of employees" can be realized concurrently, the industrial society will establish itself as a viable society. Drucker must have reasoned along these lines.

Drucker's management thinking rests on the foundation of "human happiness." However, Drucker does not touch on feelings of "excitement and anticipation"—a source of boundless energy intrinsic to human beings. However, as I was bringing this book to a close, I realized that Drucker, as I had expected, did, in fact, attach great importance to the human sense of "excitement and anticipation." It was a passage that I came



across when reading “Famous Books in 100 Minutes: *Management* by Drucker” (NHK Publishing Co., Ltd.), a textbook for an educational TV program produced by the Japanese public broadcaster NHK. The textbook was written by Mr. Atsuo Ueda.

Drucker is generally believed to have given the following advice to former GE Chairman Jack Welch: “Why not keep only the businesses that can become number one or number two in their industries, and get rid of the rest?” According to Jack Welch, however, Drucker actually provided advice along these lines: “Why not get out of all the businesses other than those you are excited about? Unless you are excited about and determined to do a job, you do the customer a disservice. If you cannot get excited about a business, you should get out of it once and for all, or collaborate with a partner that does have the passion for the job.” Upon reading this passage, I felt that it captured the very best of Drucker’s management thinking. For it showed exactly what his thinking is focused on: humans.

With this book, my goal was to present an overall view (“the forest”) of Drucker’s management thinking and its essential principles (“the trees”), while highlighting the overarching themes behind his thinking. This, indeed, follows Drucker’s methodology for making knowledge productive: Not to see the forest for the trees is a serious failing. But it is an equally serious failing not to see the trees for the forest.

I don’t want to blow my own trumpet. But strangely enough, this is the same methodology as the method of studying accounting that I introduced in my book *Trinity Method: Understanding Financial Statements*. I wrote *Trinity Method* to clearly present an overall view of accounting and its essential principles to non-financial people. Having said that, the book mostly covers concepts that would seem obvious to an account-

ing expert.

Most of the content of Drucker's management thinking introduced in this book would also seem obvious to anyone who already has a good understanding of Drucker. This book was written to convey an overall view of Drucker's management thinking and its essential principles to people who are not familiar with this subject.

There is much to discover by simply reading passages by Drucker that strike at the heart of matters. However, I hope that having grasped an overall view of Drucker's management thinking by reading this book, you have more deeply understood the meaning of each of Drucker's passages, the background and Drucker's intent behind his words. You may have found that Drucker has already uncovered the essence of the problems that you may be pondering or struggling with in real-world business situations, providing guidelines on how you should go about approaching and thinking about these issues.

Numerous books purporting to explain Drucker's management thinking have been published. However, in many of these books, the authors seem to merely pour forth their own opinions, citing fragments of Drucker's words to substantiate their views. My goal in writing this book was to explain and summarize Drucker's management thinking. I wanted to convey Drucker's writings as faithfully as possible. To this end, I might have drawn too heavily from Drucker's books or provided too many summaries of their content. Conversely, I may have included too many of my own personal opinions or comments in the course of providing examples or explanations not found in Drucker's books, in order to increase readers' understanding of the material.

Almost all of the book's content reflects Drucker's thought

process and way of thinking. On the other hand, writings where “I” is the subject and the column articles reflect my own explanations, opinions and comments. Also, almost all of the statements including words and phrases such as “may be,” “probably” and “I believe,” reflect my own thinking and opinions.

Having said that, in some parts of the book it is difficult to identify and distinguish between Drucker’s words and my own opinions and explanations. I suspect this could be a source of confusion for readers. To avoid such confusion, I very much recommend reading Drucker’s books directly, after finishing this book. In so doing, I am sure that each reader will also make his or her own new discoveries.

Prior to publication, the Japanese manuscript of this book was reviewed by Mr. Atsuo Ueda, who has translated almost all of Drucker’s books into Japanese. Mr. Ueda pointed out one serious mistranslation in the manuscript. If I neglected to revise that mistranslation, I may have been unable to correctly convey to readers the point that Drucker wanted to get across the most—his point on the legitimacy of organizations. Put differently, the point is that one of the most crucial tasks of an organization is to make people happy.

At the same time, Mr. Ueda noted that my frustration with the proliferation of “how-to” books must have motivated me to write this book. Indeed, Drucker’s management thinking is not intended to teach people how to make money, nor should his books be read merely to acquire such know-how. In his books, Drucker writes about how we should lead our lives and what we should keep in mind as people living in a society of organizations. Drucker’s management thinking rests on the foundation of his wish for “human happiness.” In this book, I wanted to transmit as faithfully as possible what Drucker truly wanted

to convey.

Drucker undoubtedly harbored the sentiment of wishing for “human happiness” deep down in his heart. However, as far as I know, words or phrases like “make people happy” do not appear in Drucker’s books. Let me add that the only allusions to happiness that do appear in his books are expressions like “to make a good life,” “to provide satisfaction through performance,” and “work to be achieving.”

I would like to extend my heartfelt gratitude to Professor Atsuo Ueda for supporting me in the writing of the Japanese edition of this book, and to Mr. Chikao (Chuck) Ueno for providing a wide array of support and advice. Without their support, the Japanese edition of this book would have never seen the light of day. I would like to take this opportunity to once again express my sincerest appreciation to them.

I studied at the Peter F. Drucker Graduate School of Management, where Drucker taught, and I was instructed directly by Drucker. However, I only attended several lectures given by Drucker. For that reason, I initially hesitated to write this book, because I doubted whether I was the right person to write a book about Drucker. It was Mr. Takatoshi Hara, editor-in-chief at Kadokawa Corporation, who gave me a supportive push forward at that time. I had received a proposed plan on the book from Mr. Hara more than a year and a half earlier.

To write the Japanese edition of this book, I read through Drucker’s books again. Drucker said, “No one learns as much about a subject as one who is forced to teach it.” I would not have had the chance to read Drucker’s books as seriously and carefully, including the original books in English, if I had not had the goal of writing a book about Drucker that people would want to read.

In publishing the Japanese edition of this book, Mr. Hara had waited patiently for me to complete the manuscript for the book, from the time he first presented the proposed plan until completion. He also provided a broad range of assistance. I would like to extend my heartfelt thanks to him.

With regard to the English writing and phrasing of this book, I am also very grateful to Ms. Risa Takabatake and Mr. Toyoshi Maehara of Japan Translation Center, Ltd., and to the translator Mr. Charles Bruce, for their assistance. In addition, I am grateful to my long-standing fellow, Mr. Hiroo Nakayama, for the overall support underlain by his practical expertise in Japanese and foreign languages, and by his extensive experience in overseas business.

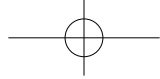
I would also like to offer my heartfelt thanks to the staff members of Omega-Com, Inc. for their help in making this book. Although it is a Japanese company, Omega-Com is unique in that it is highly skilled and has a wealth of experience in editing, designing and laying out English-language books.

I am also truly grateful to Marui-Kobunsha Corporation for undertaking the printing and bookbinding of this book. Actually, Marui-Kobunsha Corporation is a firm that supported me when I was just starting out as a management consultant and was struggling to produce results. I was delighted to be able to entrust the printing and bookbinding of this book to Marui-Kobunsha Corporation.

I would like to take this opportunity to express my deep gratitude to all who assisted with the production of this book.

Finally, I would like to take this opportunity to extend my apologies for abbreviating titles and honorifics from Professor Drucker's name throughout the main text of this book.

As the author, I would be delighted if this book could

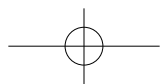
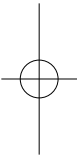
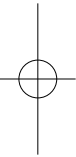


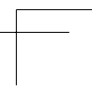
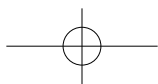
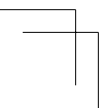
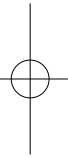
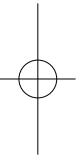
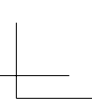
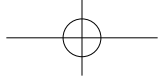
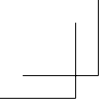
*In Closing*

inspire members of organizations to work more energetically and could guide organizations as a whole to produce outstanding results. I encourage managers to form a team of “we,” and work with subordinates to attain shared goals, produce outstanding results and contribute to society. I sincerely wish that this book will prove useful to as many people as possible.

January 2014

Katsunori Jack Kunisada







## Bibliography

1. Peter F. Drucker, "Management: tasks, responsibilities, practices," HarperCollins Publishers, 1985
2. Peter F. Drucker, "The Essential Drucker," Harper, 2001
3. Peter F. Drucker, "Innovation and Entrepreneurship," Harper & Row Publishers, 1985
4. Peter F. Drucker, "Management Challenges for the 21st Century," Harper paperbacks, 2001
5. Peter F. Drucker, "The New Realities," Transaction Publishers, 2003
6. Peter F. Drucker, "Post-Capitalist Society," Harper paperbacks, 1993
7. Peter F. Drucker, "The Effective Executive in Action," Collins, 2005
8. Peter F. Drucker, "The Age of Discontinuity," Transaction Publishers, 2008
9. Peter F. Drucker, "The Future of Industrial Man," Transaction Publishers, 2009
10. Peter F. Drucker, "The End of Economic Man," Transactions Publishers, 2009
11. Peter F. Drucker, "The Effective Executive," HarperCollins Publishers, 2005
12. Peter F. Drucker, "The Frontiers of Management: Where Tomorrow's Decisions Are Being Shaped Today," Butterworth-Heinemann Ltd, 1994
13. Peter F. Drucker, "The Practice of Management," HarperCollins Publishers, 2006
14. Peter F. Drucker, "Managing in the Next Society," St. Martin's Press, 2007
15. Peter F. Drucker, "Managing the Non-Profit Organization: Principles and Practices," HarperCollins Publishers, 2010

Drucker's books have been published by several different publishers, respectively, from their first editions to the current editions. Listed here are the editions of his books that I actually own and have used as references and bibliographies in writing this book.