

PETER F. DRUCKER

**The
Essential
Drucker**

In One Volume the Best of
Sixty Years of Peter Drucker's Essential
Writings on Management

A N E X C E R P T F R O M

T H E E S S E N T I A L

DRUCKER

Selections from the Management Works of

P E T E R F . D R U C K E R

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INTRODUCTION:
THE ORIGIN AND PURPOSE OF
THE ESSENTIAL DRUCKER

The Essential Drucker is a selection from my sixty years of work and writing on management. It begins with my book *The Future of Industrial Man* (1942) and ends (so far at least) with my 1999 book *Management Challenges for the 21st Century*.

The Essential Drucker has two purposes. First, it offers, I hope, a coherent and fairly comprehensive Introduction to Management. But second, it gives an Overview of my works on management and thus answers a question that my editors and I have been asked again and again, Where do I start to read Drucker? Which of his writings are *essential*?

Atsuo Ueda, longtime Japanese friend, first conceived *The Essential Drucker*. He himself has had a distinguished career in Japanese management. And having reached the age of sixty, he recently started a second career and became the founder and chief executive officer of a new technical university in Tokyo. But for thirty years Mr. Ueda has also been my Japanese translator and editor. He has actually translated many of my books several times as they went into new Japanese editions. He is thus thoroughly familiar with my work—in fact, he knows it better than I do. As a result

he increasingly got invited to conduct Japanese conferences and seminars on my work and found himself being asked over and over again—especially by younger people, both students and executives at the start of their careers—Where do I start reading Drucker?

This led Mr. Ueda to reread my entire work, to select from it the most pertinent chapters and to abridge them so that they read as if they had originally been written as *one* cohesive text. The result was a three-volume essential Drucker of fifty-seven chapters—one volume on the management of organizations; one volume on the individual in the society of organizations; one on society in general—which was published in Japan in the summer and fall of 2000 and has met with great success. It is also being published in Taiwan, mainland China and Korea, and in Argentina, Mexico, and Brazil.

It is Mr. Ueda's text that is being used for the U.S. and U.K. editions of *The Essential Drucker*. But these editions not only are less than half the size of Mr. Ueda's original Japanese version—twenty-six chapters versus the three-volumes' fifty-seven. They also have a somewhat different focus. Cass Canfield Jr. at HarperCollins in the United States—longtime friend and my U.S. editor for over thirty years—also came to the conclusion a few years ago that there was need for an introduction to, and overview of, my sixty years of management writings. But he—rightly—saw that the U.S. and U.K. (and probably altogether the Western) audience for such a work would be both broader and narrower than the audience for the Japanese venture. It would be broader because there is in the West a growing number of people who, while not themselves executives, have come to see management as an area of public interest; there are also an increasing number of students in colleges and universities who, while not necessarily management students, see an understanding of management as part of a general education; and, finally, there are a large and rapidly growing number of mid-career managers and professionals who are flocking to advanced-executive programs, both in universities and in their employing organizations. The focus would, however, also be narrower because these

additional audiences need and want less an introduction to, and overview of, Drucker's work than they want a concise, comprehensive, and sharply focused Introduction to Management, and to management alone. And thus, while using Mr. Ueda's editing and abridging, Cass Canfield Jr. (with my full, indeed my enthusiastic, support) selected and edited the texts from the Japanese three-volume edition into a comprehensive, cohesive, and self-contained introduction to management—both of the management of an enterprise and of the self-management of the individual, whether executive or professional, within an enterprise and altogether in our society of managed organizations.

My readers as well as I owe to both Atsuo Ueda and Cass Canfield Jr. an enormous debt of gratitude. The two put an incredible amount of work and dedication into *The Essential Drucker*. And the end product is not only the best introduction to one's work any author could possibly have asked for. It is also, I am convinced, a truly unique, cohesive, and self-contained introduction to management, its basic principles and concerns; its problems, challenges, opportunities.

This volume, as said before, is also an overview of my works on management. Readers may therefore want to know where to go in my books to further pursue this or that topic or this or that area of particular interest to them. Here, therefore, are the sources in my books for each of twenty-six chapters of the *The Essential Drucker*:

Chapter 1 and 26 are excerpted from *The New Realities* (1988).

Chapters 2, 3, 5, 18 are excerpted from *Management, Tasks, Responsibilities, Practices* (1974).

Chapters 4 and 19 are excerpted from *Managing for the Future* (1992), and were first published in the *Harvard Business Review* (1989) and in the *Wall Street Journal* (1988), respectively.

Chapters 6, 15, and 21 are excerpted from *Management Challenges for the 21st Century* (1999).

Chapters 7 and 23 are excerpted from *Management in a Time of Great Change* (1995) and were first published in the *Harvard*

Business Review (1994) and in the *Atlantic Monthly* (1996), respectively.

Chapter 8 was excerpted from *The Practice of Management* (1954).

Chapter 9 was excerpted from *The Frontiers of Management* (1986) and was first published in the *Harvard Business Review* (1985).

Chapters 10, 11, 12, 20, 24 were excerpted from *Innovation and Entrepreneurship* (1985).

Chapters 13, 14, 16, 17 were excerpted from *The Effective Executive* (1966).

Chapters 22 and 25 were excerpted from *Post-Capitalist Society* (1993).

All these books are still in print in the United States and in many other countries.

This one-volume edition of *The Essential Drucker* does not, however, include any excerpts from five important Management books of mine: *The Future of Industrial Man* (1942); *Concept of the Corporation* (1946); *Managing for Results* (1964; the first book on what is now called “strategy,” a term unknown for business forty years ago); *Managing in Turbulent Times* (1980); *Managing the Non-Profit Organization* (1990). These are important books and still widely read and used. But their subject matter is more specialized—and in some cases also more technical—than that of the books from which the chapters of the present book were chosen—and thus had to be left out of a work that calls itself Essential.

—Peter F. Drucker
Claremont, California
Spring 2001

I.

MANAGEMENT

1.

MANAGEMENT AS SOCIAL FUNCTION AND LIBERAL ART

When Karl Marx was beginning work on *Das Kapital* in the 1850s, the phenomenon of management was unknown. So were the enterprises that managers run. The largest manufacturing company around was a Manchester cotton mill employing fewer than three hundred people and owned by Marx's friend and collaborator Friedrich Engels. And in Engels's mill—one of the most profitable businesses of its day—there were no “managers,” only “charge hands” who, themselves workers, enforced discipline over a handful of fellow “proletarians.”

Rarely in human history has any institution emerged as quickly as management or had as great an impact so fast. In less than 150 years, management has transformed the social and economic fabric of the world's developed countries. It has created a global economy and set new rules for countries that would participate in that economy as equals. And it has itself been transformed. Few executives are aware of the tremendous impact management has had. Indeed, a good many are like M. Jourdain, the character in Molière's *Bourgeois Gentilhomme*, who did not know that he spoke prose. They barely realize that they practice—or mispractice—management. As

a result, they are ill prepared for the tremendous challenges that now confront them. The truly important problems managers face do not come from technology or politics; they do not originate outside of management and enterprise. They are problems caused by the very success of management itself.

To be sure, the fundamental task of management remains the same: to make people capable of joint performance through common goals, common values, the right structure, and the training and development they need to perform and to respond to change. But the very meaning of this task has changed, if only because the performance of management has converted the workforce from one composed largely of unskilled laborers to one of highly educated knowledge workers.

The Origins and Development of Management

On the threshold of World War I, a few thinkers were just becoming aware of management's existence. But few people even in the most advanced countries had anything to do with it. Now the largest single group in the labor force, more than one-third of the total, are people whom the U.S. Bureau of the Census calls "managerial and professional." Management has been the main agent of this transformation. Management explains why, for the first time in human history, we can employ large numbers of knowledgeable, skilled people in productive work. No earlier society could do this. Indeed, no earlier society could support more than a handful of such people. Until quite recently, no one knew how to put people with different skills and knowledge together to achieve common goals.

Eighteenth-century China was the envy of contemporary Western intellectuals because it supplied more jobs for educated people than all of Europe did—some twenty thousand per year. Today, the United States, with about the same population China then had, graduates nearly a million college students a year, few of whom have

the slightest difficulty finding well-paid employment. Management enables us to employ them.

Knowledge, especially advanced knowledge, is always specialized. By itself it produces nothing. Yet a modern business, and not only the largest ones, may employ up to ten thousand highly knowledgeable people who represent up to sixty different knowledge areas. Engineers of all sorts, designers, marketing experts, economists, statisticians, psychologists, planners, accountants, human-resources people—all working together in a joint venture. None would be effective without the managed enterprise.

There is no point in asking which came first, the educational explosion of the last one hundred years or the management that put this knowledge to productive use. Modern management and modern enterprise could not exist without the knowledge base that developed societies have built. But equally, it is management, and management alone, that makes effective all this knowledge and these knowledgeable people. The emergence of management has converted knowledge from social ornament and luxury into the true capital of any economy.

Not many business leaders could have predicted this development back in 1870, when large enterprises were first beginning to take shape. The reason was not so much lack of foresight as lack of precedent. At that time, the only large permanent organization around was the army. Not surprisingly, therefore, its command-and-control structure became the model for the men who were putting together transcontinental railroads, steel mills, modern banks, and department stores. The command model, with a very few at the top giving orders and a great many at the bottom obeying them, remained the norm for nearly one hundred years. But it was never as static as its longevity might suggest. On the contrary, it began to change almost at once, as specialized knowledge of all sorts poured into enterprise.

The first university-trained engineer in manufacturing industry was hired by Siemens in Germany in 1867—his name was Friedrich von Hefner-Alteneck. Within five years he had built a

research department. Other specialized departments followed suit. By World War I the standard functions of a manufacturer had been developed: research and engineering, manufacturing, sales, finance and accounting, and a little later, human resources (or personnel).

Even more important for its impact on enterprise—and on the world economy in general—was another management-directed development that took place at this time. That was the application of management to manual work in the form of training. The child of wartime necessity, training has propelled the transformation of the world economy in the last forty years because it allows low-wage countries to do something that traditional economic theory had said could never be done: to become efficient—and yet still low-wage—competitors almost overnight.

Adam Smith reported that it took several hundred years for a country or region to develop a tradition of labor and the expertise in manual and managerial skills needed to produce and market a given product, whether cotton textiles or violins.

During World War I, however, large numbers of unskilled, preindustrial people had to be made productive workers in practically no time. To meet this need, businesses in the United States and the United Kingdom began to apply the theory of scientific management developed by Frederick W. Taylor between 1885 and 1910 to the systematic training of blue-collar workers on a large scale. They analyzed tasks and broke them down into individual, unskilled operations that could then be learned quite quickly. Further developed in World War II, training was then picked up by the Japanese and, twenty years later, by the South Koreans, who made it the basis for their countries' phenomenal development.

During the 1920s and 1930s, management was applied to many more areas and aspects of the manufacturing business. Decentralization, for instance, arose to combine the advantages of bigness and the advantages of smallness within one enterprise. Accounting went from “bookkeeping” to analysis and control. Planning grew out of the “Gantt charts” designed in 1917 and 1918 to plan war production; and so did the use of analytical logic and statistics, which

employ quantification to convert experience and intuition into definitions, information, and diagnosis. Marketing evolved as a result of applying management concepts to distribution and selling. Moreover, as early as the mid-1920s and early 1930s, some American management pioneers such as Thomas Watson Sr. at the fledgling IBM; Robert E. Wood at Sears, Roebuck; and George Elton Mayo at the Harvard Business School began to question the way manufacturing was organized. They concluded that the assembly line was a short-term compromise. Despite its tremendous productivity, it was poor economics because of its inflexibility, poor use of human resources, even poor engineering. They began the thinking and experimenting that eventually led to “automation” as the way to organize the manufacturing process, and to teamwork, quality circles, and the information-based organization as the way to manage human resources. Every one of these managerial innovations represented the application of knowledge to work, the substitution of system and information for guesswork, brawn, and toil. Every one, to use Frederick Taylor’s term, replaced “working harder” with “working smarter.”

The powerful effect of these changes became apparent during World War II. To the very end, the Germans were by far the better strategists. Having much shorter interior lines, they needed fewer support troops and could match their opponents in combat strength. Yet the Allies won—their victory achieved by management. The United States, with one-fifth the population of all the other belligerents combined, had almost as many men in uniform. Yet it produced more war matériel than all the others taken together. It managed to transport the stuff to fighting fronts as far apart as China, Russia, India, Africa, and Western Europe. No wonder, then, that by the war’s end almost all the world had become management-conscious. Or that management emerged as a recognizably distinct kind of work, one that could be studied and developed into a discipline—as happened in each country that has enjoyed economic leadership during the postwar period.

After World War II we began to see that management is not

exclusively *business* management. It pertains to every human effort that brings together in one organization people of diverse knowledge and skills. It needs to be applied to all third-sector institutions, such as hospitals, universities, churches, arts organizations, and social service agencies, which since World War II have grown faster in the United States than either business or government. For even though the need to manage volunteers or raise funds may differentiate nonprofit managers from their for-profit peers, many more of their responsibilities are the same—among them defining the right strategy and goals, developing people, measuring performance, and marketing the organization’s services. *Management worldwide has become the new social function.*

Management and Entrepreneurship

One important advance in the discipline and practice of management is that both now embrace entrepreneurship and innovation. A sham fight these days pits “management” against “entrepreneurship” as adversaries, if not as mutually exclusive. That’s like saying that the fingering hand and the bow hand of the violinist are “adversaries” or “mutually exclusive.” Both are always needed and at the same time. And both have to be coordinated and work together. Any *existing* organization, whether a business, a church, a labor union, or a hospital, goes down fast if it does not innovate. Conversely, any *new* organization, whether a business, a church, a labor union, or a hospital, collapses if it does not manage. Not to innovate is the single largest reason for the decline of existing organizations. Not to know how to manage is the single largest reason for the failure of new ventures.

Yet few management books have paid attention to entrepreneurship and innovation. One reason is that during the period after World War II when most of those books were written, managing the existing rather than innovating the new and different was the dominant task. During this period most institutions developed

along lines laid down thirty or fifty years earlier. This has now changed dramatically. We have again entered an era of innovation, and it is by no means confined to “high-tech” or to technology generally. In fact, social innovation—as this chapter tries to make clear—may be of greater importance and have much greater impact than any scientific or technical invention. Furthermore, we now have a “discipline” of entrepreneurship and innovation (see my *Innovation and Entrepreneurship*, 1986). It is clearly a part of management and rests, indeed, on well-known and tested management principles. It applies to both existing organizations and new ventures, and to both business and nonbusiness institutions, including government.

The Accountability of Management

Management books tend to focus on the function of management inside its organization. Few yet accept it as a social function. But it is precisely because management has become so pervasive as a social function that it faces its most serious challenge. To whom is management accountable? And for what? On what does management base its power? What gives it legitimacy?

These are not business questions or economic questions. They are *political* questions. Yet they underlie the most serious assault on management in its history—a far more serious assault than any mounted by Marxists or labor unions: the hostile takeover. An American phenomenon at first, it has spread throughout the non-Communist developed world. What made it possible was the emergence of the employee pension funds as the controlling shareholders of publicly owned companies. The pension funds, while legally “owners,” are economically “investors”—and, indeed, often “speculators.” They have no interest in the enterprise and its welfare. In fact, in the United States at least they are “trustees,” and are not supposed to consider anything but immediate pecuniary gain. What underlies the takeover bid is the postulate that the enterprise’s

sole function is to provide the largest possible *immediate* gain to the shareholder. In the absence of any other justification for management and enterprise, the “raider” with his hostile takeover bid prevails—and only too often immediately dismantles or loots the going concern, sacrificing long-range, wealth-producing capacity to short-term gains.

Management—and not only in the business enterprise—has to be accountable for performance. But how is performance to be defined? How is it to be measured? How is it to be enforced? And to *whom* should management be accountable? That these questions can be asked is in itself a measure of the success and importance of management. That they need to be asked is, however, also an indictment of managers. They have not yet faced up to the fact that they represent power—and power has to be accountable, has to be legitimate. They have not yet faced up to the fact that they matter.

What Is Management?

But what is management? Is it a bag of techniques and tricks? A bundle of analytical tools like those taught in business schools? These are important, to be sure, just as thermometer and anatomy are important to the physician. But the evolution and history of management—its successes as well as its problems—teach that management is, above all else, based on a very few, essential principles. To be specific:

- ▶ Management is about human beings. Its task is to make people capable of joint performance, to make their strengths effective and their weaknesses irrelevant. This is what organization is all about, and it is the reason that management is the critical, determining factor. These days, practically all of us work for a managed institution, large or small, business or nonbusiness. We depend on management for our livelihoods.

And our ability to contribute to society also depends as much on the management of the organization for which we work as it does on our own skills, dedication, and effort.

- ▶ Because management deals with the integration of people in a common venture, it is deeply embedded in culture. What managers do in West Germany, in the United Kingdom, in the United States, in Japan, or in Brazil is exactly the same. How they do it may be quite different. Thus one of the basic challenges managers in a developing country face is to find and identify those parts of their own tradition, history, and culture that can be used as management building blocks. The difference between Japan's economic success and India's relative backwardness is largely explained by the fact that Japanese managers were able to plant imported management concepts in their own cultural soil and make them grow.
- ▶ Every enterprise requires commitment to common goals and shared values. Without such commitment there is no enterprise; there is only a mob. The enterprise must have simple, clear, and unifying objectives. The mission of the organization has to be clear enough and big enough to provide common vision. The goals that embody it have to be clear, public, and constantly reaffirmed. Management's first job is to think through, set, and exemplify those objectives, values, and goals.
- ▶ Management must also enable the enterprise and each of its members to grow and develop as needs and opportunities change. Every enterprise is a learning and teaching institution. Training and development must be built into it on all levels—training and development that never stop.
- ▶ Every enterprise is composed of people with different skills and knowledge doing many different kinds of work. It must be built on communication and on individual responsibility. All members need to think through what they aim to accomplish—and make sure that their associates know and under-

stand that aim. All have to think through what they owe to others—and make sure that others understand. All have to think through what they in turn need from others—and make sure that others know what is expected of them.

- ▶ Neither the quantity of output nor the “bottom line” is by itself an adequate measure of the performance of management and enterprise. Market standing, innovation, productivity, development of people, quality, financial results—all are crucial to an organization’s performance and to its survival. Non-profit institutions too need measurements in a number of areas specific to their mission. Just as a human being needs a diversity of measures to assess his or her health and performance, an organization needs a diversity of measures to assess its health and performance. Performance has to be built into the enterprise and its management; it has to be measured—or at least judged—and it has to be continually improved.
- ▶ Finally, the single most important thing to remember about any enterprise is that results exist only on the outside. The result of a business is a satisfied customer. The result of a hospital is a healed patient. The result of a school is a student who has learned something and puts it to work ten years later. Inside an enterprise, there are only costs.

Managers who understand these principles and function in their light will be achieving, accomplished managers.

Management as a Liberal Art

Thirty years ago the English scientist and novelist C. P. Snow talked of the “two cultures” of contemporary society. Management, however, fits neither Snow’s “humanist” nor his “scientist.” It deals with action and application; and its test is results. This makes it a technology. But management also deals with people, their values, their growth and development—and this makes it a humanity. So

does its concern with, and impact on, social structure and the community. Indeed, as everyone has learned who, like this author, has been working with managers of all kinds of institutions for long years, management is deeply involved in moral concerns—the nature of man, good and evil.

Management is thus what tradition used to call a liberal art—“liberal” because it deals with the fundamentals of knowledge, self-knowledge, wisdom, and leadership; “art” because it is also concerned with practice and application. Managers draw on all the knowledges and insights of the humanities and the social sciences—on psychology and philosophy, on economics and history, on ethics—as well as on the physical sciences. But they have to focus this knowledge on effectiveness and results—on healing a sick patient, teaching a student, building a bridge, designing and selling a “user-friendly” software program.

For these reasons, management will increasingly be the discipline and the practice through which the “humanities” will again acquire recognition, impact, and relevance.

II.

THE INDIVIDUAL

13.

EFFECTIVENESS MUST BE LEARNED

To be effective is the job of the knowledge worker. Whether he or she works in a business or in a hospital, in a government agency or in a labor union, in a university or in the army, the knowledge worker is, first of all, expected to *get the right things done*. And this means simply that the knowledge worker is expected to be effective.

Yet people of high effectiveness are conspicuous by their absence in knowledge jobs. High intelligence is common enough among knowledge workers. Imagination is far from rare. The level of knowledge tends to be high. But there seems to be little correlation between a man's effectiveness and his intelligence, his imagination, or his knowledge. Brilliant men are often strikingly ineffectual; they fail to realize that the brilliant insight is not by itself achievement. They never have learned that insights become effectiveness only through hard systematic work. Conversely, in every organization there are some highly effective plodders. While others rush around in the frenzy and busyness that very bright people so often confuse with "creativity," the plodder puts one foot in front of the other and gets there first, like the tortoise in the old fable.

Intelligence, imagination, and knowledge are essential resources, but only effectiveness converts them into results. By themselves, they only set limits to what can be attained.

Why We Need Effectiveness

All this should be obvious. But why then has so little attention been paid to effectiveness, in an age in which there are mountains of books and articles on every other aspect of the executive's tasks?

One reason for this neglect is that effectiveness is the specific technology of the knowledge worker within an organization. Until recently, there was no more than a handful of these around.

For manual work, we need only efficiency, that is, the ability to do things right rather than the ability to get the right things done. The manual worker can always be judged in terms of the quantity and quality of a definable and discrete output, such as a pair of shoes. We have learned how to measure efficiency and how to define quality in manual work during the last hundred years—to the point where we have been able to multiply the output of the individual worker tremendously.

Formerly, the manual worker—whether machine operator or front-line soldier—predominated in all organizations. Few people of effectiveness were needed: mainly those at the top who gave the orders that others carried out. They were so small a fraction of the total work population that we could, rightly or wrongly, take their effectiveness for granted. We could depend on the supply of “naturals,” the few people in any area of human endeavor who somehow know what the rest of us have to learn the hard way.

In fact, only a small fraction of the knowledge workers of earlier days were part of an organization. Most of them worked by themselves as professionals, at most with an assistant. Their effectiveness or lack of effectiveness concerned only themselves and affected only themselves.

Today, however, the large knowledge organization is the central

reality. Modern society is a society of large organized institutions. In every one of them, including the armed services, the center of gravity has shifted to the knowledge worker, the man who puts to work what he has between his ears rather than the brawn of his muscles or the skill of his hands. Increasingly, the majority of people who have been schooled to use knowledge, theory, and concept rather than physical force or manual skill work in an organization and are effective insofar as they can make a contribution to the organization.

Now effectiveness can no longer be taken for granted. Now it can no longer be neglected.

The imposing system of measurements and tests that we have developed for manual work—from industrial engineering to quality control—is not applicable to knowledge work. There are few things less pleasing to the Lord, and less productive, than an engineering department that rapidly turns out beautiful blueprints for the wrong product. Working on the *right* things is what makes knowledge work effective. This is not capable of being measured by any of the yardsticks for manual work.

Knowledge workers cannot be supervised closely or in detail. They can only be helped. But they must direct themselves, and they must do so toward performance and contribution, that is, toward effectiveness.

A cartoon in *The New Yorker* magazine showed an office on the door of which was the legend: CHAS. SMITH, GENERAL SALES MANAGER, AJAX SOAP COMPANY. The walls were bare except for a big sign saying, THINK. The man in the office had his feet propped up on his desk and was blowing smoke rings at the ceiling. Outside two older men went by, one saying to the other: “But how can we be sure that Smith thinks soap?”

One can indeed never be sure what the knowledge worker thinks—and yet thinking is his or her specific work; it is the knowledge worker’s “doing.”

The motivation of the knowledge worker depends on his being effective, on being able to achieve. If effectiveness is lacking in his work, his commitment to work and to contribution will soon

wither, and he will become a time-server going through the motions from nine to five.

The knowledge worker does not produce something that is effective by itself. He does not produce a physical product—a ditch, a pair of shoes, a machine part. He produces knowledge, ideas, information. By themselves these “products” are useless. Somebody else, another person of knowledge, has to take them as his input and convert them into his output before they have any reality. The greatest wisdom not applied to action and behavior is meaningless data. The knowledge worker, therefore, must do something that a manual worker need not do. He must provide effectiveness. He cannot depend on the utility his output carries with it as does a well-made pair of shoes.

The knowledge worker is the one “factor of production” through which the highly developed societies and economies of today—the United States, Western Europe, Japan, and also increasingly, the Soviet Union—become and remain competitive.

Who Is an Executive?

Every knowledge worker in a modern organization is an “executive” if, by virtue of his position or knowledge, he or she is responsible for a contribution that materially affects the capacity of the organization to perform and to obtain results. This may be the capacity of a business to bring out a new product or to obtain a larger share of a given market. It may be the capacity of a hospital to provide bedside care to its patients, and so on. Such a man or woman must make decisions; he cannot just carry out orders. He must take responsibility for his contribution. And he is supposed, by virtue of his knowledge, to be better equipped to make the right decision than anyone else. He may be overridden; he may be demoted or fired. But so long as he has the job, the goals, the standards, and the contribution are in his keeping.

This fact is perhaps best illustrated by a recent newspaper interview with a young American infantry captain in the Vietnam jungle.

Asked by the reporter, “How in this confused situation can you retain command?” the young captain said, “Around here, I am only the guy who is responsible. If these men don’t know what to do when they run into an enemy in the jungle, I’m too far away to tell them. My job is to make sure they know. What they do depends on the situation which only they can judge. The responsibility is always mine, but the decision lies with whoever is on the spot.”

In a guerrilla war, every person is an “executive.”

Knowledge work is not defined by quantity. Neither is knowledge work defined by its costs. Knowledge work is defined by its results. And for these, the size of the group and the magnitude of the managerial job are not even symptoms.

Having many people working in market research may endow the results with that increment of insight, imagination, and quality that gives a company the potential of rapid growth and success. If so, two hundred people are cheap. But it is just as likely that the manager will be overwhelmed by all the problems two hundred people bring to their work and cause through their interactions. He may be so busy “managing” as to have no time for market research and for fundamental decisions. He may be so busy checking figures that he never asks the question, What do we really mean when we say “our market”? And as a result, he may fail to notice significant changes in the market that eventually may cause the downfall of his company.

But the individual market researcher without a staff may be equally productive or unproductive. He may be the source of the knowledge and vision that make his company prosper. Or he may spend so much of his time hunting down details—the footnotes academicians so often mistake for research—as to see and hear nothing and to think even less.

Throughout every one of our knowledge organizations, we have people who manage no one and yet are executives. Rarely indeed do

we find a situation such as that in the Vietnam jungle, where at any moment, any member of the entire group may be called upon to make decisions with life-and-death impact for the whole. But the chemist in the research laboratory who decides to follow one line of inquiry rather than another one may make the entrepreneurial decision that determines the future of his company. He may be the research director. But he also may be—and often is—a chemist with no managerial responsibilities, if not even a fairly junior employee. Similarly, the decision what to consider one “product” in the account books may be made by a senior vice president in the company. It may also be made by a junior. And this holds true in all areas of today’s large organization.

I have called “executives” those knowledge workers, managers, or individual professionals who are expected by virtue of their position or their knowledge to make decisions in the normal course of their work that have impact on the performance and results of the whole. What few yet realize, however, is how many people there are even in the most humdrum organization of today, whether business or government agency, research lab or hospital, who have to make decisions. For the authority of knowledge is surely as legitimate as the authority of position. These decisions, moreover, are of the same *kind* as the decisions of top management.

The most subordinate, we now know, may do the same kind of work as the president of the company or the administrator of the government agency, that is, plan, organize, integrate, motivate, and measure. His compass may be quite limited, but within his sphere, he is an executive.

Similarly, every decision-maker does the same kind of work as the company president or the administrator. His scope may be quite limited. But he is an executive even if his function or his name appears neither on the organization chart nor in the internal telephone directory.

And whether chief executive or beginner, he needs to be effective.

Executive Realities

The realities of the knowledge workers' situation both demand effectiveness from them and make effectiveness exceedingly difficult to achieve. Indeed, unless they work at becoming effective, the realities of their situation will push them into futility.

In their situation there are four major realities over which they essentially no control. Every one of them is built into the organization and into the executives' day and work. They have no choice but to "cooperate with the inevitable." But every one of these realities exerts pressure toward nonresults and nonperformance.

1. The executive's time tends to belong to everybody else. If one attempted to define an "executive" operationally (that is, through his activities), one would have to define him as a captive of the organization. Everybody can move in on his time, and everybody does. There seems to be very little any one executive can do about it. He cannot, as a rule, like the physician, stick his head out the door and say to the nurse, "I won't see anybody for the next half hour." Just at this moment, the executive's telephone rings, and he has to speak to the company's best customer or to a high official in the city administration or to his boss—and the next half hour is already gone.

2. Executives are forced to keep on "operating" unless they take positive action to change the reality in which they live and work.

But events rarely tell the executive anything, let alone the real problem. For the doctor, the patient's complaint is central because it is central to the patient. The executive is concerned with a much more complex universe. What events are important and relevant and what events are merely distractions the events themselves do not indicate. They are not even symptoms in the sense in which the patient's narrative is a clue for the physician.

If the executive lets the flow of events determine what he does,

what he works on, and what he takes seriously, he will fritter himself away “operating.” He may be an excellent person. But he is certain to waste his knowledge and ability and to throw away what little effectiveness he might have achieved. What the executive needs are criteria that enable him to work on the truly important, that is, on contributions and results, even though the criteria are not found in the flow of events.

3. The third reality pushing the executive toward ineffectiveness is that he is within an *organization*. This means that he is effective only if and when other people make use of what he contributes. Organization is a means of multiplying the strength of an individual. It takes his knowledge and uses it as the resource, the motivation, and the vision of other knowledge workers. Knowledge workers are rarely in synch with each other, precisely because they are knowledge workers. Each has his or her own skill and concerns. One may be interested in tax accounting or in bacteriology, or in training and developing tomorrow’s key administrators in the city government. But the worker next door is interested in the finer points of cost accounting, in hospital economics, or in the legalities of the city charter. Each has to be able to use what the other produces.

Usually the people who are most important to the effectiveness of an executive are not people over whom he has direct control. They are people in other areas, people who in terms of organization, are “sideways.” Or they are his superiors. Unless the executive can reach those people, can make his contribution effective for them and in their work, he has no effectiveness at all.

4. Finally, the executive is *within* an organization.

Every executive, whether his organization is a business or a research laboratory, a government agency, a large university, or the air force, sees the inside—the organization—as close and immediate reality. He sees the outside only through thick and distorting lenses, if at all. What goes on outside is usually not even known firsthand. It is received through an organizational filter of reports, that is, in an already predigested and highly abstract form that imposes organizational criteria of relevance on the outside reality.

Specifically, there are no results within the organization. All the results are on the outside. The only business results, for instance, are produced by a customer who converts the costs and efforts of the business into revenues and profits through his willingness to exchange his purchasing power for the products or services of the business.

What happens inside any organization is effort and cost. To speak of “profit centers” in a business as we are wont to do is polite euphemism. There are only effort centers. The less an organization has to do to produce results, the better it does its job. That it takes one hundred thousand employees to produce the automobiles or the steel the market wants is essentially a gross engineering imperfection. The fewer people, the smaller, the less activity inside, the more nearly perfect is the organization in terms of its only reason for existence: the service to the environment.

An organization is not, like an animal, an end in itself, and successful by the mere act of perpetuating the species. An organization is an organ of society and fulfills itself by the contribution it makes to the outside environment. And yet the bigger and apparently more successful an organization gets to be, the more will inside events tend to engage the interests, the energies, and the abilities of the executive to the exclusion of his real tasks and his real effectiveness in the outside.

This danger is being aggravated today by the advent of the computer and of the new information technology. The computer, being a mechanical moron, can handle only quantifiable data. These it can handle with speed, accuracy, and precision. It will, therefore, grind out hitherto unobtainable quantified information in large volume. One can, however, by and large quantify only what goes on inside an organization—costs and production figures, patient statistics in the hospital, or training reports. The relevant outside events are rarely available in quantifiable form until it is much too late to do anything about them.

This is not because our information-gathering capacity in respect to the outside events lags behind the technical abilities of the

computer. If that was the only thing to worry about, we would just have to increase statistical efforts—and the computer itself could greatly help us to overcome this mechanical limitation. The problem is rather that the important and relevant outside events are often qualitative and not capable of quantification. They are not yet “facts.” For a fact, after all, is an event that somebody has defined, has classified, and, above all, has endowed with relevance. To be able to quantify, one has to have a concept first. One first has to abstract from the infinite welter of phenomena a specific aspect that one then can name and finally count.

The truly important events on the outside are not the trends. They are changes in the trends. These determine ultimately success or failure of an organization and its efforts. Such changes, however, have to be perceived; they cannot be counted, defined, or classified. The classifications still produce the expected figures—as they did for the Edsel. But the figures no longer correspond to actual behavior.

The computer is a logic machine, and that is its strength—but also its limitation. The important events on the outside cannot be reported in the kind of form a computer (or any other logic system) could possibly handle. Man, however, while not particularly logical is perceptive—and that is his strength.

The danger is that executives will become contemptuous of information and stimuli that cannot be reduced to computer logic and computer language. Executives may become blind to everything that is perception (i.e., event) rather than fact (i.e., after the event). The tremendous amount of computer information may thus shut out access to reality.

Eventually the computer—potentially by far the most useful management tool—should make executives aware of their insulation and free them for more time on the outside. In the short run, however, there is danger of acute “computeritis.” It is a serious affliction.

The computer only makes visible a condition that existed before it. Executives of necessity live and work within an organization.

Unless they make conscious efforts to perceive the outside, the inside may blind them to the true reality.

These four realities the executive cannot change. They are necessary conditions of his existence. But he must therefore assume that he will be ineffectual unless he makes special efforts to learn to be effective.

The Promise of Effectiveness

Increasing effectiveness may well be the only area where we can hope significantly to raise the level of the knowledge worker's performance, achievement, and satisfaction.

We certainly could use people of much greater abilities in many places. We could use people of broader knowledge. I submit, however, that in these two areas, not too much can be expected from further efforts. We may be getting to the point where we are already attempting to do the inherently impossible or at least the inherently unprofitable. But we are not going to breed a new race of supermen. We will have to run our organizations with men and women as they are.

The books on manager development, for instance, envisage truly a "man for all seasons" in their picture of "the manager of tomorrow." A senior executive, we are told, should have extraordinary abilities as an analyst and as a decision-maker. He or she should be good at working with people and at understanding organization and power relations, be good at mathematics, and have artistic insights and creative imagination. What seems to be wanted is universal genius, and universal genius has always been in scarce supply. The experience of the human race indicates strongly that the only person in abundant supply is the universal incompetent. We will therefore have to staff our organizations with people who at best excel in one of these abilities. And then they are more than likely to lack any but the most modest endowment in the others.

We will have to learn to build organizations in such a manner that anybody who has strength in one important area is capable of putting it to work. But we cannot expect to get the performance we need by raising our standards for abilities, let alone by hoping for the universally gifted person. We will have to extend the range of human beings through the tools they have to work with rather than through a sudden quantum jump in human ability.

The same, more or less, applies to knowledge. However badly we may need people of more and better knowledge, the effort needed to make the major improvement may well be greater than any possible, let alone any probable, return.

When “operations research” first came in, several of the brilliant young practitioners published their prescription for the operations researcher of tomorrow. They always came out asking for a polymath knowing everything and capable of doing superior and original work in every area of human knowledge. According to one of these studies, operations researchers need to have advanced knowledge in sixty-two or so major scientific and humanistic disciplines. If such a person could be found, he would, I am afraid, be totally wasted on studies of inventory levels or on the programming of production schedules.

Much less ambitious programs for manager development call for high knowledge in such a host of divergent skills as accounting and personnel, marketing, pricing and economic analysis, the behavioral sciences such as psychology, and the natural sciences from physics to biology and geology. And we surely need people who understand the dynamics of modern technology, the complexity of the modern world economy, and the labyrinth of modern government.

Every one of these is a big area, is indeed too big even for those who work on nothing else. The scholars tend to specialize in fairly small segments of each of these fields and do not pretend to have more than a journeyman’s knowledge of the field itself.

I am not saying that one need not try to understand the fundamentals of every one of these areas.

One of the weaknesses of young, highly educated people today—whether in business, medicine, or government—is that they are satisfied to be versed in one narrow specialty and affect a contempt for the other areas. One need not know in detail what to do with “human relations” as an accountant, or how to promote a new branded product if an engineer. But one has a responsibility to know at least what these areas are about, why they are around, and what they are trying to do. One need not know psychiatry to be a good urologist. But one had better know what psychiatry is all about. One need not be an international lawyer to do a good job in the Department of Agriculture. But one had better know enough about international politics not to do international damage through a parochial farm policy.

This, however, is something very different from the universal expert, who is as unlikely to occur as is the universal genius. Instead we will have to learn how to make better use of people who are good in any one of these areas. But this means increasing effectiveness. If one cannot increase the supply of a resource, one must increase its yield. And effectiveness is the one tool to make the resources of ability and knowledge yield more and better results.

Effectiveness thus deserves high priority because of the needs of organization. It deserves even greater priority as the tool of the executive and as his access to achievement and performance.

Can Effectiveness Be Learned?

If effectiveness were a gift people were born with, the way they are born with a gift for music or an eye for painting, we would be in bad shape. For we know that only a small minority is born with great gifts in any one of these areas. We would therefore be reduced to trying to spot people with high potential of effectiveness early and to train them as best we know to develop their talent. But we could hardly hope to find enough people for the executive tasks of modern society this way. Indeed, if effectiveness were a gift, our present civ-

ilization would be highly vulnerable, if not untenable. As a civilization of large organizations it is dependent on a large supply of people capable of being executives with a modicum of effectiveness.

If effectiveness can be learned, however, the questions arise: What does it consist in? What does one have to learn? Of what kind is the learning? Is it a knowledge—and knowledge one learns in systematic form and through concepts? Is it a skill that one learns as an apprentice? Or is it a practice that one learns through doing the same elementary things over and over again?

I have been asking those questions for a good many years. As a consultant, I work with executives in many organizations. Effectiveness is crucial to me in two ways. First, a consultant who by definition has no authority other than that of knowledge must himself be effective—or else he is nothing. Second, the most effective consultant depends on people within the client organization to get anything done. Their effectiveness therefore determines in the last analysis whether a consultant contributes and achieves results, or whether he is pure “cost center” or at best a court jester.

I soon learned that there is no “effective personality.” The effective people I have seen differ widely in their temperaments and their abilities, in what they do and how they do it, in their personalities, their knowledge, their interests—in fact in almost everything that distinguishes human beings. All they have in common is the ability to get the right things done.

Among the effective people I have known and worked with, there are extroverts and aloof, retiring men, some even morbidly shy. Some are eccentrics, others painfully correct conformists. Some are fat and some are lean. Some are worriers; some are relaxed. Some drink quite heavily; others are total abstainers. Some are men of great charm and warmth; some have no more personality than a frozen mackerel. There are a few men among them who would answer to the popular conception of a “leader.” But equally there are colorless men who would attract no attention in a crowd. Some are scholars and serious students, others almost unlettered. Some have broad interests; others know nothing except their own narrow

area and care for little else. Some of the men are self-centered, if not indeed selfish. But there are also some who are generous of heart and mind. There are men who live only for their work and others whose main interests lie outside—in community work, in their church, in the study of Chinese poetry, or in modern music. Among the effective people I have met, there are people who use logic and analysis and others who rely mainly on perception and intuition. There are men who make decisions easily and men who suffer agonies every time they have to move.

Effective people, in other words, differ as widely as physicians, high-school teachers, or violinists. They differ as widely as do ineffectual ones, are indeed indistinguishable from ineffectual people in type, personality, and talents.

What all these effective people have in common is the practices that make effective whatever they have and whatever they are. And these practices are the same, whether he or she works in a business or in a government agency, as hospital administrator, or as university dean.

But whenever I have found one, no matter how great the intelligence, the industry, the imagination, or the knowledge, who fails to observe these practices, I have also found one deficient in effectiveness.

Effectiveness, in other words, is a habit; that is, a complex of practices. And practices can always be learned. Practices are simple, deceptively so; even a seven-year-old has no difficulty in understanding a practice. But practices are always exceedingly hard to do well. They have to be acquired, as we all learn the multiplication table; that is, repeated ad nauseam until “ $6 \times 6 = 36$ ” has become unthinking, conditioned reflex, and firmly ingrained habit. Practices one learns by practicing and practicing and practicing again.

To every practice applies what my old piano teacher said to me in exasperation when I was a small boy. “You will never play Mozart the way Arthur Schnabel does, but there is no reason in the world why you should not play your scales the way he does.” What the piano teacher forgot to add—probably because it was so obvious to

her—is that even the great pianists could not play Mozart as they do unless they practiced their scales and kept on practicing them.

There is, in other words, no reason why anyone with normal endowment should not acquire competence in any practice. Mastery might well elude him; for that one might need special talents. But what is needed in effectiveness is competence. What is needed are “the scales.”

III.

SOCIETY

23.

A CENTURY OF SOCIAL TRANSFORMATION—EMERGENCE OF KNOWLEDGE SOCIETY

No century in human history has experienced so many social transformations and such radical ones as the twentieth century. They, I submit, will turn out to be the most significant events of this century, and its lasting legacy. In the developed free-market countries—only one-fifth of the earth's population, but the model for the rest—work and workforce, society and polity, are all, in the last decade of this century, *qualitatively* and *quantitatively* different both from those of the first years of this century and from anything ever experienced before in human history: different in their configuration, in their processes, in their problems, and in their structures.

Far smaller and far slower social changes in earlier periods triggered violent intellectual and spiritual crises, rebellions, and civil wars. The extreme social transformations of this century have hardly caused any stir. They proceeded with a minimum of friction, with a minimum of upheavals, and indeed with altogether a minimum of attention from scholars, politicians, the press, and the public.

To be sure, this century of ours may well have been the cruelest and most violent in human history, with its world wars and civil wars, its mass tortures, ethnic cleansings, and genocides. But all

these killings, all these horrors inflicted on the human race by this century's *Weltbeglücker*—those who establish paradise on earth by killing off nonconformists, dissidents, resisters, and innocent bystanders, whether Jews, the bourgeoisie, kulaks, or intellectuals—hindsight clearly shows, were just that: senseless killings, senseless horrors. Hitler, Stalin, and Mao, the three evil geniuses of this century, destroyed. But they created nothing.

Indeed, if this century proves anything, it is the futility of politics. Even the most dogmatic believer in historical determinism would have a hard time explaining the social transformations of this century as caused by the headline-making political events, or explaining the headline-making political events as caused by the social transformations. But it is the social transformations, running like ocean currents deep below the hurricane-tormented surface of the sea, that have had the lasting, indeed the permanent, effect. They—rather than all the violence of the political surface—have transformed the society and the economy, the community, the polity we live in.

Farmers and Domestic Servants

Before World War I, the largest single group in every country were farmers.

Eighty years ago, on the eve of that war, it was considered axiomatic that developed countries—North America being the only exception—would increasingly become unable to feed themselves and would increasingly have to rely on food imports from nonindustrial, nondeveloped areas.

Today, only Japan, among major, developed, free-market countries, is a heavy importer of food. (Unnecessarily so—its weakness as a food producer is largely the result of an obsolete rice-subsidy policy that prevents the country from developing a modern, productive agriculture.) All other developed free-market countries have become surplus food producers despite burgeoning urban populations. In

all these countries food production is today many times what it was eighty years ago—in the United States, eight to ten times as much.

But in all developed free-market countries—including Japan—farmers today are, at most, 5 percent of population and workforce, that is, one-tenth of what they were eighty years ago.

The second-largest group in population and workforce in every developed country around 1900 were live-in servants. They were considered as much a “law of nature” as farmers were. The British census of 1910 defined “lower middle class” as a household employing fewer than three servants. And while farmers as a proportion of population and workforce had been steadily shrinking throughout the nineteenth century, the numbers of domestic servants, both absolutely and as a percentage, were steadily growing right up to World War I. Eighty years later, live-in domestic servants in developed countries have become practically extinct. Few people born since World War II, that is, few people under fifty, have even seen any except on the stage or in old films.

Farmers and domestic servants were not only the *largest* social groups, they were the oldest social groups, too. Together they were, through the ages, the foundation of economy and society, the foundation altogether of “civilization.”

The Rise and Fall of the Blue-collar Worker

One reason, indeed the main reason, why the transformation caused so little stir was that by 1900 a new class, the blue-collar worker in manufacturing industry (Marx’s “proletarian”), had become socially dominant. Early-twentieth-century society was obsessed with blue-collar workers, fixated on them, bewitched by them.

The blue-collar worker became the “social question” of 1900 because he was the first “lower class” in history that could be organized and stay organized.

No class in history has ever risen faster than the blue-collar worker. And no class in history has ever fallen faster.

In 1883, the year of Marx's death, "proletarians" were still a minority of industrial workers. The majority were then skilled workers employed in small craft shops each containing twenty or thirty workers at most.

By 1900, the term "industrial worker" had become synonymous with "machine operator" in a factory employing hundreds, if not thousands, of people. These factory workers were indeed Marx's proletarians, without social position, without political power, without economic or purchasing power.

The workers of 1900—and even of 1913—had no pension; no paid vacation; no overtime pay; no extra pay for Sunday or night work; no health insurance (except in Germany); no unemployment compensation; no job security whatever. One of the earliest laws to limit working hours for adult males—enacted in Austria in 1884—set the working day at *eleven* hours, six days a week. Industrial workers, in 1913, everywhere worked a minimum of three thousand hours a year. Their unions were still officially proscribed or, at best, barely tolerated. But the workers had shown their capacity to be organized. They had shown their capacity to act as a "class."

In the 1950s industrial blue-collar workers had become the largest single group in every developed country, including the Communist ones, though they were an actual majority only during wartime. They had become eminently respectable. In all developed free-market countries they had economically become "middle class." They had extensive job security; pensions; long, paid vacations; comprehensive unemployment insurance or "lifetime employment." Above all, they had achieved political power. It was not only in Britain that the labor unions were considered to be the "real government," with greater power than the prime minister and Parliament.

In 1990, however, both the blue-collar worker and his union were in total and irreversible retreat. They had become marginal in numbers. Whereas blue-collar workers who made or moved things had accounted for two-fifths of the American workforce in the 1950s, they accounted for less than one-fifth of the workforce in the

early 1990s—that is, for no more than they had accounted for in 1900, when their meteoric rise had begun. In the other developed free-market countries the decline was slower at first; but after 1980 it began to accelerate everywhere. By the year 2000 or 2010, in every developed free-market country, blue-collar industrial workers will account for no more than one-tenth or, at most, one-eighth of the workforce. Union power has been going down equally fast. Where in the 1950s and 1960s the National Union of Mineworkers in the United Kingdom broke prime ministers as if they were matchsticks, Margaret Thatcher in the 1980s won election after election by being openly contemptuous of organized labor and by whittling down its political power and its privileges. The blue-collar worker in manufacturing industry and his union are going the way of the farmer.

His place is already being taken by a “technologist,” that is, by people who work both with their hands and their theoretical knowledge. (Examples are computer technicians or paramedical technicians such as X-ray technicians, physical therapists, medical-lab technicians, pulmonary technicians, and so on, who have been the fastest-growing group in the United States workforce since 1980.)

And instead of a “class,” that is, a coherent, recognizable, defined, and self-conscious group, the blue-collar worker in manufacturing industry may soon be just another “pressure group.”

In contrast with Marxist and syndicalist predictions, the rise of the industrial worker did not destabilize society. On the contrary, it emerged as the century’s most *stabilizing social development*. It explains why the disappearance of farmer and domestic servant produced no social crises.

For farmer and domestic servant, industrial work was an opportunity. It was in fact the first opportunity in social history to better oneself substantially without having to emigrate. In the developed, free-market countries, every generation in the last 100 or 150 years could expect to do substantially better than the generation preceding it. The main reason was that farmers and domestic servants could and did become industrial workers.

Because industrial workers were concentrated in groups, that is, because they worked in a large factory rather than in a small shop or in their homes, there could be a systematic focus on their *productivity*. Beginning in 1881—two years before Marx’s death—the systematic study of work, of both tasks and tools, has raised the productivity of manual work (the making and moving of things) by 3 to 4 percent, compounded each year, for a total fiftyfold increase in output per worker over a hundred years. On this rest all the economic and social gains of the past century. And contrary to what “everybody knew” in the nineteenth century—not only Marx but all the “conservatives” as well, such as J. P. Morgan, Bismarck, and Disraeli—practically all these gains have accrued to the blue-collar worker, half of the gains in the form of sharply reduced working hours (with the cuts ranging from 40 percent in Japan to 50 percent in Germany), half of them in the form of a twenty-fivefold increase in the real wages of blue-collar workers making or moving things.

There were thus very good reasons why the *rise* of blue-collar workers was peaceful rather than violent, let alone “revolutionary.” But what explains that the *fall* of the blue-collar worker has been equally peaceful and almost entirely free of social protest, of upheaval, of serious dislocation, at least in the United States?

The Rise of the Knowledge Worker

The rise of the “class” succeeding the industrial blue-collar worker is not an opportunity to him. It is a challenge. The newly emerging dominant group are “knowledge workers.” Knowledge workers amount to a third or more of the workforce in the United States, that is, to as large a proportion as industrial blue-collar workers ever were, except in wartime. The majority of knowledge workers are paid at least as well as blue-collar workers ever were, or better. And the new jobs offer much greater opportunities to the individual.

But—and it is a big but—the new jobs require, in the great majority, qualifications the blue-collar worker does not possess and is poorly equipped to acquire. The new jobs require a good deal of formal education and the ability to acquire and to apply theoretical and analytical knowledge. They require a different approach to work and a different mind-set. Above all, they require a habit of continual learning.

Displaced industrial workers thus cannot simply move into knowledge work or services work the way displaced farmers and displaced domestic workers moved into industrial work.

Even in communities that were totally dependent on one or two mass-production plants that have gone out of business or have cut employment by two-thirds—steel cities in western Pennsylvania or eastern Ohio, for instance, or car cities like Flint, Michigan—unemployment rates for adult, nonblack men and women fell within a few short years to levels barely higher than the U.S. average. And that means to levels barely higher than the U.S. “full-employment” rate. And there has been no radicalization of America’s blue-collar workers.

The only explanation is that for the nonblack, blue-collar community the development came as no surprise, however unwelcome, painful, and threatening to individual worker and individual family. Psychologically—in terms of values perhaps, rather than in terms of emotions—America’s industrial blue-collar workers must have been prepared to accept as right and proper the shift to jobs that require formal education and that pay for knowledge rather than for manual work, whether skilled or unskilled.

One possible factor may have been the GI Bill of Rights after World War II, which by offering a college education to every returning American veteran established advanced education as the “norm” and everything less as “substandard.” Another factor may have been the draft the United States introduced in World War II and maintained for thirty-five years afterward, as a result of which the great majority of American male adults born between 1920 and

1950—and that means the majority of American adults alive today—served in the military for several years where they were *forced* to acquire a high-school education if they did not already have one. But whatever the explanation, in the United States the shift *to* knowledge work *from* blue-collar manual work making and moving things has largely been accepted (except in the black community) as appropriate or, at least, as inevitable.

In the United States the shift, by 1990 or so, had largely been accomplished. But so far only in the United States. In the other developed free-market countries, in western and northern Europe, and in Japan, it was just beginning in the 1990s. It is, however, certain to proceed rapidly in these countries from now on, and perhaps to proceed there faster than it originally did in the United States. Will it then also proceed, as it did by and large in the United States, with a minimum of social upheaval, of social dislocation, of social unrest? Or will the American development turn out to be another example of “American exceptionalism” (as has so much of American social history and especially of American labor history)? In Japan, the superiority of formal education and of the formally educated person is generally accepted so that the fall of the industrial worker—still a fairly recent class in Japan and outnumbering farmers and domestic servants only since well after World War II—may well be accepted as appropriate as it has been in the United States, and perhaps even more so. But what about industrialized Europe—the United Kingdom, Germany, France, Belgium, northern Italy, and so on—where there has been a “working-class culture” and a “self-respecting working class” for well over a century, and where, despite all evidence to the contrary, the belief is still deeply ingrained that industrial, blue-collar work, rather than knowledge, is the creator of all wealth? Will Europe react the way the American black has reacted? This surely is a key question, the answer to which will largely determine the social as well as the economic future of the developed free-market countries of Europe. And the answer will be given within the next decade or so.

The Emerging Knowledge Society

Knowledge workers will not be the majority in the knowledge society. But in many countries, if not most developed countries, they will be the largest single group in the population and the workforce. And even if outnumbered by other groups, knowledge workers will be the group that gives the emerging knowledge society its character, its leadership, its social profile. They may not be the *ruling* class of the knowledge society, but they already are its *leading* class. And in their characteristics, their social position, their values, and their expectations, they differ fundamentally from any group in history that has ever occupied the leading, let alone the dominant, position.

In the first place, the knowledge worker gains access to work, job, and social position through *formal education*.

The first implication of this is that education will become the center of the knowledge society, and schooling its key institution. What knowledge is required for everybody? What mix of knowledges is required for everybody? What is “quality” in learning and teaching? All these will, of necessity, become central concerns of the knowledge society, and central political issues. In fact, it may not be too fanciful to anticipate that the acquisition and distribution of formal knowledge will come to occupy the place in the politics of the knowledge society that acquisition and distribution of property and income have occupied in the two or three centuries that we have come to call the Age of Capitalism.

We can also predict with high probability that we will redefine what it means to be an “educated person.”

The knowledge society will inevitably become *far more competitive* than any society we have yet known—for the simple reason that with knowledge being universally accessible, there are no excuses for nonperformance. There will be no “poor” countries. There will only be ignorant countries. And the same will be true for individual companies, individual industries, and individual organizations of any kind. It will be true for the individual, too. In fact, developed

societies have already become infinitely more competitive for the individual than were the societies of the early twentieth century—let alone earlier societies, those of the nineteenth or eighteenth centuries. Then, most people had no opportunity to rise out of the “class” into which they were born, with most individuals following their fathers in their work and in their station in life.

But knowledge workers, whether their knowledge is primitive or advanced, whether they possess a little of it or a great deal, will, by definition, be specialized. Knowledge in application is effective only when it is specialized. Indeed, it is more effective, the more highly specialized it is.

Equally important is the second implication of the fact that knowledge workers are, of necessity, specialists: the need for them to work as members of an organization. It is only the organization that can provide the basic continuity that knowledge workers need to be effective. It is only the organization that can convert the specialized knowledge of the knowledge worker into performance.

By itself, specialized knowledge yields no performance. The surgeon is not effective unless there is a diagnosis, which, by and large, is not the surgeon’s task and not even within the surgeon’s competence. Market researchers, by themselves, produce only data. To convert the data into information, let alone to make them effective in knowledge action, requires marketing people, production people, service people. As a loner in his or her own research and writing, the historian can be very effective. But to produce the education of students, a great many other specialists have to contribute—people whose speciality may be literature, or mathematics, or other areas of history. And this requires that the specialist have access to an organization.

This access may be as a consultant. It may be as a provider of specialized services. But for a large number of knowledge workers, it will be as employees of an organization—full-time or part-time—whether a government agency, a hospital, a university, a business, a labor union, or any of hundreds of others. In the knowledge soci-

ety, it is not the individual who performs. The individual is a cost center rather than a performance center. It is the organization that performs.

The Employee Society

The knowledge society is an *employee society*. Traditional society, that is, society before the rise of the manufacturing enterprise and the blue-collar manufacturing worker, was not a society of independents. Thomas Jefferson's society of independent small farmers, each being the owner of his own family farm and farming it without any help except for that of his wife and his children, was never much more than fantasy. Most people in history were dependents. But they did not work for an organization. They were working for an owner, as slaves, as serfs, as hired hands on the farm; as journeymen and apprentices in the craftsman's shop; as shop assistants and salespeople for a merchant; as domestic servants, free or unfree; and so on. They worked for a "master." When blue-collar work in manufacturing first arose, they still worked for a "master."

In Charles Dickens's great 1854 novel *Hard Times*, the workers work for an "owner." They do not work for the "factory." Only late in the nineteenth century did the factory rather than the owner become the employer. And only in the twentieth century did the corporation, rather than the factory, then become the employer. Only in this century has the "master" been replaced by a "boss," who, himself, ninety-nine times out of a hundred, is an employee and has a boss himself.

Knowledge workers will be both "employees" who have a "boss" and "bosses" who have "employees."

Organizations were not known to yesterday's social science, and are, by and large, not yet known to today's social science.

The first "organization" in the modern sense, the first that was seen as being prototypical rather than exceptional, was surely the modern business enterprise as it emerged after 1870—which is

why, to this day, most people think of “management,” as being “business management.”

With the emergence of the knowledge society, we have become a society of organizations. Most of us work in and for an organization, are dependent for our effectiveness and equally for our living on access to an organization, whether as an organization’s employee or as a provider of services to an organization—as a lawyer, for instance, or a freight forwarder. And more and more of these supporting services to organizations are, themselves, organized as organizations. The first law firm was organized in the United States a little over a century ago—until then lawyers had practiced as individuals. In Europe there were no law firms to speak of until after World War II. Today, the practice of law is increasingly done in larger and larger partnerships. But that is also true, especially in the United States, of the practice of medicine. The knowledge society is a society of organizations in which practically every social task is being performed in and through an organization.

Most knowledge workers will spend most if not all of their working life as “employees.” But the meaning of the term is different from what it has been traditionally—and not only in English but in German, Spanish, and Japanese as well.

Individually, knowledge workers are dependent on the job. They receive a wage or salary. They are being hired and can be fired. Legally, each is an “employee.” But collectively, they are the only “capitalists”; increasingly, through their pension funds and through their other savings (e.g., in the United States through mutual funds), the employees own the means of production. In traditional economics (and by no means only in Marxist economics), there is a sharp distinction between the “wage fund”—all of which went into consumption—and the “capital fund.” And most social theory of industrial society is based, one way or another, on the relationship between the two, whether in conflict or in necessary and beneficial cooperation and balance. In the knowledge society, the two merge. The pension fund is “deferred wage” and, as such, a wage fund. But

it is also increasingly the main source of capital, if not the only source of capital, for the knowledge society.

Equally important, and perhaps more important, is that in the knowledge society the employees, that is, knowledge workers, again own the tools of production. Marx's great insight was the realization that the factory worker does not and cannot own the tools of production and, therefore, has to be "alienated." There was no way, Marx pointed out, for workers to own the steam engine and to be able to take the steam engine with them when moving from one job to another. The capitalist had to own the steam engine and had to control it. Increasingly, the true investment in the knowledge society is not in machines and tools. It is in the knowledge worker. Without it, the machines, no matter how advanced and sophisticated, are unproductive.

The industrial worker needed the capitalist infinitely more than the capitalist needed the industrial worker—the basis for Marx's assertion that there would always be a surplus of industrial workers, and an "industrial reserve army" that would make sure that wages could not possibly rise above the subsistence level (probably Marx's most egregious error). In the knowledge society the most probable assumption—and certainly the assumption on which all organizations have to conduct their affairs—is that they need the knowledge worker far more than the knowledge worker needs them. It is up to the organization to market its knowledge jobs so as to obtain knowledge workers in adequate quantity and superior quality. The relationship increasingly is one of interdependence with the knowledge worker having to learn what the organization needs, but with the organization also having to learn what the knowledge worker needs, requires, and expects.

One additional conclusion: because the knowledge society perforce has to be a society of organizations, its central and distinctive organ is *management*.

When we first began to talk of management, the term meant "business management"—since large-scale business was the first of the new organizations to become visible. But we have learned this

last half-century that management is the distinctive organ of all organizations. All of them require management—whether they use the term or not. All managers do the same things whatever the business of their organization. All of them have to bring people—each of them possessing a different knowledge—together for joint performance. All of them have to make human strengths productive in performance and human weaknesses irrelevant. All of them have to think through what are “results” in the organization—and have then to define objectives. All of them are responsible to think through what I call the “theory of the business,” that is, the assumptions on which the organization bases its performance and actions, and equally, the assumptions that organizations make to decide what things not to do. All of them require an organ that thinks through strategies, that is, the means through which the goals of the organization become performance. All of them have to define the values of the organization, its system of rewards and punishments, and with it its spirit and its culture. In all of them, managers need both the knowledge of management as work and discipline and the knowledge and understanding of the organization itself, its purposes, its values, its environment and markets, its core competencies.

Management as a *practice* is very old. The most successful executive in all history was surely that Egyptian who, forty-seven hundred years or more ago, first conceived the pyramid—without any precedent—and designed and built it, and did so in record time. With a durability unlike that of any other human work, that first pyramid still stands. But as a *discipline*, management is barely fifty years old. It was first dimly perceived around the time of World War I. It did not emerge until World War II and then primarily in the United States. Since then, it has been the fastest-growing new business function, and its study the fastest-growing new academic discipline. No function in history has emerged as fast as management and managers have in the last fifty to sixty years, and surely none has had such worldwide sweep in such a short period.

Management, in most business schools, is still taught as a bundle of techniques, such as the technique of budgeting. To be sure, management, like any other work, has its own tools and its own techniques. But just as the essence of medicine is not the urinalysis, important though it is, the essence of management is not techniques and procedures. The essence of management is to make knowledge productive. Management, in other words, is a social function. And in its practice, management is truly a “liberal art.”

The Social Sector

The old communities—family, village, parish, and so on—have all but disappeared in the knowledge society. Their place has largely been taken by the new unit of social integration: the organization. Where community membership was seen as fate, organization membership is voluntary. Where community claimed the entire person, organization is a means to a person’s end, a tool. For two hundred years a hot debate has been raging, especially in the West: are communities “organic” or are they simply extensions of the person? Nobody would claim that the new organization is “organic.” It is clearly an artifact, a human creation, a social technology.

But who, then, does the social tasks? Two hundred years ago social tasks were being done in all societies by the local community—primarily, of course, by the family. Very few, if any, of those tasks are now being done by the old communities. Nor would they be capable of doing them. People no longer stay where they were born, either in terms of geography or in terms of social position and status. By definition, a knowledge society is a society of mobility. And all the social functions of the old communities, whether performed well or poorly (and most were performed very poorly, indeed), presupposed that the individual and the family would stay put. Family is where they have to take you in, said a nineteenth-century adage; and community, to repeat, was fate. To leave the

community meant becoming an outcast, perhaps even an outlaw. But the essence of a knowledge society is mobility in terms of where one lives, mobility in terms of what one does, mobility in terms of one's affiliation.

This very mobility means that in the knowledge society, social challenges and social tasks multiply. People no longer have "roots." People no longer have a "neighborhood" that controls where they live, what they do, and indeed, what their "problems" are allowed to be. The knowledge society, by definition, is a competitive society; with knowledge accessible to everyone, everyone is expected to place himself or herself, to improve himself or herself, and to have aspirations. It is a society in which many more people than ever before can be successful. But it is therefore, by definition, also a society in which many more people than ever before can fail, or at least can come in second. And if only because the application of knowledge to work has made developed societies so much richer than any earlier society could even dream of becoming, the failures, whether poverty or alcoholism, battered women or juvenile delinquents, are seen as failures of society. In traditional society they were taken for granted. In the knowledge society they are an affront, not just to the sense of justice but equally to the competence of society and its self-respect.

Who, then, in the knowledge society takes care of the social tasks? We can no longer ignore them. But traditional community is incapable of tackling them.

Two answers have emerged in this century—a majority answer and a dissenting opinion. Both have been proven to be the wrong answers.

The majority answer goes back more than a hundred years, to the 1880s, when Bismarck's Germany took the first faltering steps toward the welfare state. The answer: the problems of the social sector can, should, and must be solved by government. It is still probably the answer that most people accept, especially in the developed countries of the West—even though most people probably no longer fully believe it. But it has been totally disproven. Modern

government, especially since World War II, has become a huge welfare bureaucracy everywhere. And the bulk of the budget in every developed country today is devoted to “entitlements,” that is, to payment for all kinds of social services. And yet, in every developed country, society is becoming sicker rather than healthier, and social problems are multiplying. Government has a big role to play in social tasks—the role of policy-maker, of standard setter, and, to a substantial extent, the role of paymaster. But as the agency to *run* social services, it has proven itself almost totally incompetent—and we now know why.

The second dissenting opinion was first formulated by me in my 1942 book *The Future of Industrial Man*. I argued then that the new organization—and fifty years ago that meant the large business enterprise—would have to be the community in which the individual would find status and function, with the plant community becoming the place in and through which the social tasks would be organized. In Japan (though quite independently and without any debt to me) the large employer—government agency or business—has indeed increasingly attempted to become a “community” for its employees. “Lifetime employment” is only one affirmation of this. Company housing, company health plans, company vacations, and so on, all emphasize for the Japanese employee that the employer, and especially the big corporation, is the community and the successor to yesterday’s village and to yesterday’s family. But this, too, has not worked.

There is a need indeed, especially in the West, to bring the employee increasingly into the government of the plan community. What is now called “empowerment” is very similar to the things I talked about more than fifty years ago. But it does not create a community. And it does not create the structure through which the social tasks of the knowledge society can be tackled. In fact, practically all those tasks, whether providing education or health care; addressing the anomalies and diseases of a developed and, especially, of a rich society, such as alcohol and drug abuse; or tackling the problems of incompetence and irresponsibility such as those of

the “underclass” in the American city—all lie outside the employing institution.

The employing institution is, and will remain, an “organization.” The relationship between it and the individual is not that of “membership” in a “community,” that is, an unbreakable, two-way bond.

To survive, it needs employment flexibility. But increasingly also, knowledge workers, and especially people of advanced knowledge, see the organization as the tool for the accomplishment of their own purposes and, therefore, resent—increasingly even in Japan—any attempt to subject them to the organization as a community, that is, to the control of the organization; to the demand of the organization that they commit themselves to lifetime membership; and to the demand that they subordinate their own aspirations to the goals and values of the organization. This is inevitable because the possessor of knowledge, as said earlier, owns his or her “tools of production” and has the freedom to move to wherever opportunities for effectiveness, for accomplishment, and for advancement seem greatest.

The right answer to the question, Who takes care of the social challenges of the knowledge society? is thus neither the government nor the employing organization. It is a separate and new *social sector*.

Increasingly, these organizations of the social sector serve a second and equally important purpose. *They create citizenship*. Modern society and modern polity have become so big and complex that citizenship, that is, responsible participation, is no longer possible. All we can do as citizens is to vote once every few years and to pay taxes all the time.

As a volunteer in the social sector institution, the individual can again make a difference.

Nothing has been disproved faster than the concept of the “organization man,” which was almost universally accepted forty years ago. In fact, the more satisfying one’s knowledge work is, the more one needs a separate sphere of community activity.

The New Pluralism

The emergence of the society of organizations challenges the function of government. All social tasks in the society of organizations are increasingly being done by individual organizations, each created for one, and only one, social task, whether education, health care, or street cleaning. Society, therefore, is rapidly becoming pluralist. Yet our social and political theories still assume a society in which there are no power centers except government. To destroy or at least to render impotent all other power centers was, in fact, the thrust of Western history and Western politics for five hundred years, from the fourteenth century on. It culminated in the eighteenth and nineteenth centuries when (except in the United States) such original institutions as still survived—for example, the universities or the established churches—all became organs of the state, with their functionaries becoming civil servants. But then, immediately beginning in the mid-nineteenth century, new centers arose—the first one, the modern business enterprise, emerged around 1870. And since then one new organization after another has come into being.

In the pluralism of yesterday, the feudalism of Europe's Middle Ages, or of Edo Japan in the seventeenth and eighteenth centuries, all pluralist organizations, whether a feudal baron in the England of the War of the Roses or the *daimyo*—the local lord—in Edo Japan, tried to be in control of whatever went on in their community. At least they tried to prevent anybody else from having control of any community concern or community institution within their domain.

But in the society of organizations, each of the new institutions is concerned only with its own purpose and mission. It does not claim power over anything else. But it also does not assume responsibility for anything else. *Who then is concerned with the common good?*

This has always been a central problem of pluralism. No ear-

lier pluralism solved it. The problem is coming back now, but in a different guise. So far it has been seen as imposing limits on these institutions, that is, forbidding them to do things in the pursuit of their own mission, function, and interest that encroach upon the public domain or violate public policy. The laws against discrimination—by race, sex, age, education, health, and so on—that have proliferated in the United States in the last forty years all forbid socially undesirable behavior. But we are increasingly raising the question of the “social responsibility” of these institutions: What do these institutions have *to do*—in addition to discharging their own functions—to *advance* the public good? This, however—though nobody seems to realize it—is a demand to return to the old pluralism, the pluralism of feudalism. It is a demand for “private hands to assume public power.”

That this could seriously threaten the functioning of the new organizations the example of the school in the United States makes abundantly clear.

The new pluralism has the old problem of pluralism—who takes care of the common good when the dominant institutions of society are single-purpose institutions? But it also has a new problem: how to maintain the performance capacity of the new institutions and yet maintain the cohesion of society? This makes doubly important the emergence of a strong and functioning social sector. It is an additional reason why the social sector will increasingly be crucial to the performance, if not to the cohesion, of the knowledge society.

As soon as knowledge became the key economic resource, the integration of the interests—and with it the integration of the pluralism of a modern polity—began to fall apart. Increasingly, noneconomic interests are becoming the new pluralism, the “special interests,” the “single-cause” organizations, and so on. Increasingly, politics is not about “who gets what, when, how” but about values, each of them considered to be an absolute. Politics is about “the right to live” of the embryo in the womb as against the right of a woman to control her own body and to abort an embryo. It is about

the environment. It is about gaining equality for groups alleged to be oppressed and discriminated against. None of these issues is economic. All are fundamentally moral.

Economic interests can be compromised, which is the great strength of basing politics on economic interests. “Half a loaf is still bread” is a meaningful saying. But “half a baby,” in the biblical story of the judgment of Solomon, is not half a child. Half a baby is a corpse and a chunk of meat. There is no compromise possible. To an environmentalist, “half an endangered species” is an extinct species.

This greatly aggravates the crisis of modern government. Newspapers and commentators still tend to report in economic terms what goes on in Washington, in London, in Bonn, or in Tokyo. But more and more of the lobbyists who determine governmental laws and governmental actions are no longer lobbyists for economic interests. They lobby for and against measures they—and their paymasters—see as moral, spiritual, cultural. And each of these new moral concerns, each represented by a new organization, claims to stand for an absolute. Dividing their loaf is not compromising. It is treason.

There is thus in the society of organizations no single integrating force that pulls individual organizations in society and community into coalition. The traditional parties—perhaps the most successful political creations of the nineteenth century—no longer can integrate divergent groups and divergent points of view into a common pursuit of power. Rather, they become battlefields for these groups, each of them fighting for absolute victory and not content with anything but total surrender of the enemy.

This raises the question of how government can be made to function again. In countries with a tradition of a strong independent bureaucracy, notably Japan, Germany, and France, the civil service still tries to hold government together. But even in these countries the cohesion of government is increasingly being weakened by the special interests and, above all, by the noneconomic, the moral, special interests.

Since Machiavelli, almost five hundred years ago, political science has primarily concerned itself with power. Machiavelli—and political scientists and politicians since him—took it for granted that government can function once it has power. Now, increasingly, the questions to be tackled are: What are the functions that government and only government can discharge and that government *must* discharge? and How can government be organized so that it can discharge those functions in a society of organizations?

The twenty-first century will surely be one of continuing social, economic, and political turmoil and challenge, at least in its early decades. The Age of Social Transformations is not over yet. And the challenges looming ahead may be more serious and more daunting still than those posed by the social transformations of the twentieth century that have already happened.

Yet we will not even have a chance to resolve these new and looming problems of tomorrow unless we *first* address the challenges posed by the developments that are already accomplished facts. If the twentieth century was one of social transformations, the twenty-first century needs to be one of social and political innovations.

About the Author

Peter F. Drucker was born in 1909 in Vienna and was educated there and in England. He received his doctorate in public and international law while working as a newspaper reporter in Frankfurt, Germany, and then worked as an economist for an international bank in London. In 1927, he came to the United States. Drucker's management books and analyses of economics and society are widely read and respected throughout the world and have been translated into more than 20 languages. He also has written a lively autobiography, two novels, and several volumes of essays. He has been a frequent contributor to various magazines and journals over the years and is an editorial columnist for *The Wall Street Journal*.

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