

# ONE OF THE GREATEST INFLUENCES ON MODERN MANAGEMENT: PETER F. DRUCKER

Timothy S. Kiessling, California State University - Stanislaus (tkiessling@csustan.edu)  
R. Glenn Richey, University of Alabama

## ABSTRACT

This manuscript discusses the contributions of Peter F. Drucker and the seminal influences on his logic made by the Austrian School of Economics. Drucker focused on four critical elements of the Austrian School: 1) an interdisciplinary approach and philosophical sophistication, 2) the vision of market competition as an endless dynamic process (creative destruction, entrepreneurship), 3) the firm as a social entity and as a depository of knowledge, and 4) the role of the government.

Peter F. Drucker was honored recently as “THE” guru of Management thought on his 90<sup>th</sup> birthday in the *Wall Street Journal*. Drucker has published thousands of manuscripts, 26 books and given tens of thousands of lectures over the past seven decades. His works have been translated extensively for international managers. There seems to be no stopping his continued proliferation of management advice. Drucker has produced volume upon volume of influential managerial ideas and lessons. Yet, the question remains – what school of thought has been the most influential in the development of his logic?

Great thinkers are foundationally influenced by lifetime experiences. These experiences structure their processes of thought and direct their theoretical inclinations. Many ancient philosophical contests argued the idea of *original thought* as not original at all -- but fundamentally based upon prior knowledge and experience. The mathematical economist John Maynard Keynes supported the idea that management philosophers often consider themselves free from any scholarly influence despite actually being tied directly to their learning origins (Lowry, 1979). Thus, it is not surprising that nearly every economist today uses some bit of his/her history in arriving at his/her conclusions given economic theory (Small, 1924). Following this logic, we will strive in this manuscript to create a clear relationship between the Austrian School of Economics’ theoretical parameters and the origin of Peter F. Drucker’s logical concepts and prolific career. We suggest that Drucker’s early writings, which consisted of political and philosophical content, parallel closely with the Austrian School of Economics (ASE). As Drucker’s career matured, he may have deviated from specific ideals exemplified by the Austrian School of Economics but sound theoretical tenets remained the same throughout his career linking him to the Austrian School of Economics.

## **Peter F. Drucker:**

### History and Foundations:

“In most areas of intellectual life nobody can quite decide who is top dog – sometimes because rival schools of thought have rival champions, sometimes there are so many fine specimens from which to choose. In the world of management gurus, however there is no debate. Peter Drucker is the one guru to who other gurus kowtow” (Mickelwait & Wooldridge, 1996, p. 201).

Drucker was born in 1909 in Vienna, Austria, the home of the Austrian School of Economics. Ignored early in his career by academicians, Drucker is now embraced by the academic community and is widely quoted. Vienna in the early 1900s was an intimate though profoundly diverse society of the well educated, artistic and famous. The Drucker family was part of this inner circle and this is where young Peter met Schumpeter for the first time. Schumpeter and Drucker’s father were close friends that gave Peter continual direct access to the master Austrian School economist for most of his life (Drucker, 1997). It has been strongly supported by other academicians that Drucker was particularly influenced by Schumpeter over the course of his childhood (Wren, 1994). Drucker chronicles an interesting fact from his childhood:

“My father (Adolph Drucker, economist and lawyer) had a dinner party every Monday and there were often economists, as well as ranking civil servants, even a major international lawyer” (Drucker, 1998, p. 23).

It would be surprising if Joseph Schumpeter, who was a close friend of the Drucker family, were not present for many other lively dinner discussions. Due to this long and continued relationship with Schumpeter, it is easy to assume an influence on Drucker. Not surprisingly, Drucker visited Schumpeter on his deathbed with his father five days before Schumpeter’s death, on January 3, 1950 (Drucker, 1997). Despite this relationship, Drucker rarely cited the writings of the Austrian School of Economics, nor its champions. This may be a function of becoming so immersed within a doctrine that one loses sight of the origin as discussed in the introduction.

Drucker’s major competency is to take the most complex and to communicate it simplistically. For example, although Management by Objectives (MBO) was championed by Harold Smiddy, of General Electric, it took Drucker to put it all together, think through the underlying philosophy, and then explain and advocate it in a form others could use (Greenwood, 1981). His greatest strengths were in analyzing information, constructing a paradigm, and explaining his thoughts with understandable acumen. Drucker has said that he considers himself fortunate to be in the right place at the right time and that explains his popularity and prolific contributions.

“I was lucky. When God rained manna from heaven, I had a spoon.” (Tarrant, 1976, p. 87)

### Interdisciplinary Approach and philosophical sophistication: **Drucker**

The aspect of bridging the functional barriers of several disciplines is not altogether unique. Modern academics/business people tend to become specialized in their respective domains and do not venture out into new fields of endeavor. This silo effect limits creativity, as all disciplines are interrelated in some fashion. Drucker could well be considered a modern

Renaissance man who has broken the specialization mold to explore many different disciplines. He

“forced himself to study in the afternoons and evenings: international relations and international law; the history of social and legal institutions; finance; and so on. Gradually, I (Drucker) developed a system. I still adhere to it. Every three or four years I pick a new subject. It may be Japanese art; it may be economics. Three years of study are by no means enough to master a subject, but they are enough to understand it. So for more than 60 years I have kept on studying one subject at a time. That not only has given me a substantial fund of knowledge. It has also forced me to be open to new disciplines and new approaches and new methods – for every one of the subjects I have studied makes different assumptions and employs a different methodology.” (Drucker, 1997; p. 63)

Growing up in Vienna and exposed to Verdi, Freud, Mahler, Schumpeter, and many other great thinkers of that time surely exacerbated Drucker’s desire for his ultimate wealth of cross-disciplinary knowledge and philosophy. Yet, his philosophical context parallels the Austrian thought, and the effect we propose that Schumpeter and the Austrian School had upon Drucker. Von Mises, for instance, proposed an a-priorist “praxiology” or “science of human action” in reasoning to his axioms. The only significant source of anti-naturalism in economics has been the Austrian school. Anti-naturalism offers alertness to the difficulties unique to the social sciences, such as self-consciousness, historical change, culture, and ideology (Jackson, 1995).

Drucker also attempted to define his surroundings much as the Austrian School did, as a philosopher who has made bold and breathtaking attempts to probe the real meanings of life in what is often a mechanistic and cruel world (Tarrant, 1976). Drucker’s work was not of numbers and in-depth mathematical formulas, but one of observation and theoretical acumen. Thus, it is not a surprise that he encountered adversaries much like the Austrian school due to his cross-disciplinary approach. Drucker’s book, *The Future of Industrial Man* (1942), annoyed academic critics because it mixed economics with social sciences by arguing that firms had a social dimension as well as an economic purpose (Mickelwait & Wooldridge, 1996).

Drucker’s books were not about a narrow stream of topics within economics but varied from management (i.e. *The Practice of Management, Management Challenges for the 21st Century*) to political (i.e. *End of Economic Man, Future of Industrial Man*) to society (i.e. *The Ecological Vision, The New Society*) to fiction (i.e. *The Temptation to do Good, The Last of All Possible Worlds*). Drucker’s philosophical bent, which mirrored those of the Austrians towards diversity in knowledge, assisted with this interdisciplinary foresight.

*The vision of market competition as an endless dynamic process (creative destruction/entrepreneur): Drucker*

“There was no magic to entrepreneurship, a teachable discipline like chess. Biographical circumstance made entrepreneurship congenial to Drucker; the economics of innovation had been established by his father’s friend and former colleague from the economics faculty of the University of Vienna, Joseph Schumpeter” (Beatty, 1998, p. 97).

Drucker builds on Schumpeter's premise of entrepreneurship. In Drucker's terms, the essence of entrepreneurship is motivation of doing something different rather than doing the same thing again in an attempt to do it better. In *Innovation and Entrepreneurship* Drucker (1985) devotes sections and chapters to seven sources of innovative opportunity, "the principles of innovation", "the bright idea", "the new venture", and a pair of entrepreneurial strategies for established firms, "Fustest and the Mostest", and "Hit Them Where They Ain't". In *The New Society*, Drucker (1951) gives Schumpeter the credit for the concept of the innovator. In *Managing for Results* (1964), he suggests that no leadership position is more than a temporary advantage. He posits that business tends to drift from leadership to mediocrity. This is nothing but a restatement of Schumpeter's theorem that profits result only from the innovator's advantage and therefore disappear as soon as the innovation has become routine.

In one of his few references to the Austrian School of Economics, Drucker would admit, "if the centenary of Schumpeter's birth was noticed at all, it would be in a small doctoral seminar. And yet it was Schumpeter who will shape the thinking and form the questions of economic theory and economic policy for the rest of the century, if not for the next thirty or fifty years" (Drucker, 1993, p. 106). Drucker supported and furthered Schumpeter's concept of a "Profound shift" going on around us from a "managerial" to an "entrepreneurial" economy (Beatty, 1998). Drucker continuously builds upon this premise and devises unique management tools to participate, be proactive, and survive this dynamic process. The economy was incessantly churning, shifting, with some industries failing, others surging, the modern economy was in this state of flux (Drucker, 1993).

#### *Firm as a Social Entity and as a Depository of Knowledge: Drucker*

Neither the Austrian School of Economics nor Peter Drucker would abandon their social view of the firm. As such, each considered many favorable aspects of the socialistic state, despite condemning the same. The condemnation was towards governmental control of the allocation of resources, versus self-imposed cooperation. For instance, the apparent imbalance of today's executive salary to average worker salary has grown from a \$20-1 ratio to nearly \$200-1. "I (Drucker) am appalled – and rather scared – by the greed of today's executives. I have said frequently that it is both obscene and socially destructive for chief executives to get a \$20 million bonus for firing 10,000 workers" (Caulkin, 1999, p. 56).

Drucker has always argued that free enterprise cannot be justified as being only good for business. It should also be good for society. It follows that management must be a humanist undertaking. On one hand management must practice social justice; on the other, only management can breathe life into organizations and use its ingenuity to turn social problems into wealth-creating opportunities (Caulkin, 1999). The firm as a plant community is more than a revenue generator, though that is its primary goal. Thus, Drucker considered the firms had two laws of institutional social responsibility: 1) limit the impact, and 2) anticipate the impact of unemployment (Drucker, 1964).

Even early in his career, Drucker considered the role of employees in the firm as gaining a voice in government, at work, and in their local communities (Beatty, 1993). Drucker continued to point out that the firm must generate a role for the individual within the firm that

was anti-specialization because: a) fails to utilize man's real efficiency, and b) leads to real and tangible inefficiency in the form of fatigue, stress and strain (Drucker, 1951).

In Drucker's book *Concept of Corporation* (1946), he treated the firm as a social system as well as an economic organization. The book's two longest sections are entitled "The Corporation as human effort" and "The Corporation as a social institution". Drucker found the way people worked together dynamic in its own right, rather than just a means to make a profit. He felt that an organization is a human, a social, and indeed a moral dilemma (Drucker, 1946). Hence, the best way to create value for customers is to treat workers not as production costs but also as resources, capable of making a sustained and valued contribution. He also furthered the institutional firm with two other concepts -- creating the self-governing plant community and the rise of the knowledge worker (the worker whose value is in his knowledge) (Drucker, 1946).

Social institutions are seen as a means to carry out the basic promises of life. Big firms must give status and function to the individual and the justice of equal opportunity. Firms should be representative social institutions of the society. In addition to being an economic tool, the firm is also a political tool and social body. Its social function as a community is as important as its economic functions as an efficient producer. Individuals' demand for status and function suggests that workers must obtain both the standing in his society and individual satisfaction through his membership in the firm (Drucker, 1946).

Knowledge retention and generation for the firm was given considerable importance in Drucker's research. Success between competitive firms is the result of differentiation. The source of this specific differentiation is a specific, distinct knowledge possessed by a group of people within a firm (Drucker, 1964). Drucker considers knowledge as a perishable commodity in which no firm can excel all knowledge areas and those that try will eventually become obsolete.

Since his early forays into the firm as a social entity (self-governing plant community), Drucker has given up that concept in favor of the *Knowledge Worker*. Still, he feels strongly that the firm should still maintain respect for its employees if only to retain them. In the past, Drucker's concept of the social organization was that of the traditional factory with a homogeneous mass of anonymous workers who needed the jobs far more than the jobs needed them. The new economy must assume a highly diverse work population, wherein the production process needs workers more than they need jobs (Panchak, 1998). Therefore, the market's impact has forced Drucker to narrow his focus, turning from the organization to the knowledge worker. Individuals are living longer and the firms' life span is decreasing, therefore employees are "outliving" their firms, and must learn to manage themselves (Reingold, 1999).

#### Government's Role: Drucker

In the *Age of Discontinuity* (1969), Drucker argues that the job of government is to govern rather than to try to do things that could be done by the private sector. If nothing more than unavoidable, the government and private industry must "live in harmony" or disastrous consequences for both (Drucker, 1951). Drucker also fought the Keynesian tide (which called for governmental influence given mathematical foundations) and the implicit role of government intervention embodied within that economic thought.

“The Keynesian remedy of the “reflation” of consumption is the very worst thing for it; and the Keynesian medicine men who inherited their master’s prescriptions without having his diagnostic skill are a real menace” (Drucker, 1951, p. 82).

Drucker had the insight to apply management thought to all spheres of life: universities, churches, charities, American Girl Scouts, etc. However, his enthusiasm for taking management theory to the public sector should not be mistaken for government. He gave the world the importance of privatization based on the government’s inability to run just about anything (Mickelwait & Wooldridge, 1996). Drucker’s ever-present humor outlines government’s role, as “Warfare is the only example of a modern government program that has achieved its objectives” (Mickelwait & Wooldridge, 1996, p. 46). His contribution to the role of the free market and opposition to governmental intervention is considerable, much like the works of the Austrian School of Economics.