

# Peter F. Drucker on Executive Leadership and Effectiveness

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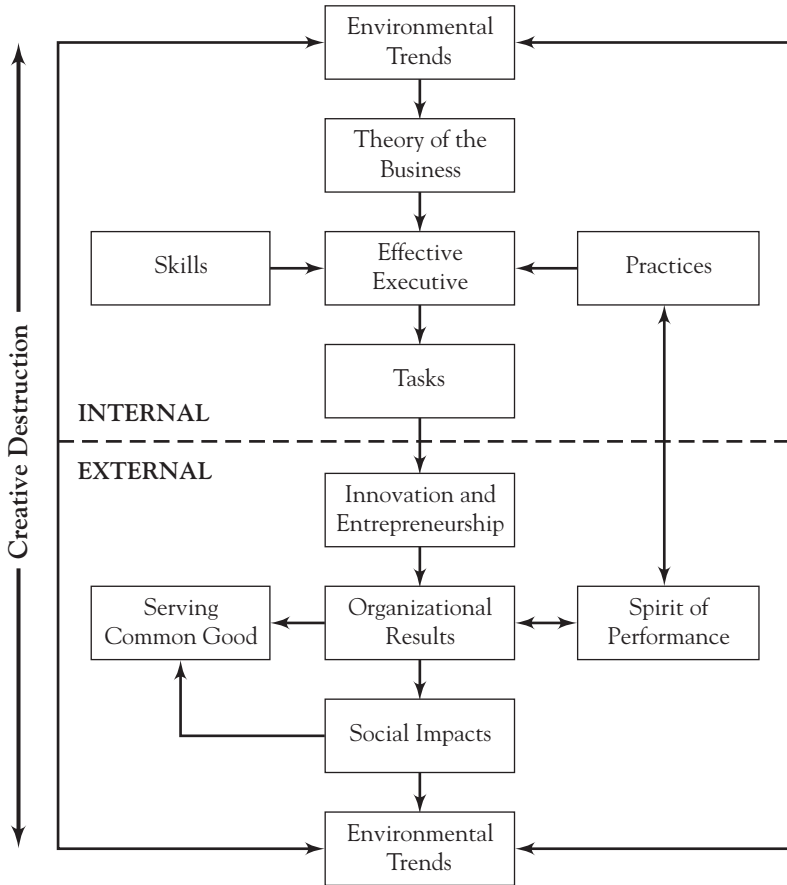
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Peter Drucker’s writings on management and executive leadership are extensive and varied. Yet through all of his work a definite vision of what executive leadership and management is and how leaders and managers should operate does emerge. These intertwined and overlapping subjects can be distinguished, at least in theory, by separating the principles of governance of organizations, which Drucker refers to as the *practice of management*, from the principles of the conduct of leaders in these organizations, which he refers to as the *effective executive*.<sup>1</sup>

A simplified systems representation is presented in Figure 1.1. This figure integrates Drucker's views on executive leadership and management into a framework that leaders can apply in their own organizations. The elements of the figure interweave leadership skills and management practices, both of which are required to attain performance.

This chapter describes these interrelated elements as a system. Please use Figure 1.1 as a reference point as each element is described in an iterative manner. Seek to understand the system of leadership

**Figure 1.1. Systems View: Executive Leadership and Effectiveness.**



and effectiveness as an organic whole and not merely as a set of isolated elements.

Because Drucker's primary focus is on organizational performance and integrity of leadership, we start our discussion of the elements in Figure 1.1 with what he calls "the Spirit of Performance." This element is located in the lower right-hand portion of the figure.

## Executive Leadership and Effectiveness

Executive leadership is concerned with creating organizations that have a high *spirit of performance*. To attain such a spirit of performance, leaders must

- Exhibit high levels of integrity in their moral and ethical conduct
- Focus on results
- Build on strengths—one's own and others'
- Lead beyond borders to meet at least minimum requirements of all stakeholders, including customers, shareholders, and the public, thereby serving the common good

An organization high in spirit of performance is one that is led by executives who are committed to *doing the right thing* and to *getting the right things done*. These executives possess integrity of character; have a vision for the purpose of their organization; focus on opportunities; are change leaders; and follow essential tasks, responsibilities, and practices of management.

Executive skills, practices of effective executives, and executive tasks are acquired through knowledge and experience. Although there may be "born leaders," leadership principles and practices must be learned and can be learned. Executive leadership principles

are required, first, to formulate purpose (the “theory of the business”) and to pursue performance objectives (for organizational results). These principles focus organizational resources on innovation and entrepreneurship, which must be learned, exploited, and integrated into an organization’s activities. Innovation is necessary to remain ahead of those changes imposed on an organization by an ever-changing environment.

Innovation is focused primarily outwardly, on opportunities, on the customer, on technology, on competitors, and so on. Results, such as customer satisfaction, revenue, and profitability, are always on the outside.

The elements in Figure 1.1 are not independent of one another; they interact and exert their own gravitational pull. The primary focus of executive leadership is formulating and implementing an organization’s “theory of the business.” This requires that executives be competent in performing certain “practices of effective executives.” Effectiveness also requires that executives perform certain tasks—specifically, “executive tasks.” To perform these practices and tasks, executives must learn and use a set of “executive skills.”

Implementing an organization’s theory of the business inevitably leads to “social impacts,” foreseeable consequences such as employment and purchasing practices, and consumption of natural resources that have an impact on the environment and create demands for public services. An organization is responsible for making certain that these and other impacts are directed in support of the common good.

### **The Spirit of Performance: True Test of an Organization**

As noted earlier, the true test of an organization is the presence of a spirit of performance. An organization that is high in spirit builds on and develops the strength of each person, and this results in common people doing extraordinary things. To guard against weak-

nesses created by an emphasis on strengths, a highly spirited organization will cover members' weaknesses by overlapping the strengths of others upon these weaknesses like shingles on a roof.

A demand for performance characterizes a high-spirited organization. Executives here will focus members' activities primarily on opportunities and results. Careful attention is placed on people decisions; these decisions signal to employees what is really valued and desired. People decisions—selection, rewards, and promotion—are the true control of an organization. People decisions direct behavior because they indicate the actual values in action of the organization. These decisions reveal what is truly rewarded and punished, and therefore they direct human behavior.

Executive integrity is crucial to creating an organization with a high spirit of performance because the character of an organization's management serves as an example for subordinates. Actions of executives are highly visible. Consequently, the actions of executives must be based on strict principles of conduct regarding responsibility, performance standards, and respect for individuals. These principles serve as examples for the entire management group and organization. "For the spirit of an organization is created from the top. If an organization is great in spirit, it is because the spirit of its top people is great."<sup>2</sup>

An executive who establishes the spirit of performance in daily practice is a *leader* of his or her organization, for leadership involves

the lifting of a person's vision to higher sights, the raising of a person's performance to a higher standard, and the building of a person's personality beyond its normal limitations.<sup>3</sup>

And there is no better way to create the conditions for the emergence of such leaders than to create an organization that is great in spirit.

## The Theory of the Business

Drucker's ideas about leading organizations all start with the organization's "theory of the business." A theory of the business is the way an organization intends to create value for its customers and is therefore applicable to all organizations, not just business organizations. It requires answers to the following questions:

- What is our mission?
- What are our core competencies?
- Who are our customers and noncustomers?
- What do we consider results for the enterprise?
- What should our theory be? (Which in turn focuses executives to look for opportunities for innovation.)

The theory of a business is often not obvious, nor can it be formulated without controversy. Formulating a theory of business requires executives first to look beyond the walls of the organization to the external environment. The environment is not limited to where the enterprise is currently operating, but also includes other "environments," such as those where noncustomers are being served and where future customers are likely to be served. This means that formulating a theory of the business must be a forward-looking exercise—creating a mission that compels it to systematically evaluate emerging trends, future changes in its environments, and current or emerging social problems that may be turned into business opportunities.

In determining core competencies, an organization must ask, What are we really good at? and What should we be doing?

Assumptions about mission, core competencies, and customers not only must fit reality, but also must be consistent with each other. It is for this reason that a company's theory must be constantly

checked and updated, since, for example, one doesn't want to be selling only mainframe computers, as IBM once did, when one's customers are shifting their preferences to personal computers.

If the theory of the business is different from an organization's current business, then the concepts of *abandonment* and of *innovation* and *change* become obvious. Leaders must be able to recognize when to give up products, processes, and customers and reallocate resources toward more promising opportunities. In summary, the theory of the business sets direction; it should be used to communicate to the organization's members where the business is going, provide the rationale for why it is going down a given path, and align the activities of its members.

## The Environment and Social Impacts

The ethical rule that managers should live by when pursuing their organizations' missions is *primum non-nocere*—"first do no harm." Organizations are public institutions, and their actions have impacts on society. Their codes of professional ethics must be to *not knowingly do harm*. Legal and ethical violations should be met with stiff penalties for those who break the law and who otherwise knowingly do harm.

Drucker describes two different types of social impacts:

- Those negative ones that an organization creates
- Social ills that are turned into business opportunities

Both impacts are important and must be managed since the first deals with what an organization does to *harm* society, and the second with what an organization can do to *help* society.

An organization's social impact is properly defined as activities, or results of activities, that are achieved in an organization's pursuit of its purpose. Each institution must be dedicated to a purpose—for

example, a hospital should heal the sick; a business should satisfy economic wants; and a church, synagogue, or mosque should nourish people spiritually. Detrimental impacts to society created in this process must be minimized because they are harmful to the common good and are also outside the proper mission of any organization.

There is also a balance between cleaning up after one's negative impacts and, in doing so, incurring costs that create a competitive disadvantage for an organization within its industry. In the latter case, it is in the interest of executives in an industry (for example, the accounting profession) to agree upon appropriate regulation (that is, to avoid auditing scandals such as those involving Enron, WorldCom, and so on) that minimizes negative impacts and simultaneously eliminates undue disadvantages among competitors.

Organizations must focus on their missions, minimize negative social impacts, and take a proactive interest in the common good. Institutions are organs of society. As such they are significantly dependent upon the welfare of society for their own welfare. To this end, management must work to obtain appropriate regulations so as to level the competitive playing field within its industry when executive insiders know that substantial negative social impacts are present.

The difficulty and expense executives are now incurring complying with the requirements of the Sarbanes-Oxley Act of 2002, enacted as a result of the public outcry over numerous accounting scandals of the 1990s, were preventable. All that was needed was self-regulation by members of the accounting profession as represented by the American Institute of Certified Public Accountants and the Financial Accounting Standards Board. Such self-regulation would have led to far more effective legislation for preventing accounting abuses, because it would have been developed by the professional groups best informed to propose the regulation to Congress and later to enforce the regulation on their members.



The second type of social impact, *social ills* or *dysfunctions*, should be thought of as challenges and treated as potential business opportunities. Organizations should aggressively pursue activities that turn the elimination of social dysfunctions into business opportunities (for example, Branch Rickey, general manager of the Brooklyn Dodgers, breaking the color line by bringing Jackie Robinson into Major League Baseball).

Finally, management must also support the common good by helping community organizations financially—personally, in the form of corporate donations and by encouraging employees to donate money and volunteer their time supporting the work of community, and professionally, by lending their executive expertise to help these community groups address major social problems (in one example, the revitalization of downtown Cleveland, Ohio, was aided by the executive expertise of local CEOs). Executives should remember that “an organ [a business] cannot prosper in a dying body [society].” Yet, in the process of seeking to promote the common good, executives should never lose sight of their principal mission, for if they lose sight of their principal mission, they will be of little use to society.

## Executive Practices, Skills, and Tasks

Executive leadership and effectiveness consist of three interconnected areas, as shown in Figure 1.1.

- Personal attributes and practices that make an executive leader effective
- Specific skills executives must acquire to be effective as leaders
- Particular tasks that executives must perform to lead their organization to be effective

## Practices of Executive Effectiveness

The five individual practices of an effective executive for getting the right things done are those contained in Drucker's *The Effective Executive* and the new companion journal *The Effective Executive in Action*.<sup>4</sup> The five practices are summarized in this section.

Executive practices begin with the need to perform *time management*. Time is our most limiting resource; once used it is irreplaceable. We can acquire more of every other resource. The way we use our time may seem obvious at first. But how many executives think they spend most of their time on strategic planning and decision making only to find out, upon careful study of their actual time use, that they are mostly occupied with the repetitive and unproductive demands of others?

Drucker suggests that executives

- Record the actual use of time and prune time-wasters in order to free enough time to accomplish high priority tasks that require major blocks of time to do right
- Focus most upon activities that produce results in three major performance areas: direct results, developing people, and nurturing values

Consistent with effective management of an executive's time is the requirement to set priorities so as to concentrate time on opportunities, on those tasks that show promise of producing results rather than on those tasks that constantly demand the executive's attention but are less important than result-producing activities.

*Setting priorities*—doing the most important things first, one at a time—gives the executive the best opportunity to achieve superior performance. Superior performance is achieved by focusing effort on the performance areas.

*People decisions* are among the most important decisions executives make—one of the three key performance areas. These deci-

sions should attempt to match the strengths of a person with the specific assignments of a position. These decisions have their own rules, including understanding the specific assignment, considering a number of qualified candidates, examining the performance records of candidates, and making certain the selected candidate understands the new assignment. An effective executive builds on the strengths of employees, overlapping responsibilities and thereby covering weaknesses. In this way each member of an organization can be made productive.

*Concentration on superior performance* also requires that executives abandon unproductive activities. They should ask themselves, If we were not doing a particular activity, making a particular product, or participating in a particular process already, would we do it now? And if they would not, then they should ask, What should we do about it now? Should we attempt to make it more effective, abandon it, or, in the case of a product line, sell it?

The final practice of the effective executive is *making effective decisions*. Making effective decisions is both a skill—following the right steps in the right order—and the specific practice of the executive. Only executives make decisions that affect the result areas. Decision making thus distinguishes the work of the executive leaders from all others in the organization.

Decision making is in this way the link between individual executive practices and executive skills.

### **Executive Skills**

Executives must acquire skills in five areas in order to be effective:

- Decision making
- Communications
- Budgeting
- Measurement and control
- The management sciences

Effective executives make effective decisions. There are six steps of effective decision making and five characteristics of effective decisions, which may require certain questions to be asked. Briefly, regarding the steps, effective decision makers start by *defining* and *classifying* the problem. These are almost simultaneous steps in the decision-making process.

Defining the problem requires making sure that all observed symptoms of the problem are taken into account in the definition. It is much easier to fix the wrong solution to a problem if the problem has been defined correctly than it is to fix a correct solution to a problem that has been defined incorrectly! If a problem has been defined incorrectly, no proposed solution to that problem can be found. Conversely, if a problem is defined correctly, then an incorrect solution will provide useful feedback information, leading the executive closer to the right solution.

After defining the problem, executives classify it by asking, “Is this problem generic or unique?” Decisions that are generic to the organization or to the industry ought to be solved by finding and applying a rule that has been used to solve the problem by someone else.

If a decision is classified as unique, the decision maker next *determines the boundary conditions* that have to be satisfied for the decision to be effective. Establishing boundary conditions requires an answer to the question, What does the decision have to accomplish to be effective in solving the problem?

Once these boundary conditions are defined, the decision maker then asks *what is the right solution* given these conditions? Next—and this is where a great many decisions fail—the decision maker must *convert the decision into action* by assigning responsibilities for carrying out the decision and by eliminating any barriers faced by those who must act. Finally, the effective decision maker follows up on the decision and *obtains feedback* on what actually happened as a result of the decision and compares this with intended or desired results.

When it comes to characteristics of an effective decision, decision makers first ask, “*Is a decision necessary at all?*” If it is, they explore alternatives by soliciting opinions from those closest to the problem. Next, they ask proponents of decisions to test their “hypothesis” against the facts to determine if the facts support their opinions (in other words, what would the facts have to be for a specific opinion to be correct?).

Effective decision makers *encourage dissent* on alternatives and then *act on the chosen alternative* if the potential benefits of doing so outweigh costs and risks. Dissent, properly carried out, taps the imagination of the parties involved to find an appropriate decision and leads to a more complete understanding of what the problem is all about. And if a decision should fail to meet the boundary conditions after vigorous debate, the decision maker will have a better understanding of the possible causes of failure having considered other alternatives.

Finally, *effective decision making takes courage*, since, as with many effective medicines, effective decisions can sometimes have side effects or unintended outcomes.

Next we turn to a discussion of the remaining skills that executives must acquire to carry out their tasks. First, executives must be *good communicators*. Effective executives must engage in upward communication, in which communication is initiated as well as received by the recipient. This helps ensure that the recipient understands what is being communicated, because unless the recipient “hears,” communication has not taken place. Information and communication are different. Communication does not take place unless the emitter is sure that the receiver understands what action is to be taken as a result of, say, a conversation or a memo. The most effective way to ensure that real communication has taken place is to ask the receiver to describe what he or she has heard from the conversation, including the demands for action required, and to make sure it is what the emitter implied.

*Budgeting* is the most widely used tool of management. Budgets are revenue and expenditure plans developed for each unit to help management decide where to apply the financial and human resources of an organization. In estimating revenues and expenses, executives are able to establish communications with each part of the organization and integrate the objectives, plans, and expenditures of each part with the whole of the organization. Budgets, correctly used, are thus major tools for integrating the plans and performance of the organization—upward, downward, and sideways. By holding each unit responsible for the plans and expenditures in the budget, the budgeting process provides a framework for achieving accountability for performance for each unit and person in the organization. Budgeting is thus crucial to the process of achieving “control” in an organization.

Operating and capital budgets are established to maintain current operations. For these budgets, the appropriate question is, What is the *minimum amount* of resources necessary to keep existing operations going? Administered budgets, however, are discretionary, opportunity-focused budgets, used for new programs, products, research, and other activities such as management development. Opportunity budgets often integrate resource expenditures following from strategic decisions.

Here executives must ask a different question: “What is the largest sum these activities can use effectively to accomplish future objectives?” Activities in opportunity budgets often extend beyond the period of operating budgets. They should be estimated over the life cycle of the opportunity in order to guarantee funding and achieve desired outcomes.

The budget process provides a forum for evaluating existing markets, products, processes, and programs for continuation. Activities that would no longer be initiated if not already in place are prime candidates for abandonment. So as not to cause chaos each period, a periodic review (sometimes called a *zero-based review*) of the activities for each unit should be established well in advance. This helps

to institutionalize a systematic process of abandonment within the organization.

*Creating appropriate measurements and maintaining control* are other skills that effective executives must acquire. An organization's choice of controls indicates to people what is valued and what is desired. Controls are therefore not neutral. They reflect the values of the organization and they direct behavior. Consequently, controls must focus on results. They should be easy to understand and be considered a resource for the person who is responsible for the work that is being controlled. Controls must also be timely and congruent with goals.

Qualitative assessments that the executive also must receive and evaluate are in many cases much more appropriate indicators of performance than are quantitative measurements (for example, is one person a better fit for an open position than another?), and therefore qualitative assessments must supplement quantitative assessments.

The *management sciences* concern themselves with evaluating the assumptions of management through the use of quantitative tools such as statistics, system simulation, project management techniques, and information for decisions extracted from the accounting system. These tools help executives develop factual information for analyzing decisions. Management science tools, such as Six Sigma quality and lean methodologies, are extensively employed for improving the operational processes.

Executives can use the management sciences to help create a true whole that is greater than the sum of its parts (that is, to prevent suboptimization of parts of the organization) and to balance the requirements of the present with those of the future. Executives must understand that “[t]he whole of a system is not necessarily improved if one particular function or part is improved or made more efficient. In fact, the system may well be damaged thereby, or even destroyed. In some cases the best way to strengthen the system may be to weaken a part to make it less precise or efficient.”<sup>5</sup>

## Executive Tasks

The five tasks of the executive are aimed at fulfilling these system requirements.

1. The theory of the business (THOB) is the starting point for *setting objectives*. Management by objectives (MBO) is a well-defined method of setting objectives to achieve the mission of the organization as defined in the THOB. MBO involves setting goals and objectives to balance short-range and long-range objectives. These objectives become the basis for organizing the human and capital resources of the firm and for making work assignments.

The MBO process brings together aspects of executive leadership and management. For example, to determine mission and objectives, an executive must determine an organization's theory of the business. And to make sure that an organization is properly implementing its THOB, managers must engage in a communication process, make decisions, and use measurements and the management sciences. But management by objectives is not only a technique that executives should learn; it is a genuine philosophy of executive leadership.

MBO embodies a process that supports and facilitates teamwork. Communication—upward, downward, and sideways—is essential to setting and accomplishing objectives. Upward communication must be used to ensure that each executive has a clear picture of where the organization is going and how his or her objectives fit into the whole. Most important, when properly employed, MBO relies on a process of self-control and seeks to achieve alignment between individual needs and the goals of the organization. MBO thus seeks to meld individual freedom and responsibility with organizational performance and results. It rests on a high concept of human motivation and behavior. It is the underpinning for a highly spirited organization.<sup>6</sup>

2. An executive's responsibility to *organize* would appear simple on its surface; however, organizing requires analytical skill in order



to understand the activities, decisions, and relationships required in the organization's structure if the organization is to achieve its mission. Organizing requires that managers classify activities and place them in the organization's structure according to their contribution to objectives. Organizing should result in minimizing the number of relationships required for each position to achieve performance.

The organization's structure should allow decisions to be made at the lowest level possible, consistent with minimizing the number of people that must be consulted to make decisions. Executives should seek clarity, simplicity, and economy in their structures, and they should keep to a minimum the number of levels required, because each layer is a communication link that adds complexity and noise to the decision process.

3. A manager must also *motivate* and *communicate*. This requires social skills, trust, a focus on results, and other conditions for a highly spirited organization. It includes providing equitable rewards that balance the merits of the individual with the needs and stability of the group. Motivation comes from people decisions, job design, high expectations for performance, and sound decisions on compensation and rewards.

4. To ensure that efforts in the organization are directed toward objectives, a manager must establish *yardsticks of performance*. Performance in each position is measured in relationship to the objectives of the person and those of the organization. Establishing controls and appropriate reporting mechanisms facilitates the process of self-control as well as the processes of developing oneself and others.

5. *Managing oneself and one's career* and *developing others* is becoming more important with the advent of knowledge work, the knowledge economy, and competition brought about by the forces of globalization. Managing oneself requires the individual to establish a process for determining what one is good at (in other words, one's strengths) and for determining where one's efforts in

their work will be the most fruitful (that is, will make the greatest contribution).

If one were to take a poll, it is likely that few people would identify themselves as having ever considered topics such as, Am I a listener or reader? How do I learn most effectively? Is my job aligned with my values? But these are important issues to settle in order to set the direction of one's career. One must determine where one belongs—in a large or small organization; as a freelancer; in a corporation, government, or social sector institution; or perhaps as an executive or a technologist.

Not only do workers have to understand how they work, they must also understand how the people around them work so they can help these people maximize their contributions. Managing these relationships is crucial to effectiveness.

Executives also must take responsibility for developing the abilities of subordinates and coworkers around them. This is a key result area for the executive. This process is crucial for cultivating future leaders of an enterprise and for helping employees acquire skills that will prepare them for the future. Development is, however, a double-edged process. One cannot develop oneself unless one is actively engaged in the development of others.

To summarize our discussion of Figure 1.1, executive skills, executive tasks, and executive practices must be combined into principles of effectiveness in order to implement an enterprise's theory of the business. Executive principles must be directed toward developing and maintaining a high spirit of performance, achieving organizational results, and managing social impact to derive the common good.

But this is not all effective executives must do. The Internet provides everyone with equal access to information. It results in eliminating distance in the world economy. Globalization and outsourcing have intensified competition in labor, product, and capital markets. The rate of change is becoming torrid and one can react to it, adapt to it, or become proactive and lead it—thus influencing

future environmental trends. A highly spirited organization consists of executives who are proactive in leading change by discerning the “future that has already happened.”

By taking advantage of these trends, these executives embrace the ongoing process of creative destruction<sup>7</sup> that is characteristic of free and global markets, and by doing so these executives become change leaders. They recognize that an organization that seeks to maintain the status quo is already in decline.

Change leaders formulate entrepreneurial strategies and look for windows of opportunity to apply these strategies. They also create an internal culture and set of management systems that encourage and reward innovation and entrepreneurship. In the pages that remain, let’s examine discernable environmental trends in the early twenty-first century and the windows of opportunity they create.

### **Identifying the Future That Has Already Happened: Seizing Opportunities Created by the Process of Creative Destruction to Become a Change Leader**

Peter Drucker’s article “The Next Society: A Survey of the Near Future”<sup>8</sup> and the current and soon to be upon us trends it describes do not change the theory of the business, executive practices, skills and tasks, and social impacts model, but they do shift the opportunity set based on known and projected changes that are fast taking place in the environment.

Executives will have to focus much more on making knowledge work productive and the knowledge workers achieving members of their organizations, given the growing importance of both in the developed and the developing economies. This requires attention to building on strengths and to increasing the productivity of knowledge workers, but also to integrating specialists into the performing whole.

Demographic changes in the developed world include a population that is getting older, accompanied by a birthrate in many of

these countries that is below the level required to maintain stability in the population. Consequently the traditional workforce is shrinking. Such demographic changes mean that marketing strategies and the theory of the business of an enterprise may have to change. Split markets in which both the younger and older generations make up the population dictate very different value propositions and marketing strategies. “What is value?” to customers will have to be viewed through two different generational value systems (for example, the values of the millennium generation versus those of the baby-boom generation).

Another important area bearing on corporations is managing environmental and social impacts. The size of our global population already exerts a negative impact on the environment. Organizations are likely to face stricter regulations in the future. They will have to find new and cleaner sources of energy, because the world’s demand for fossil fuels, especially in rapidly developing economies such as China and India, is likely to continue to drive up prices of these sources and to increase environmental pollution.

These environmental issues will raise the importance of creating accurate measures of emissions and of outcomes associated with reduction efforts of business units. These issues will create business opportunities, as well as social responsibility objectives and measures.

For example, the recent emphasis by General Electric on “17 clean-technology businesses” and the expectations that the new emphasis will expand sales of products supported by these “green” technologies “from \$10 billion in sales in 2004 to \$20 billion by 2010, with more ambitious targets thereafter”<sup>9</sup> is indicative of the potential opportunities created by the global increase in greenhouse gases (GHG). In addition, the company has established different targets for each business unit for reducing emissions of carbon dioxide and overall GHG.

The corporation of tomorrow will be far more complex than previous corporations, or those of today, since it will constitute a web of partnerships, joint ventures, alliances, outsourcing contractors, and

various other kinds of associates or affiliates that are unprecedented in the current breadth and intricacy. Each aspect of the corporation may have its own management, but the relationships among entities will certainly have to be more coordinated and made to perform.

People and communication skills are going to be increasingly important for the executives of the future as they navigate and negotiate their way through their organizations' complex, system, network, and cellular structures.<sup>10</sup>

Organizations increasingly must rely on technology to support and guide their business (for example, the idea of a performance dashboard for each position is not uncommon at present). The blizzard of data will have to be converted into information that is pertinent for each knowledge worker and executive. Broadly, technology is enabling continual increases in productivity for service and knowledge work in the twenty-first century as it had for manufacturing and agricultural work in the twentieth century. This is enhancing the ability of executives to expand output per hour for both service and knowledge workers.

To prosper, networked organizations must rely on communications technology such as the Internet, mobile electronic devices, and videoconferencing to enhance their ability to collaborate amongst their parts and to coordinate the whole. Creating data networks and knowledge management systems also will be important in order to link databases and create simple access to relevant information across global supply chains.

The increased use of technology will have an impact on executives and will require that the list of management science skills be expanded to include the ability to take advantage of information technology.

The changes in our society will open up numerous opportunities for and sources of innovation. Consider the following:

- The shift in demographics will create an opportunity for organizations to bring new value to different customer market segments.

- The growth in the number of single parents will have to be thought through in terms of customer needs and customer values.
- Changes in industry structures, such as in health care, education, and financial services, will allow organizations in these industries to reformulate the way they deliver value, while also creating new sub-businesses to provide goods and services to niche markets.
- Managing an organization's human resources will become significantly more important since these resources are rapidly becoming the most important assets and means for gaining competitive advantage. In addition, major parts of the human resource function, the routine and not-so-routine parts, are and will be outsourced (for example, note the emergence of professional employment organizations and business processing organizations).
- Performance objectives of organizations will have to reflect the requirements of knowledge workers who supply "human capital" to organizations as well as those of outside investors who supply "financial capital."<sup>11</sup>
- Organizations are going to have to be closely connected to what their employees need, especially training, health, and retirement benefits. These are among key motivators for employees and must be carefully managed, especially if employees are wanting to work until they are seventy and beyond.
- The answer *in part* to the reduction in the available workforce in the United States is immigration, but if everyone's birthrate in developed countries is declining, then we are still left with a zero-sum outcome as to the supply of knowledge workers, meaning that many

developed countries will have to manage a smaller workforce or to continually educate a larger portion of their populations.

The most effective way to seize opportunities to manage “the future that has already happened” is to be proactive, take advantage of emerging trends, embrace change, and become a change leader. Executive leadership and management practices must change to fit these new realities of the global, knowledge-based, information society and at the same time they must strive to achieve a high spirit of performance.

## Conclusion

Figure 1.1 presents a systems view of Peter Drucker on leadership and effectiveness. In this chapter, I have described each of the elements in Figure 1.1, and attempted—however imperfectly—to systematically capture Drucker’s monumental achievements in both codifying management as a discipline and describing the practices of an effective leader. These elements, in whole or in part, have been used to advantage by leaders in business, government, and the social sector, in the United States and around the world, and they will continue to do so for the foreseeable future.

## Endnotes

1. The literature on leadership and management is inconsistent in classifying activities as clearly “leadership” or “management,” but there is a fair consensus that providing vision, values, competence, standards, encouragement, optimism, and a sustaining spirit are leadership activities. The remaining five tasks—objective setting, organizing, motivating, assessing progress, and developing people—are almost always classified as management activities. Nevertheless, these activities are not as separable as implied by such a classification scheme. Those who engage primarily in leadership activities also manage, and those who are primarily engaged in day-to-day

management do also carry out leadership activities. As a result, I believe the term *executive* is now more appropriate than either the term *leader* or *manager*. *Executive* is applied to individuals in an organization—leaders, managers, and knowledge workers—who make decisions that have significant influence on one or more of the three key performance areas—direct results, values, and people decisions. I believe this is consistent with Drucker’s view that effective executives “get the right things done” and that leadership is not rank or privileges, “[i]t is responsibility” for performance!

2. P. Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper & Row, 1974) p. 462. Drucker has consistently emphasized the importance of character and integrity for executive and leadership responsibilities. In a revealing interview with Rich Karlgaard conducted in late October 2004, he ends the interview with a discussion of “character development.” He notes, “We have talked a lot about executive development. We have been mostly talking about people’s strength and giving them experiences. Character is not developed that way. That is developed inside and not outside. I think churches and synagogues and the 12-step recovery programs are the main development agents of character today” (Rich Karlgaard, “Peter Drucker on Leadership,” *Forbes.com*, November 19, 2004).
3. P. Drucker, *Management: Tasks, Responsibilities, Practices*, p. 463.
4. The five practices are fully described in Drucker’s management classic, *The Effective Executive* (HarperCollins, 1966). These practices must be worked out by each individual executive or knowledge worker. A comprehensive guide for working out these practices is contained in *The Effective Executive in Action* by Drucker and Maciariello (HarperCollins, 2006).
5. P. Drucker, *Management: Tasks, Responsibilities, Practices*, p. 508.
6. MBO embodies Drucker’s notion of responsibility and freedom. “Responsibility . . . is both external and internal. Externally it implies accountability to some person or body and accountability for specific performance. Internally it implies commitment. The responsible worker is a worker who not only is accountable for specific results but also has authority to do whatever is necessary to pro-



duce these results and finally, is committed to these results as personal achievement” (P. Drucker and J. Maciariello, *The Daily Drucker*, New York: HarperCollins, 2004, p. 104).

7. The process of “creative destruction” was described fully by the great Austrian economist, Joseph A. Schumpeter. The most accessible explanation of the process by Shumpeter is in Chapter Seven of his *Capitalism, Socialism and Democracy* (New York: Harper & Row Publishers, 1942, pp. 81–110). For example, “The opening up of new markets, foreign or domestic, and the organizational development from craft shop and factory floor to such concerns as U.S. Steel, illustrate the same process of industrial mutation . . . that incessantly revolutionizes the economic structure from *within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live with” (p. 83). And, “competition of the kind we have in mind acts not only when in being but also when it is an ever present threat. It disciplines before it attacks” (p. 85).
8. P. Drucker, “The Next Society: A Survey of the Near Future,” *The Economist*, Nov. 3, 2001, reprint, pp. 3–20.
9. “Special Report: The Greening of General Electric,” *The Economist*, December 10, 2005, pp. 77–78.
10. See M. Gladwell, “The Cellular Church,” by Malcolm Gladwell, *The New Yorker*, Sept. 12, 2005, pp. 60–67. Gladwell is the author of *The Tipping Point* and *Blink*.
11. Southwest Airlines, with its focus on attracting, managing, and retaining the right human resource talent, is surely an example of the recognition of the importance of human capital (in both knowledge and services). Given the turbulence in the airline industry, Southwest has proved the competitive advantage of a focus on human resources. Southwest is now one of the leading airlines in the country, and it has achieved these results without cutting its workforce.

