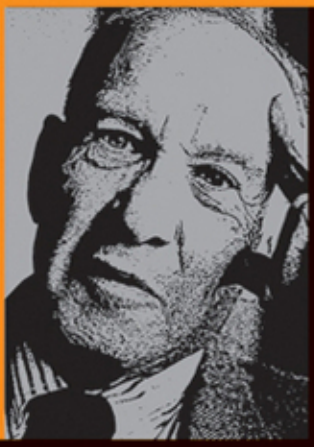
"Pure Drucker. Every chapter brings a fresh, new approach to understanding the world, the works, the leadership philosophy of Peter Drucker."—from the Foreword by FRANCES HESSELBEIN

DRUCKER ON LEADERSHIP



New Lessons from the Father of Modern Management

WILLIAM A. COHEN, Ph.D.

Praise for *Drucker on Leadership*

"What Cohen learned as Peter Drucker's student, and their personal relationship afterwards, changed Bill's life. Reading *Drucker on Leadership* will change the way you look at and apply leadership forever."

—Bruce Rosenstein, author of *Living in More Than One World: How Peter Drucker's Wisdom Can Inspire and Transform Your Life*

"Peter F. Drucker helped me found the Peter F. Drucker Academy in China. It is a pleasure to see his concepts and what he instructed me brought together in one place and explained so that they could be applied by any executive. *Drucker on Leadership* is a valuable and useful book."

—Minglo Shao, chairman and CEO of the Bright China Group and founder of the Peter F. Drucker Academy

DRUCKER ON LEADERSHIP

New Lessons from the Father of Modern Management

William A. Cohen

Foreword by Frances Hesselbein

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For Doris Drucker
The First Lady of the Peter F. Drucker and
Masatoshi Ito Graduate School of Management
but more than that—the author of a best-selling book,
the founder and CEO of a medical device company,
and a woman who not only stood by her man
for almost seventy years
but continues to travel the world
promoting his principles.

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FOREWORD

by Frances Hesselbein

For those who sit at the feet of Peter Drucker, and always will, and for those just discovering our greatest leadership philosopher, *Drucker on Leadership* is a rare and timely gift, as we approach the great celebration of Peter Drucker's hundredth birthday. And who better to bring us this exciting new book, these new observations, than Drucker's first Executive Ph.D. graduate. No one else can claim this unique status—a thirty-year relationship with Peter, a unique understanding of almost a third of Peter Drucker's journey that he shared.

The Peter F. Drucker Foundation for Nonprofit Management was established in 1990. Six weeks after I had left the CEO position at the Girl Scouts of the USA, I found myself the CEO of the new Drucker Foundation. We had ten inspiring years with Peter Drucker as our honorary chairman. He attended our board meetings, three times a year for ten years, spoke at every conference we held, and wrote forewords and chapters for many of our twenty-six books. All of us—board members, staff members, and all—had numerous opportunities to listen to, dialogue with, work on the written and spoken word with Peter Drucker. With gratitude we absorbed and appreciated his messages, his voice, his timeless philosophy.

When Peter became frail, unable to be with us in person, we decided that the most loving and respectful thing we could do was to return his name to the family; we became the Leader to Leader Institute, taking the name of our journal, *Leader to Leader*. But it is the same organization, still committed to moving Peter Drucker's works, his philosophy, his message across all three sectors and around the world. We are as committed today as we were in March 1990 when the Drucker Foundation was born.

I share this preamble to the Introduction with you because my reflections on Bill Cohen's *Drucker on Leadership* have a deep and close appreciation and experience with the hero of the book, and I can say with documented certainty that Cohen's *Drucker on Leadership* is pure Drucker. Every chapter brings a fresh, new approach to understanding the world, the works, the leadership philosophy of Peter Drucker. I read the manuscript with a critical eye, for I felt I owed Bill Cohen an alert if a Drucker concept did not come through clearly or was not consistent with the Peter Drucker that the Girl Scouts of the USA and the Drucker Foundation (Leader to Leader Institute) welcomed, understood, practiced, made their own.

Drucker on Leadership passes this most rigorous test—these lessons are the lessons all those who sat at the feet of Peter Drucker learned, practiced, and lived: the Drucker philosophy. To this day I quote Peter to audiences in all three sectors: for example, "The U.S. Army does the best job of developing leaders, because it develops leaders from within." Bill Cohen's analysis in Part Three captures Peter's respect for the military model of leadership development.

Strategic planning is strengthened by "The best way to predict the future is to create it." We see T-shirts with this wisdom. Peter was the model for the principled, ethical leader. Almost one hundred years of his "gift of example" in leadership and ethics sustains us in our times when far too many have lost their way.

And when it comes to marketing, with "A business has just two functions—marketing and innovation," Peter lights a fire.

In Part One, Bill Cohen is faithful to Peter's focus on "mission," defined as "why we do what we do, our reason for being," which is all about the desired future. Determining what business we are in is a primary responsibility of the leader and the power of inclusion comes through clearly, along with determining who is our customer, an equally powerful message.

Creating an organization's future may seem a formidable task in our uncertain times, when few dare to describe the future—even

ten years from now—yet in this book are guidelines for that journey into an uncertain future. Drucker's concepts of the process of creating an organization's future give reassurance to today's planners of the future. When I finished Bill Cohen's book, I felt as though I had been listening to the voice of Peter Drucker himself.

Bill Cohen has been a faithful student, a faithful friend, a faithful disciple, and now with *Drucker on Leadership* he has, and I use a term I learned from Peter, truly "kept the faith."

INTRODUCTION

Peter Drucker and Leadership

There is little doubt that Peter Drucker, the "Father of Modern Management," considered leadership *the* essential management skill. As early as 1947, he declared in *Harper's Magazine*, "Management *is* leadership."[1] Seven years later, in his first book devoted entirely to management, he wrote: "Leadership is of utmost importance. Indeed there is no substitute for it."[2] However, despite these clear early statements, Drucker did at times seem to equivocate about leadership. Only a few short sentences after the statement about the importance of leadership, for example, he added, "Leadership cannot be taught or learned."

Clearly, Drucker was ambivalent about leadership—or at least the idea that it could be taught—and he remained so for much of his career. In *Management: Tasks, Responsibilities, Practices*, published in 1973, he reiterated, "There is no substitute for leadership. But management cannot create leaders," and, although the book ran 839 pages, leadership did not appear as a topic in its own right.

Drucker's Evolving Attitudes Toward Leadership

Despite his clear belief in its importance, leadership never became the focus of Drucker's writing. Why this strange conflict?

While we can't know for certain why Drucker was reluctant to tackle leadership head on, we do know that as a young man, Drucker witnessed the rise of Hitler, whose title—*Fuehrer*—means "Leader." That association may well have had lifelong resonance. Drucker himself, sure of what was coming, left Germany almost immediately after Hitler's rise to power. Still, Hitler's success

baffled him. Why did so many flock to his leadership? In the end, he concluded, Hitler was a "*mis*leader." Misleaders, he said, were "charismatic"—another characteristic of leadership that Drucker had difficulty accepting.

Despite his struggle with the concept, he was well aware that leadership had a critical impact on any project and human endeavor. At the same time, he intuitively recognized that leadership *in itself* was not "good or desirable."

Drucker's conflict with leadership continued well into the 1970s. In those days, I was his doctoral student. I well remember his reaction to a paper on leadership I'd written at his request. He awarded me a high grade, but oddly commented, "Now I'm really confused." For many years, I thought his comment referred to the way in which I had presented my material, since he had not criticized the content. But after many conversations with him, I understood that he was referring to his own intellectual struggle with the notion of leadership during that period. He was still uncertain about leadership as a separate theme, and my ideas, rather than clarifying the issue, probably had the opposite effect.

Yet leadership ran through much of what he wrote. While earlier he believed that the Greek general Xenophon had said all there was to say about leadership more than two thousand years ago in his book *Kyropaidaia*,[3] by the late 1980s he began to realize that he himself had made an enormous contribution to this topic by demonstrating how Xenophon's ideas should be adapted by executives to modern management practice.

It wasn't until 1988, in an article titled "Leadership: More Doing Than Dash," that Drucker gave the word *leadership* prominence.[4] By 1996, he had reversed himself completely. In his foreword to *The Leader of the Future*, he wrote, "Leadership must be learned and *can be* learned."[5] (Italics added.) In 2004, when he wrote *The Daily Drucker* with long-time friend and fellow Claremont professor Joseph A. Maciariello, he abandoned his earliest position. *The Daily Drucker* contains 366 different insights in 72 management categories.

"Leadership" as a separate topic appears more than twice as often as the average of the other topics covered. I believe he gradually came to view even charismatic leadership as neither good nor bad but rather like "the force" in *Star Wars*, with a "dark side" that right-minded leaders needed to avoid.

Toward the end of his career, Peter concluded not only that leadership could be learned but also that it *should be presented* as a topic separate and distinct from management. Unfortunately, he never did this in a book. Jacob High, archivist at the Drucker Institute at Claremont Graduate University who assisted me in my early research into Drucker's beliefs about leadership, noted that the many requests to the Institute relating to "Drucker on leadership" demonstrates the great interest in this topic, as well as its potential value to managers.

While Drucker did not leave us with a unified model of his concepts about effective leadership, I was able to derive the essence of his beliefs from a variety of sources, including his published work—books and articles, oral presentations, and tapes—as well as my own class notes and personal conversations both during my schooling and after my graduation. This book presents a distillation of those resources to give you, the reader, a clear and cohesive presentation of Drucker's views on leadership that, until now, have been widely scattered.

Drucker's Model for Effective Leadership

From my research, I concluded that Drucker believed effective leadership rested on five basic components:

- Strategic planning by the leader as the foundation
- Business ethics and personal integrity as necessary conditions
- Leadership as taught in the military as a baseline model

- Correct perception and application of the psychological principles of motivation
- The marketing model as an effective general approach

The Leader's Role in Strategic Planning

Peter admonished us in class: "You cannot predict the future, but you can create it." More popularly, this is stated as "The best way to predict the future is to create it." Either way, his method of creation was through strategic planning *by the leader*. I emphasize "by the leader" because, although many organizations have strategic planning divisions, the CEO may do little more than sign off on work done by strategic planning professionals.

Peter had a different view. Strategic planning was the first priority of the leader and the leader had to do it. He taught that strategic planning is not about making decisions in the future; decisions can only be made in the present. Therefore, the leader has to make decisions *now* to create a desired future. This implies reaching the stated goals or objectives regardless of later environmental conditions, which would require adjustments and changes along the way.

It was crucial to start with the leader's objectives derived from the definition of the organization's mission: the answer to the question, "What business are we in?" Only then could management decide on the actions they had to take now—in the present—to realize these goals at some time in the future. Part One explores this role.

Business Ethics and Personal Integrity

Drucker was one of the most ethical individuals that I have ever met. If strategic planning was the foundation of leadership, ethics and personal integrity were necessary conditions for leadership effectiveness. In his earliest writings, he stated that leadership was exercised properly only through character, and though followers might forgive a leader much, they would not forgive a lack of integrity.[6]

Peter's views on ethics ran contrary to some of what others taught. He drew distinctions between business ethics and personal integrity. Both were necessary for effective leadership, but he was very cautious of absolute interpretations of "ethical business behavior." He tested many approaches to ethics in his search for a universal ethical code for business, but found them all wanting. In the end, he decided they were inadequate, and settled instead on four Confucian concepts and an ancient Greek physician's admonition as his primary test. Part Two describes Drucker's view of business ethics and personal integrity as necessary conditions for successful leadership.

Modeling Military Leadership

Some may be surprised that I consider modeling military leadership one of Drucker's five components of effective leadership; however, Drucker made many favorable references to the military in class, as well as in his writing. As noted earlier, he believed that the first and best book on leadership was written by Xenophon, a Greek general, almost two and a half millennia ago. Drucker's was not an adaptation of a "business is war" philosophy, but he believed the military model provided good practical leadership. In the article "Leadership: More Doing Than Dash," which appeared in the *Wall Street Journal*, Peter cited Generals Eisenhower, Marshall, and MacArthur, Field Marshal Montgomery, and Julius Caesar as prime examples of effective leadership.

Much later Drucker's view of military leadership received more attention, mainly from Frances Hesselbein in *Hesselbein on Leadership* and *Be, Know, Do*, which she adapted from the official *Army Leadership Manual* and co-authored with General Eric K. Shinseki, a former Army chief of staff recently appointed by Barack Obama to head the Department of Veterans Affairs. Of Hesselbein's adaptation of *Be, Know, Do*, Drucker wrote, "The Army trains and develops more leaders than do all other institutions together—and with a lower casualty rate." Part Three covers the aspects of military leadership

Drucker believed leaders should and should not model, and how best to do it.

The Psychological Principles of Motivation

Drucker was very sensitive to the role and function of the worker. As he saw it, companies were increasingly dependent on the "knowledge worker," a term he created to describe the new workforce whose contributions came from mental rather than manual dexterity. He resented talk of the *cost* of labor and didn't like the notion of *managing* workers either.

To Peter, labor was not an expense; labor was truly added value, a resource, potentially the greatest resource that an organization possessed. Consequently, managers didn't "manage" workers, they led them. This brought Drucker to an unusual conclusion: the best way to motivate employees was to treat regular, paid full-time staff as if they were volunteers. Anything less would result in decreased motivation, making it impossible for knowledge workers to reach their peak performance potential. Part Four examines Drucker's beliefs about how to motivate to get maximum performance.

The Marketing Model and Leadership

Drucker's use of the marketing concept and its application to leadership was one of my biggest surprises when I began my in-depth investigation of Drucker's ideas. I had already concluded that leadership and salesmanship shared the important element of persuasion and had begun looking at literature in both disciplines when Peter published *Management Challenges for the Twenty-First Century*.

In a chapter titled "Management's New Paradigms," he restated many of the ideas he spoke of years earlier in class, including the idea of treating all workers like volunteers. However, in this new book he went further. He called them "partners," and wrote that partners couldn't be ordered—they had to be *persuaded*, and leadership was therefore "a marketing job."[7] What, I asked myself, did Drucker mean by "a marketing job"?

Modern marketing rests on the "marketing concept": the idea that firms should seek to discover and then to satisfy the needs of their customers rather than to concentrate on convincing prospects to purchase existing products or services. In class, Drucker taught that if marketing were done perfectly, selling would be unnecessary.[8] However, to market correctly, the needs of each group or customer segment, including their values and behaviors, had to be understood. Only then could you approach them in the way they preferred and could relate to. In this way, a company would develop products and promote them in the way that the customer—not the marketer—considered important.

By describing leadership as a marketing job, Drucker meant that leaders must know and understand those they wished to lead, and lead in a way followers could relate to. Part Five analyzes Drucker's unique concept as well as my own insights into this initially incongruous-seeming theory.

■ ■ ■

It is unfortunate that Peter Drucker did not write this book. I wish he had. However, using the clues Drucker left, I have attempted to put together his ideas about what we can do to apply what he taught in order to lead with integrity, effectiveness, and honor.

Drucker left us with one of the most profound definitions of leadership ever written:

"Leadership is the lifting of a man's vision to higher sights, the raising of a man's performance to a higher standard, the building of a man's personality beyond its normal limitations."[9]

In this book, I have tried to be true to his definition and to make it my own.

PART ONE

The Leader's Role in Shaping the Organization's Future

Peter admonished us in class: "You cannot predict the future, but you can create it." His method of creation was what we term *strategic planning*—a topic some senior executives ignore as an important element of leadership. Several years ago one CEO of a major corporation called his senior executives together on his ascension to the position and announced: "Gentlemen, I'm dismantling the strategic planning division and ceasing all strategic planning. I am not a believer." Peter, however, was not only a believer, he thought that strategic planning was the foundation of all leadership. In his view, a leader's primary responsibility was to think through the organization's mission clearly and then to promote it throughout the organization, setting goals, priorities, and standards to measure progress along the way.

Peter emphasized that though planning, especially strategic planning, was difficult and risky, it was the first priority of the leader. He told us that strategic planning is not about making decisions in the future, since decisions could only be made now,

in the present. So what we were really talking about was making decisions now to create a desired future. The idea was to reach the goals or objectives we set regardless of the environmental conditions we might later encounter, and this would require adjustments and changes along the way. It was crucial to start with the leader's objectives derived from the definition of the mission of the organization, the answer to the question, What business are we in? Only then could we decide on the actions we needed to take now, in the present, to realize these goals in the future. And these actions incorporated the most important task: to anticipate crisis.[1]

All of this had to do with a basic definition he developed for the difference between management and leadership: "Management is about doing things right; leadership is about doing the right things." Only the leader could make the decisions as to what were "the right things," even the right risks to take. Integrate this into a systematic process, and leaders fulfill their primary responsibility through strategic planning. The first five chapters describe what Drucker taught us about how to do this.

CHAPTER 1

The Fundamental Decision
Determining the Business of the Organization

A major responsibility of any leader, according to Peter Drucker, is to determine the *real* business of an organization. I learned this lesson even before I met Drucker and became his student. I was a young manager, but although I had held management and executive titles in several business situations, I knew very little about business management. As a West Point graduate who had served in the Air Force, I knew something about leadership, but I hadn't sufficiently applied those skills to business management.

Shortly before meeting Drucker, I became director of research and development for a small company producing life-support equipment for military aviators as well as commercial airlines. The company was facing increasing difficulties resulting from the government's purchasing policies and timing. My company would receive a contract, and when the work was complete and the product delivered, it would have to wait another year for the next contract. This made planning difficult and resulted in a continuous

cycle of peaks and valleys in production, leaving us with too many or too few workers.

About 60 percent of our products went to the government, the remainder to the airlines. We had no product for the individual consumer. About every five years the president would raise this issue and arrive at essentially the same solution: develop a consumer product that would use the same machinery, workers, and materials to smooth out the peaks and valleys. Success would mean an end to this problem. Unfortunately, the result was always the same: initial enthusiasm and high hopes followed by a considerable investment, followed by failure and a big loss. Each failure apparently resulted from a different cause, so no one ever considered there might a larger issue.

One year, at our annual sales meeting, we gave each attendee a copy of Drucker's book, *Management: Tasks, Responsibilities, Practices*. In it, Drucker exhorted managers to determine what business they were in. This subject was number one on the agenda, and it soon became obvious why our efforts to enter the consumer market always failed. The products had nothing to do with our core business of providing life support protection for aviators. For example, we entered the market for protective motorcycle helmets, about which we knew nothing except how to produce the helmet. It turned out that what the military valued and what the consumer valued were entirely different. Furthermore, we had no idea how to reach the motorcycle helmet consumer. In the end, the company invested a million dollars, produced a heavy, very protective but very uncomfortable and high-priced motorcycle helmet that no one wanted, and almost went bankrupt trying to introduce it.

Defining Your Business Is No Small Thing

Drucker taught that determining what business you are in is essential to creating an organization's future, and therefore is any leader's primary responsibility. Once that's determined, a lot falls into place.

An entire set of decisions follow naturally about how to run any organization.

Accurately defining your business automatically saves time, money, and resources that would otherwise be wasted on something that detracts from, rather than adds value to, your business. It also helps you focus on those opportunities and possibilities that are important to building your business. Just as no leader has enough resources to pursue every opportunity or avoid every threat, until you decide what business you are in, your organization will drift, no matter how effective a leader you otherwise are. This is a constant theme in management and leadership: resources of any kind are always limited. Therefore, leaders must make choices and concentrate their always limited resources where they will do the most good. This is true whether yours is a for-profit business, a nonprofit organization, a government agency, or any other organization. Your staff may be striving with all their abilities to support a direction that can hurt your business simply because they don't have a clear understanding of what the real business is or where it should be going.

Today, we call this definition a "mission statement." Drucker's favorite mission statement, though not recent or short, came from a very old business, Sears Roebuck. Simply stated, it was to be the informed and responsible retailer, initially for the American farmer, and later for the American family.[1] It changed Sears from a struggling mail order house, which was sometimes close to bankruptcy, to the world's leading retailer, all within ten years.

How to Obtain Commitment to the Mission Throughout the Organization

Of course, there is only one leader, and ultimately this leader is responsible for the final mission statement and the business. That said, Peter learned much from the Japanese. He had observed an interesting difference in American and Japanese management practices.

American leaders made decisions very quickly but gained little real support for their decisions from leaders at all levels, which caused many of their initiatives to fail.

Japanese leaders made decisions more slowly. This frequently frustrated American leaders negotiating with them. However, once the decision was made, the entire organization was committed to it, and supported it much more than their American counterparts.

Why was this? Drucker found that the Japanese practiced a system known as *ringi*, where all major decisions had to be reviewed and commented on by managers throughout the company. This could require several cycles and months of feedback and revision. However, the consensus built by *ringi* resulted in major commitments by leaders at all levels, who all felt ownership in the decision.

I doubt that adopting *ringi* in all countries would be very effective. During the Japanese management fad of the early 1980s, many U.S. firms tried it. It didn't work. American emphasis on rapid decision making goes back to the frontier days when leaders had to make decisions quickly, and it became ingrained in our culture and the way our leaders operate.

Ideas usually cannot be imported without modification. The cultures and other aspects of leadership and management are different; therefore, that they fail without some modification shouldn't be surprising. Even adopting simple devices may cause problems. For example, traffic signals were invented in England, although the version used today was developed in the United States. Despite their successful use elsewhere, when traffic signals were introduced in Ireland, the Irish were so outraged they actually rioted. Why? Because the red light was on top and the green light on the bottom, and to the Irish, red is the color of Britain; green, Ireland. That red was placed over green was infuriated many Irish people. The solution was to mount the traffic lights horizontally.

Although copying *ringi* in America didn't work either, Drucker recognized the merit of the idea—in particular, the value of

consensus for all organizations—and adapted the concept to involve subordinate leaders, but in different ways than the Japanese.

In the past, meetings attended by all managers, or at least those most relevant to the question, were used to garner consensus. Usually someone in or outside the company facilitated the process.

These days, there are many ways to incorporate shared participation in the decision-making process, and these frequently involve new technologies. Glassdoor.com, an online site, allows employees to anonymously review their employers and share salary information. In its annual list of "the naughtiest and nicest chief executives" of 2008 (based on the anonymous reviews), Glassdoor picked Arthur D. Levinson, CEO of Genentech, as the "nicest." He had an amazing 93 percent approval rating. The *New York Times* quoted a strategic planner at Genentech who wrote that Levinson had implemented a decision-making structure that forced authority downward to the lowest possible level in the company, which provided many opportunities to participate and exercise judgment.[2]

Contrary to what some think, general participation in the decision-making process does not make the leader seem weak or ineffective. In fact, an early advocate of this type of approach was the most effective chief of staff the Israeli Army ever had, General Moshe Dayan, the man responsible for victory in two of his country's major wars: the Sinai campaign of 1956 as chief of staff, and the Six-Day War of 1967 as minister of defense. Observers accustomed to directive, high-speed decision-making by military leaders were amazed to see Dayan make some major decisions in his staff meetings by discussion followed by a show of hands!

Why Everyone Should Be Heard

One major reason for listening to everyone as you define your mission statement is to gain commitment. Another, which goes right along with commitment, is that other leaders also have good ideas,

and may know something that you do not. By hearing all, you not only gain commitment, you may avoid missing both opportunities and threats to your mission statement. Some executives are reluctant to conduct public meetings about such a major decision, either fearing criticism or that their proposed definition will be defeated. If either happened, your proposal probably should be defeated, or at least modified. As Drucker noted, when making decisions about your business, dissent is a very good thing.

Finally, as Drucker pointed out, the answer to "What is our business?" is never obvious. You need help from others on your team.

Deciding on the central issues of your business or organization with a systematic method in which all key managers participate is essential. With others in your organization focused on the same question, you as leader are far more likely to come up with the answer that makes the best sense and enables you to build your business for the future.

Of course, you need not follow General Dayan's example and settle this issue by a show of hands. The concept can be modified and applied as necessary. Your job is not to sell your preconceived notion but to arrive at an optimal definition of your business through consensus. Do this, and you will not only sharpen the wording of your original definition, you will see everyone in the organization quickly get behind and support the business definition decided upon.

How to Answer the Question, What Is Our Business?

To formulate a definition, you need more than opinions. You must see the business from the customer's point of view. As Drucker wrote, "The customer defines the business."[3] That means certain questions must be asked and answered. Among them:

- Who exactly is the customer?