

A THRIVING HUMAN ECONOMY REQUIRES HIGHER PERFORMING INSTITUTIONS

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Peter Ferdinand Drucker, born in 1909, is often referred to as the father of modern management, which is true as far as it goes. As a consultant, educator, and author, Drucker wielded enormous influence on almost all who followed him. He was the first to think of management as a teachable discipline, and his writings anticipated many developments of recent decades, including the emergence of the information economy and the rise of the knowledge worker—a term he coined.

Less often remembered, however, is Drucker's insistence that management was never his first and primary concern. In fact, he said that concern derived from, and was decisively influenced by, his early work in political studies. Drucker, who came of age in Vienna in the turbulent atmosphere of the 1930s, had urgent political reasons for believing that humanity and effective organizational performance are interlinked. From the evidence gathered with his own eyes, it was clear to Drucker that humanity without performance was futile, an open door to populists who promised strong leadership and said they would "make the trains run on time." On the other hand, Drucker argued that performance without

humanity leads to a different kind of tyranny, a soulless technocracy or technological solutionism. He maintained that high-performing institutions and the management that assured their performance were, therefore, both an essential part of a functioning democracy and a bulwark against its enemies.

Drucker wrote time after time that achieving results is a manager's litmus test and his or her "first social responsibility. Unless [the organization] discharges its performance responsibility, it cannot discharge anything else. A bankrupt business is not a desirable employer and is unlikely to be a good neighbor in a community."¹ Yet, since Drucker viewed management as a liberal art—"liberal'

because it deals with the fundamentals of knowledge, self-knowledge, wisdom, and leadership; ‘art’ because it deals with practice and application”²—as well as a form of social and economic technology that had individual dignity and thriving at its heart, real performance could only mean making society both more productive and more humane at the same time. Jim Collins made that point in 2021, when he opened a day of study on Drucker’s work.

Driven by the ideology of shareholder primacy, of which the phrase is as good a definition as any, performance without humanity is, unfortunately, now ensconced in the economy’s driver’s seat. As academic scholar Gerald Davis has described, we are living through a radical reorganization of the economy, driven in large part by digital technologies. As software eats more and more of the world, so do markets: first for capital (a.k.a. financialization), then for supply (“Nikefication”), then distribution (Amazon), and, finally, labor (“Uberization”).³

Maintaining humanity and performance in harmony in these conditions is hard and beset with constant tension. At the moment, despite past economic growth and remarkable progress in some areas of science and technology—witness the fast-track development of new vaccines and the indirectly linked

emergence of Zoom as a corporate superpower—the West seems to have drifted into an era of political, cultural, and social decline. Institutional enfeeblement is evident in the public authorities’ flawed handling of the COVID-19 crisis, which has set back education by perhaps decades, sacrificed the youngest generation to expediency, and violated human dignity in multiple ways, most notably in the shameful treatment of the elderly in care homes, many of whom were, in effect, left to die alone and unaided.

Fanned by social media, the resulting disruption has been magnified by more recent external crises, especially the war in Ukraine, for which a just-in-time, tightly coupled world was as ill prepared as it was for the pandemic. Feeding off each other in unpredictable ways, these crises have generated rolling supply-chain chaos that has spread from toilet paper to baby formula, from shipping containers to microchips. They are now disrupting the supply of essentials such as food and energy. Together with the rise of inflation to levels not seen for 40 years, the upheaval is compounding long-term systemic concerns with the need for full-blown short-term emergency and crisis management. In short, it is a perfect storm. It is one that invests Drucker’s emphasis on performance with a new and unexpected urgency.

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TECHNOCRACY UNBOUND?

One set of proposed remedies for this management tornado can be loosely labeled technocracy. Technocratic visions of the world abound. They range from the World Economic Forum's theme of a "reset" toward a brave new world, as if humans could be rebooted like computers, to the Silicon Valley vision of a transhumanist future in which all society's needs and problems can be solved by advances in digital networking technologies if only the entrepreneurial spirit is freed of pesky bureaucracy and regulation. Drucker and Joseph Schumpeter might have sympathized with the idea of reining in the regulatory state to focus on its core regal responsibilities and of trusting an entrepreneurial private sector to find solutions that no public-sector organization would ever come up with; the nudge from Elon Musk's Space-X that stung a reluctant NASA into joining a new age of space exploration and innovation is telling in this respect. What is the likelihood that any state venture would come up with an interactive app that enables any visitor with a smartphone to navigate their way around a strange city, guided by spoken directions from a reassuring human voice? Anyone still nursing such illusions might cast their mind back to the ill-fated EU-backed attempt to develop the search engine Quaero to compete with Google and Yahoo.

Yet for all their creativity, the FAANGS—if Facebook and Netflix still qualify for inclusion in the acronym—also display the darker side of the technological coin, where size and surveillance have come together to form an insidious hidden threat to human wellbeing.⁴ And here is where robust state action is not only justified but urgently required—not to attempt entrepreneurial ventures of its own but to create a consistent framework of

protection for democratic rights, such as free speech, privacy, and freedom from harassment and abuse. States are also responsible for maintaining the mechanisms that keep capitalism ticking—such as keeping competitive markets free of domination by overmighty single players. Current institutional failings are well illustrated by today's dismal state of play in this respect.

FINDING OUR WAY BACK TO A HUMAN-CENTERED SOCIETY AND A HUMAN ECONOMY

So how do we find our way back to a human-centered society and a human economy? The tightknit ecosystem that has grown up in support of shareholder capitalism, that embraces business schools, consultancies, governance codes, and, above all, asset managers, means that it will take a brave and determined manager or company to take a different line. Few leaders have the confidence to put their heads above the parapet. At the other extreme, meek surrender to a minority of woke activists is not a constructive way to address controversial issues in a balanced, practical, and ideologically neutral manner.

Since BlackRock's Larry Fink urged CEOs to adopt a sense of purpose in his much-debated 2018 letter to investee firms, the role of business and how it relates to state and society has been the subject of much discussion. While Drucker was firm in his belief that business owed society a deep obligation to deliver value, let's be clear about one thing: he put economic viability, a human-oriented approach, and responsibility to the local or global community the business belonged to—in that order—atop his list of priorities. Considering the preservation of long-term capacity to create value management's primary responsibility to all its

constituents, he did not see stakeholder capitalism, as such, as the answer. In fact, he believed that burdening businesses with tasks that diverted them from their core responsibility was a mistake that inflicted much harm on society.

Of course, public policy should be based on a realistic view of what business can and should look like in the future, and companies need to operate on a level playing field. But there are limits to what regulation alone can be expected to accomplish. Intelligent regulation should be limited to setting broad objectives and incentives, leaving the job of devising methods and measures appropriate to the context to those who are doing the work. Intelligent regulation aims for improvement, not for reaching fixed targets or activity levels—a characteristic of management 1.0 that saps initiative and value creation. The same goes for international initiatives in favor of sustainability and climate change abatement, which can easily get bogged down in bureaucracy and box-ticking.

ORGANIZING FOR UNCERTAINTY

More than anything, the reassertion of humanity in a technological age requires management to step up to the historic social and economic responsibilities that Drucker defined for them. Paradoxically, although it is small comfort to those who have directly suffered their consequences, COVID-19 and the war in Ukraine have done us a favor, albeit a grisly one, in that they both starkly reveal the nature and extent of the challenges we face and at the same time indicate a possible avenue forward. As economic historian Carla Perez has shown, great technological leaps always provoke uncomfortable social disruptions; real progress for the wider society only occurs when technological breakthroughs are followed by

complementary socio-institutional ones—and that includes management. If ever there was a moment for just such an institutional renewal, it is now. As Perez put it in a recent speech, “It is precisely because the situation is so dire and the urgency so blatant that there can be hope.”

We only have to look around to be aware that we are living in times of radical uncertainty. The problem is that we are still trying to navigate these times using the tools and technologies of the past: hierarchical organization, command and control, fixed strategies, detailed planning, and intrusive performance management, all of which are devoted to the task of minimizing uncertainty and making the future as predictable as possible. And even though we should know by now that it is impossible to extrapolate the future from data from the past, we continue to outsource responsibility to AI and rely on automated decision-making to see us through. Instead, we should accept, as real scientists have always done, that uncertainty isn’t a bug—something we could avoid if we could only perfect our management routines—but a feature, a fact of life. Dealing with uncertainty is what high-performing management in the 21st century is all about. It *defines* it.

Organizing and managing for uncertainty are as different from the industrial age models we are used to as a digital platform like Uber is from General Motors. The models of the future will accept change as the norm. They will be focused on resilience and robustness rather than efficiency, and they will be loose, agile, outward-looking, opportunistic, and entrepreneurial, able to shuffle and repurpose resources at the drop of a hat, proficient at innovation, and organized for doing projects. It goes without saying that such organizations will require a different kind of leadership, too, one that privileges ingenuity, collaboration, trust, and the ability to react swiftly to unexpected events

over the traditional attributes of charisma and confidence.

A UNIQUE OPPORTUNITY FOR MANAGEMENT RENEWAL

Such an organizational profile would have smacked of science fiction even a few years ago. That it is now suddenly thinkable is again the result of the inflection point brought about by COVID-19 and the Ukraine war. As Lynda Gratton notes in her new book, one effect of the ensuing disruption has been to “unfreeze” previously fixed corporate routines and open up long-untested processes and assumptions to challenge.⁵ Ironically, this has performed an essential but often neglected exercise that Drucker termed abandonment, recommending that managers consciously carry it out every few years to stave off organizational entropy.

It would be easy, and tempting, to categorize the consequences of the corporate unfreezing as a management revolution but, keen as he was that managers should stop doing things that had outlived their usefulness (“There is surely nothing quite so useless as doing with great efficiency what should not be done at all.”⁶), Drucker was insistent that, in its proper meaning, revolution is a stark admission of institutional and, therefore, management failure, and the worst possible way to self-renew, as it invariably leads to bloody chaos and the opposite of any original Utopian intentions. Instead, his mantra was “continuity and change.” Thus, to satisfy its twin economic and social goals, the fluid, shape-shifting, post-COVID organization, one equipped to embrace uncertainty and capitalize on the capabilities of advancing technology through global collaboration, should be anchored in the unchanging human values of freedom, self-determination, ethics, and

spirituality—in other words, an organization capable of providing meaning beyond immediate utility.

The bottom line is that, in order to thrive, the human economy of today or tomorrow needs well-managed institutions and organizations to provide the grounding for a functioning society. This is what Drucker meant when he described management as a “constitutive organ” of that society. Of necessity, as Drucker also insisted in the concluding chapter of his important book *Innovation and Entrepreneurship*, it must also be an entrepreneurial society.⁷ The technologies that are increasingly used for manipulation and bureaucratic control could serve equally well to build a more open, sustainable, inclusive, and democratic economy that crowdsources its solutions from the creativity and engagement of the many, rather than relying on remote central control by the few. It would be at ease with change and imbued with the human focus and scale that can underpin and legitimize change for the many. It would resist the lure of technological solutionism and have at its heart the principle of digital humanism—that is, an unshakeable focus on making machines more human-literate rather than the other way round.

Technology and crisis are reshaping the world before our eyes, heaping unprecedented pressure on the performance requirement that is management’s first responsibility. With so many elements in play, we today have a unique opportunity, and an obligation, to question our most important institutional assumptions—particularly those concerning the role of the state versus the private sector and of technology versus the human being—as a basis for renewing management itself. In the spirit of Drucker, this would mean finally leaving behind the misguided postwar attempts by the Ford and Carnegie foundations to turn

management into a hard science and to recognize it instead as a considerably broader social endeavor—a worthy, even noble mission to create value for society through disciplined and systematic business approaches while remaining solidly grounded in the humanities and social sciences that give it meaning and purpose.⁸ Future generations will not forgive us if we fail this test. Nor, we can be sure, would Peter Drucker.

¹ Drucker, P. (1985/1973-74). *Management: Tasks, responsibilities, practices*. Harper and Row, 343.

² Drucker, P. (1988). *The new realities*. Heinemann, 223.

³ Davis, G. F. (2022). *Taming corporate power in the 21st century*. Cambridge University Press.
<https://www.cambridge.org/core/elements/abs/taming-corporate-power-in-the-21st-century/6C0F884F7F99A3B3D168E8F52E230991>

⁴ FAANG is an acronym for five of the best-performing tech-centric stocks of the past decade: Facebook (now Meta Platforms), Amazon, Apple, Netflix, and Google (now Alphabet).

⁵ Gratton, L. (2022). *Reimagining work*. Penguin Business.

⁶ Drucker, P. (1963). Managing for business effectiveness. *Harvard Business Review*, (May-June), 53-60.

⁷ Drucker, P. (1985). *Innovation and entrepreneurship*. Butterworth-Heinemann.

⁸ Gordon, R. A., & Howell, J. E. (1959). *The Gordon-Howell report: Higher education for business*. Columbia University Press; Pierson, F. C. et al. (1959). *The education of American businessmen: A study of university-college programs in business administration*. The Pierson Report.