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Book Notes -- David Mays, APMC

99-8-70

MANAGEMENT CHALLENGES FOR THE 21<sup>ST</sup> CENTURY  
HarperBusiness, 1999, 198 pp.

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DruMana2

This is a straightforward, logical, insightful and therefore powerful book about management issues rushing over the horizon toward us. Drucker is again ahead of the pack in articulating practical issues and asking key questions.

Chapter Titles:

- 1 Management's New Paradigms
- 2 Strategy – The New Certainties
- 3 The Change Leader
- 4 Information Challenges
- 5 Knowledge-Worker Productivity
- 6 Managing Oneself

### **Introduction.**

Assumptions matter. Assumptions determine what people believe to be reality. Practice is built upon assumed reality. And most assumptions about people and management were wrong from the beginning or are no longer true. Here are some of wrong assumptions:

- There is – or there must be – ONE right organization structure.
- There is – or there must be – ONE right way to manage people.
- Technologies, markets and end-uses are given.
- Management's scope is internally focused.

### **1 Management's New Paradigms**

“One hears a great deal today about ‘the end of hierarchy.’ This is blatant nonsense. ‘Hierarchy,’ and the unquestioning acceptance of it by everyone in the organization, is the only hope in a crisis.” 11

Regarding the ‘team’ concept of management. “It is a sound principle that one person in an organization should have only one ‘master.’ There is wisdom to the old proverb ... that a slave who has three masters is a free man.” Having more than one master creates a conflict of loyalties “which is why the ‘Jazz Combo’ team, so popular now, is do difficult.” 13

“It is a sound, structural principle to have an organization that is as ‘flat’ as possible – if only because, as Information Theory tells us, ‘every relay doubles the noise and cuts the message in half.’” 13

“We talk incessantly about ‘teams’ – and every study comes to the conclusion that the top management job does indeed require a team. Yet we now practice ... the most extreme ‘personality cult’ of CEO supermen.” 16

Find the organization structure that fits the task. You may expect multiple organization structures in the same enterprise. 17

“Different people have to be managed differently.” 17 “Altogether, an increasing number of people who are full-time employees have to be managed as if they were *volunteers*.” 20 “Increasingly ‘employees’ have to be managed as ‘partners’ – and it is the definition of a partnership that all partners are equal. It is also the definition of a partnership that partners cannot be ordered. They have to be persuaded. Increasingly, therefore, the management of people is a ‘marketing job.’ And in marketing one does not begin with the question; ‘What do *we* want?’ One begins with the question: What does the other part want? What are its values? What are its goals? What does it consider results?” 21

“One does not ‘*manage*’ people.”

In the 19<sup>th</sup> century technologies outside one’s own industry had little impact on the industry. But now they no longer run in parallel. They constantly crisscross. 24

“Increasingly the noncustomers of an enterprise – whether a business, a university, a church, a hospital - are as important as the customers, if not more important.” 28

“And yet very few institutions know anything about the noncustomers – very few of them even know that they exist, let alone know who they are. And even fewer know why they are not customers. Yet it is with the noncustomers that changes always start.” 28

“...the starting point for management can no longer be its own product or service, and not even its known market and its known end-uses for its products and services. The starting point has to be what *customers consider value*. ...the customer never buys what the supplier sells. What is value to the customer is always something quite different from what is value or quality to the supplier.” 29

Management will have to see technology and end-uses as limitations rather than foundations for management policy. The foundations have to be customer values and spending decisions. Management will have to start there. 29

Wrong Assumption: The *Inside* Is Management’s Domain 37

Everything inside an organization is a cost center. But the results of any institution exist only on the outside. 38

“Management must focus on the results and performance of the organization. Indeed, the first task of management is to define what results and performance are in a given organization....” 39

“Management exists for the sake of the institution’s results. It has to start with the intended results and has to organize the resources of the institution to attain these results.” 39

“Management’s concern and management’s responsibility are everything that affects the performance of the institution and its results – whether inside or outside, whether under the institution’s control or totally beyond it.” 40

## 2 Strategy – The New Certainties

Why Strategy?

“Every organization operates on a Theory of the Business, that is, a set of assumptions as to what its business is, what its objectives are, how it defines results, who its customers are, what the customers value and pay for. Strategy converts this Theory of the Business into performance. ... strategy allows an organization to be *purposefully opportunistic*.”

Indeed, what is an ‘opportunity’ can only be decided if there is a strategy. Otherwise, there is no way to tell what genuinely advances the organization toward its desired results, and what is diversion and splintering of resources.” 43

There are five phenomena that can be considered certainties. 43-4

- 1 The Collapsing Birthrate in the Developed World
- 2 Shifts in the Distribution of Disposable Income
- 3 Defining Performance
- 4 Global Competitiveness
- 5 The Growing Incongruence Between Economic Globalization and Political Splintering.

“In the United States, the young population is already growing much more slowly than the older population, past traditional retirement. 45

“There is nothing – except unprecedentedly massive immigration – that can prevent a sharp drop in the labor force of traditional age...” 45 “Above all, there is no precedent for a population structure in which old people past any traditional retirement age outnumber young people as they already do in parts of Europe...” 45

“But increasingly, in all developed countries, the strategy of all institutions will have to be based, from now on, on the totally different assumption of a shrinking population, and especially of a shrinking young population.” 45

Within the next 20-30 years the retirement age in all developed countries will have to move up to around 79 or so 0 79 being the age that corresponds to 65 in 1936 when the US adopted a national retirement plan (Social Security). 46

“To prevent immigration pressure is, however, very much like preventing the law of gravity. Yet there is no more inflammatory issue than large-scale immigration, especially from countries of different cultures and religion.” 47

“For the next twenty or thirty years no developed country is likely, therefore, to have stable politics or a strong government. Government instability is going to be the norm.” 47

“It is quite likely that the trend toward ‘early retirement’ will continue. But it will no longer mean that a person stops working. It will come to mean that a person stops working fulltime or as an employee for an organization for the entire year rather than a few months at a time.” 47

“The organization that first succeeds in attracting and holding knowledge workers past traditional retirement age, and makes them fully productive, will have a tremendous competitive advantage.” 48

“In all developed countries older people have become the most prosperous group in the society....” 49 Their spending will largely shape the consumer market.

#### The Distribution of Income

“The four growth sectors during the 20<sup>th</sup> century were, respectively: Government, Health Care, Education, Leisure., with Leisure probably taking as much of the enormous expansion of economic productivity and output as the other three together.”

“In 1900 the great majority of people in the developed countries still worked at least sixty hours a week, fifty-one weeks a year....”

The main economic function of government is to redistribute between 30 and 50 percent of the country’s national income. Nothing else has therefore as great an impact on the distribution of shares of national income as changes in government policy. 52

#### Definition of a Growth Industry

“A growth industry is one in which the demand for its products...grows faster than national income and/or population.” A “mature” industry has demand growth equivalent to national growth. A “declining industry has demand growth less than national growth – even if its absolute sales volume still continues to grow. 53

The world’ fastest-growing and most prosperous industry in the closing thirty years of the 20<sup>th</sup> century has been (not Information but) Financial Services, particularly retail services to provide retirement income for an affluent, aging population. 55

A growth industry can create the future. It needs to take the lead in innovation and risk taking. A mature industry must be managed to have leadership in a few crucial areas and prepare for flexibility and rapid change. . A mature industry shifts from one way of satisfying wants to another. It must be managed for alliances, partnerships and joint ventures to adapt rapidly to such shifts. 57

“All institutions have to make global competitiveness a strategic goal. No institution, whether a business, a university or a hospital, can hope to survive, let alone to succeed, unless it measures up to the standards set by the leaders in its field, anywhere in the world.”

“A strategy enables an institution to be *purposefully opportunistic*. If what looks like an opportunity does not advance the strategic goal of the institution, it is not an opportunity. It is a distraction.” 67

### 3 The Change Leader

“One cannot *manage* change. One can only be ahead of it.”

“But unless it is seen as the task of the organization to *lead change*, the organization ... will not survive. In a period of rapid structural change, the only ones who survive are the *Change Leaders*.” 73

This requires:

- 1 Policies to make the future
- 2 Systematic methods to look for and to anticipate change.
- 3 The right way to introduce change, both within and outside the organization.
- 4 Policies to balance change and continuity

“The first policy – and the foundation for all the others – is to abandon yesterday. The first need is to free resources from being committed to maintaining what no longer contributes to performance, and no longer produces results. In fact, it is not possible to create tomorrow unless one first sloughs off yesterday.” 74

“The change leader put every product, every service, every process, every market, every distribution channel, every customer and end-use, on trial for its life. And it does so on a regular schedule. The question has to be asked - and asked seriously - ‘If we did not do this already, would we, knowing what we now know, go into it?’ If the answer is ‘no,’ ... the reaction must be ‘What do we do now?’ The enterprise is committed to change. It is committed to action.” 74

Abandonment should always be tested on a small scale. Piloted. 77

“In a time of rapid change distributors and distribution channels tend to change faster than anything else. And it is also on distributors and distribution channels that the ‘Information Revolution’ is likely to have the greatest impact.” 78

“‘To Abandon What’ and ‘To Abandon How’ have to be practiced systematically. Otherwise they will always be ‘postponed,’ for they are never ‘popular’ policies.” 79

“Whatever an enterprise does internally and externally needs to be improved systematically and continuously.” 80 “However, continuing improvement requires a major decision. What constitutes ‘performance’ in a given area?” 80

“Continuous improvements in any area eventually transform the operation. They lead to product innovation. They lead to service innovation. They lead to new processes. They lead to new businesses. Eventually continuous improvements lead to fundamental change.” 81

To be change leaders, enterprises have to focus on opportunities. They have to starve problems and feed opportunities. “Enterprises that succeed in being change leaders make sure that they staff the opportunities.” 82 (Gives instructions for how.)

Windows of Opportunity for Innovation: 84-5

- unexpected successes and unexpected failures – your own and your competitor’s
- incongruities – e.g. in the processes of production or distribution or customer behavior
- process needs
- changes in industry and market structures
- changes in demographics
- changes in meaning and perception
- new knowledge

“The test of an innovation is that it creates value. A novelty only creates amusement. 86  
“The test of an innovation...is not: ‘Do we like it?’ It is: ‘Do customers want it and will they pay for it?’” 86

Piloting

“Everything improved or new needs therefore first to be tested on a small scale, that is, it needs to be piloted.” (gives instructions) 87

Change and Continuity

“Change and continuity are thus poles rather than opposites. The more an institution is organized to be a change leader, the more it will need to establish continuity internally and externally, the more it will need to *balance* rapid change and continuity.” 90

#### **4 Information Challenges**

A new Information Revolution is under way. For 50 years Information Technology has focused on the Technology. In the new revolution, the focus is on the Information, on meaning and purpose. 97

What is needed is not more data or speed. What is needed is to define information. What is needed is new concepts. Top managers have begun to ask, ‘What information concepts do we need for our tasks?’ 100

Enterprises and individuals have to learn what information they need and how to get it. They will have to learn to organize information as their key resource. 110

“Leadership rests on being able to do something others cannot do at all or find difficult to do even poorly. It rests on core competencies that meld market or customer value with a special ability of the producer or supplier.” 118

“Core competencies are different for every organization...but every organization...needs one core competence: innovation. And every organization needs a way to record and appraise its innovative performance.” 119

“The scarcest resources in any organization are *performing people*.” 121

“For strategy, we need organized information about the environment. Strategy has to be based on information about markets, customers and noncustomers, about technology in one’s own industry and others; about worldwide finance, and about the changing world economy.” 122

“Major changes always start outside an organization. It is always with noncustomers that basic changes begin and become significant.” 122

“To produce the information executives need for their work, they have to begin with two questions:

“What information do I owe to the people with who I work and on whom I depend? In what form? And in what time frame?”

“What information do I need myself? From whom? In what form? And in what time frame?” 124

The Key Event.

“Which events – for it is usually more than one – are the ‘hinges’ on which the rest of *my* performance primarily depends?” 127

“Executives have to learn two things: to ELIMINATE data that do not pertain to the information they need; and to organize the data, to analyze, to interpret – and then to focus the resulting information on ACTION. For the purpose of information is not knowledge. It is being able to take the right action.” 130

It is extremely important to get *outside* information. For the executive there is, in the end, only one way to get it: that is to *go, personally, on the outside*. ...nothing beats personal, direct observation....” 130

“In the long run, information about the outside may be the most important information executives need to do their work.” 132

## **5 Knowledge-Worker Productivity**

“The most valuable asset of a 21<sup>st</sup>-century institution, whether business or nonbusiness, will be its *knowledge workers* and their *productivity*.” 135

SIX major factors determine knowledge-worker productivity.

1. Knowledge worker productivity demands that we ask the question: “*What is the task?*”
2. It demands that we impose the responsibility for their productivity on the individual knowledge workers themselves. Knowledge workers *have* to manage themselves. They have to have *autonomy*.
3. Continuing innovation has to be part of the work, the task and the responsibility of knowledge workers.

4. Knowledge work require continuous learning on the part of the t knowledge worker, but equally continuous teaching on the part of the knowledge worker.
5. Productivity of the knowledge worker is not – at least not primarily – a matter of the quantity of output. Quality is at least as important.
6. Finally, knowledge-worker productivity requires that the knowledge worker is both seen and treated as an ‘asset’ rather than a ‘cost.’ It requires that knowledge workers want to work for the organization in preference to all other opportunities.” 142

“Quality is the essence of the output.” 143

“What is your task? What should it be? What should you be expected to contribute? And What hampers you in doing your task and should be eliminated?” 145

“We have to answer the question: What is quality?” 146

“But by and large we have, so far, mainly judgments rather than measures regarding the quality of a great deal of knowledge work. The main trouble is, however, not the difficulty of measuring quality. It is the difficulty – and more particularly the sharp disagreements – in defining what the task is and what it should be.” 147

“To define quality in knowledge work and to convert the definition into knowledge-worker productivity is thus to a large extent a matter of defining the task. It requires the difficult, risk-taking and always controversial definition as to what ‘results’ are for a given enterprise and a given activity.” 147-8

“Knowledge-worker productivity is the biggest of the 21<sup>st</sup> century management challenges. In the developed countries it is their first survival requirement.” 157

## **6 Managing Oneself**

This concluding chapter deals with the new demands on the individual. 163

“More and more people in the workforce – and most knowledge workers – will have to MANAGE THEMSELVES. They will have to place themselves where they can make the greatest contribution; they will have to learn to develop themselves. They will have to learn to stay young and mentally alive during a fifty-year working life. They will have to learn how and when to change what they do, how they do it and when they do it.” 163

“And they are likely to have to keep working, if only part-time, until they are around seventy-five or older. The average working live, in other words, is likely to be fifty years, especially for knowledge workers.” 163

Knowledge workers, therefore, face drastically new demands:

1. They have to ask: Who Am I? What Are MY Strengths? How Do I Work?
2. They have to ask: Where Do I Belong?
3. They have to ask: What I My Contribution?
4. They have to take Relationship Responsibility

5. They have to plan for the Second Half of Their Lives. 164

What Are My Strengths?

“Most people think they know what they are good at. They are usually wrong.”

“There is only one way to find out: The Feedback Analysis. Whenever one makes a key decision, and whenever one does a key action, one writes down what one expects will happen. And nine months or twelve months later one then feeds back from results to expectations.” 164

“Within a fairly short period of time, maybe two or three years, this simple procedure will tell people first where their strengths are – and this is probably the most important thing to know about oneself. It will show them what they do or fail to do that deprives them of the full yield from their strengths. It will show them where they are not particularly competent. And it will finally show them where they have no strengths and cannot perform.” 165

“The first, and most important, conclusion: *Concentrate on your strengths*. Place yourself where your strengths can produce performance and results: Second: Work on improving your strengths.” 165-6

“...the feedback analysis soon identifies the areas where intellectual arrogance causes disabling ignorance.” 166 “One important action conclusion from the feedback analysis is thus to ... work on acquiring the skills and knowledge needed to make one’s strengths fully productive. An equally important action conclusion is to remedy one’s bad habits – things one does or fails to do that inhibit effectiveness and performance. They quickly show up in the feedback analysis.”

For example, brilliant planners often stop when the plan is completed. Of a person who fails to obtain results because of bad manners. 167

“The next action conclusion from the feedback analysis is what not to do.” “...all of us have an infinite number of areas in which we have no talent, no skill and little chance to become even mediocre. And in these areas a person ... should not take on work, jobs, assignments.” Waste as little effort as possible on improving areas of low competence. Concentrate on areas of high competence and high skill. 168

How Do I Perform? (not how well, but how)

How one performs is individual. It is personality. It is a given. It can be modified, but is unlikely to be changed. A few common personality traits usually determine how one achieves results.

For example. How do I learn? Do I learn by listening? Reading? Writing? Do I work well with people or am I a loner? In what relationship do I work well with people? As a subordinate? As a coach? As a mentor? As a minnow in a big organization or a big fish in a small organization? As a decision maker? Or advisor?

“The action conclusion: Again, do not try to change yourself – it is unlikely to be successful. But work, and hard, to improve the way you perform. And try not to do work of any kind in a way you do not perform or perform poorly.” 175

What are My Values? 175

At one point he had a good job during poor economic times. But he didn't seeing himself making any contribution to mankind, so he quit. “I saw no point in being the richest man in the cemetery.” 178

Where Do I Belong? 179

“Successful careers are not ‘planned.’ They are the careers of people who are prepared for the opportunity because they know their strengths, the way they work and their values. For knowing where one belongs makes ordinary people – into outstanding performers.” 180

What Is MY Contribution? (The question is What SHOULD I contribute?) 180

“This is a new question in human history.” 180

“Where and how can I have results that make a difference?” 182

“The decision, ‘What should my contribution be?’ thus balances three elements.”

1. What does the *situation* require?
2. How could I make the greatest *contribution* with my strengths... to what needs to be done?
3. What *results* have to be achieved to make a difference?

This then leads to the action conclusions: what to do, where to start, how to start, what goals and deadlines to set.” 183

The Second Half of Life

“There is one requirement for managing the second half of one's life: to begin creating it long before one enters it.” 192