

## Management's New Paradigms

By Peter F. Drucker

**A**s we advance deeper into the knowledge economy, the basic assumptions underlying much of what is taught and practiced in the name of management are hopelessly out-of-date.

As a result, we are preaching, teaching and practicing policies that are increasingly at odds with reality and therefore counter-productive. This essay attempts to re-examine these assumptions and practices. Basic assumptions about reality are the paradigms of a social science. Get the assumptions wrong and everything that follows from them is wrong.

For a social discipline such as management, the assumptions are actually a good deal more important than are the paradigms for a natural science. A social discipline such as management deals with the behavior of people



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and human institutions. The social universe has no "natural laws" as the physical sciences do. It is thus subject to continuous change. This means that assumptions that were valid yesterday can become invalid and, indeed, totally misleading in no time at all.

That's where we are today with the discipline of management. Until the early 1980s, all but the first of these now outdated assumptions were close enough to reality to be useful. In this essay I will show why every one of these assumptions is now either wrong, out-of-date or both.

### The discipline of management

We today tend to think of management as business management. Management writers, management practitioners and the

laity do not even hear the word "management"; they automatically hear "business management."

It is therefore important to assert—and to do so loudly—that management is not business management, any more than, say, medicine is obstetrics.

There are, of course, differences in management between different organizations—mission defines strategy, after all, and strategy defines structure. But the differences between managing a chain of retail stores and managing a Roman Catholic diocese are amazingly fewer than either retail executives or bishops realize.

The differences are mainly in application rather than in principles. The executives of all these organizations spend, for instance, about the same amount of their time on people problems, and the

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#### What are the assumptions that are leading management astray?

- That there is only one right way to organize a business.
- That the principles of management apply only to business organizations.
- That there is a single right way to manage people.
- That technologies, markets and end-uses are fixed and rarely overlap. That is, each industry has a specific technology and a specific market.
- That management's job is to "run the business" rather than to concentrate on what is happening outside the business. That is, management is internally, not externally, focused.

#### A note from the editor

My deep appreciation goes to Peter Drucker for his permission to print these excerpts from his upcoming book. Drucker is one of the sages of management and organization analysis and, in his writing, speaks not only to businesses but to churches and other religious organizations as well. He has said that the role of management is, "To make the church more churchlike, not to make the church more businesslike." The following excerpts first appeared in NEXT, a publication of Leadership Network ([www.leadnet.org](http://www.leadnet.org)). I hope this essay will broaden your horizons for church leadership and be a help in your future ministry planning.

—Ryan D. Hazen

people problems are almost always the same.

So whether you are managing a software company, a hospital, a bank or a Boy Scout organization, the differences apply to only about ten percent of your work. This ten percent is determined by the organization's specific mission, its specific culture, its specific history and its specific vocabulary. The rest is pretty much interchangeable.

Why is it important to break down the artificial distinction between business and nonbusiness organization? Because the growth sector of a developed society in the 21st century is most unlikely to be business. The growth sectors in the 20th century in developed countries have been in nonbusiness—in government, in the professions, in health care, in education. In the 21st century that trend is going to continue with a vengeance.

So the nonprofit social sector is where management is today most needed and where systematic, principled, theory-based management can yield the greatest results fastest.

### **The one right organization**

From the very beginning, more than a century ago, the study of organization has rested on one assumption: "that there is or must be a single 'right' form of organization." That one-size-fits-all idea persists today.

By now, however, it should have become clear that there is no such thing as the one right organization. There are only organizations, each of which has distinct strengths, distinct limitations and specific applications. It has become clear that organization is not an absolute. It is a tool for making people productive in working together. As such, a given organizational structure fits certain tasks

in certain conditions and at certain times. Yet there are universal principles of organization.

One is surely that an organization has to be transparent. People must know and understand the organizational structure in which they are to work. This sounds obvious—but it is far too often violated in most institutions, even in the military.

### **Multiple organizational structures**

The executive of the future will require a toolbox full of organizational structures. He will have to select the right tool for each specific task. That means he or she will have to learn to use each of the tools and understand which one works best for each task. And when, in the performance of a task, he or she should switch from one kind of organization to another.

This analysis is perhaps most needed for the currently politically correct organization: the team.

**“ The greatest value to the thousands who now throng the megachurches—both weekdays and Sundays—is a spiritual experience rather than a ritual.”**

It is generally assumed today that there is only one kind of team—the jazz combo—where each participant does his or her own thing but together they make great music. Actually there are at least half a dozen—perhaps a full dozen—very different teams, each with its own area of application, each with its own limitations and difficulties, and each requiring different management.

Here are some examples of teams:

The old-fashioned functional team is the kind that prevails in department stores. The different departments—buyers, displayers, promotion and advertising, selling—do not work together, and none of their members ever do the task of a member of another function, except in a rare crisis.

The advantage of this team is that each member can be trained in a particular strength, as are hitters, pitchers and catchers on a baseball team. And each member can be measured and judged against clear and specific goals. The weaknesses are rigidity, slowness in changing anything, and the danger that each group will be focused only on its own function. It will do its job well, but pay little attention to the organization's overall performance.

Another team is exemplified by the way service to customers is now being organized. The service person assigned to the customer has the ball, in football parlance. The service person can and does call on anyone in the company to help a customer with a particular problem; that expert is then on the service person's team for as long as it takes to fix the problem.

And there are many, many more kinds of teams. We are now only beginning to explore them and to define the strengths and weaknesses of each and where each works or doesn't work. But unless we work out—and fast—

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what a given team is suited for, and what a given team is not suited for, teams will become discredited as just another fad.

What in all this is the role of the chief executive? I doubt that anyone would assert that we really know how to organize the top management job, whether in a business, a university, a hospital or even a modern church. We talk incessantly about teams—and every study comes to the conclusion that the top management job requires a team. But here, rhetoric parts entirely from reality, and we practice the most extreme personality cult of supermen chief executives—Bill Gates, Jack Welch, Lou Gerstner—celebrities all.

But how were these people selected and who will succeed them—and by what process? What are the safeguards to assure that the successor will be the best person for the job? People pay little attention to the succession process, though it is, in fact, the ultimate test of good management.

### **Only one way**

That one way or another people need to be managed remains the prevailing view, but it is wrong. On this fundamentally wrong assumption that there is only one right way to manage people rest all the other assumptions about people in organizations and their management.

One of these assumptions is that the people who work for an organization are working full-time and are dependent on the organization for their livelihood. Another such assumption is that the people who work for an organization are subordinates expected to do what they are assigned to do and not much else.

A very large and steadily growing minority of the work force are no longer full-time employees. They work for an outsourcing contractor, be it a cleaning service or a data processing outfit. Even if

employed full-time, fewer and fewer people are subordinates, even in fairly low-level jobs. Increasingly they are knowledge workers. Knowledge workers cannot be managed as subordinates; they are associates. They are sen-

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iors or juniors but not superiors and subordinates.

This difference is more than cosmetic. Once beyond the apprentice stage, knowledge workers must know more about their jobs than their bosses do, or what good are they? The very definition of a knowledge worker is one who knows more about his or her job than anybody else in the organization. An executive, therefore, is not just being polite when he or she refers to an employee as an “associate.” The executive is simply recognizing reality.

Their relationship, in other words, is far more like that between the conductor of an orchestra and the people who play the instruments. The conductor may not even know how to play a violin, yet the success of his conducting depends upon the quality of his associates. And just as an orchestra can sabotage even the

ablest conductor—especially even the most autocratic—a knowledge organization can easily sabotage even the ablest, especially the most autocratic, superior.

What this means is that even full-time employees have to be managed as if they were volunteers. In this, the typical corporation can learn a lot from the Salvation Army or the Catholic church.

Like volunteers who work for the church and for the army, knowledge workers own their means of production, which is their knowledge. Furthermore, we have known for 50 years that money alone does not motivate employees to perform much more than it motivates volunteers.

What motivates—especially knowledge workers—is what motivates volunteers. Volunteers, we know, have to get more satisfaction from their work than paid employees precisely because they do not get a paycheck. They need, above all, challenge. They need to know the organization’s mission and to believe in it. They need continuous training. They need to see results.

One does not “manage” people, as previously assumed. One leads them. The way one maximizes their performance is by capitalizing on their strengths and their knowledge rather than trying to force them into molds.

### **The erasing of technological boundaries**

In the 19th century and throughout the first half of the 20th, it could be taken for granted that technologies outside one’s own industry had minimal impact on that industry. Know your own technology and you prospered.

Now the assumption to start with is that the technologies likely to have the greatest impact on a company and its industry are technologies outside of its own field. Technologies, unlike the

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**“ Growth and survival both now depend on getting the organization in touch with the outside world.”**

19th century technologies, no longer run on parallel but separate tracks; they constantly crisscross.

As they crisscross, the walls that neatly defined industries have come tumbling down. Where once companies competed within an industry, today industries compete with industries. The same is happening in service. All those “natural” monopolies have faded away.

One implication of this is that noncustomers are as important as customers, if not more important, because they are potential customers. There are very few institutions where the noncustomers do not amount to at least 70 percent of the potential market. 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.

All our experience tells us that the customer never buys what the supplier sells. Value to the customer is always something fundamentally different from what is value or quality to the supplier.

Consider the pastoral megachurches that have been growing so very fast in the U.S. since

1980 and are surely the most important social phenomenon in American society in the last 30 years. There are now some 20,000 of them, and while traditional denominations have steadily declined, the megachurches have exploded. They have done so because they asked, “What is value?” to a nonchurchgoer and came up with answers the older churches had neglected. They have found that value to the consumer of church services is very different from what churches traditionally were supplying. The greatest value to the thousands who now throng the megachurches—both weekdays and Sundays—is a spiritual experience rather than a ritual.

**Bringing the world into the organization**

All the traditional assumptions I have examined here rest on an even bigger assumption: that the domain of management is within the company. That management’s principal job is to run the organization.

That, too, is no longer true. It leads to an otherwise incomprehensible distinction between management and entrepreneurship. It artificially divides the functions of managing and innovating. An enterprise, whether a business or any other institution, that does not innovate and does not engage in entrepreneurship will not long survive.

That is true even of the oldest institution in the world, the Roman Catholic Church. It is usually considered the most conservative one—and prides itself on not being given to rapid changes. Yet it, too, has frequently innovated and changed with the world.

Protestantism innovates, too. The great church historian Richard Niebuhr (1894–1962) showed in several books that any major change in society leads to the emergence of new Protestant denominations.

It is still happening. The emergence of the Knowledge Society today has led to the explosive rise of the new, large, nondenominational, pastoral “megachurches.” It has also led to an explosion in Pentecostalism, attracting largely the less educated and less upwardly-mobile members of modern society while the megachurches have tended to attract knowledge workers.

What all this means for management is perfectly clear: the forces that most influence organizations come from outside the organization, not from within. The new Catholic orders grew not because the organization required them, but because events in society required them. The Methodist movement in Protestantism exploded almost spontaneously in the late 18th century, not for reasons of theology but as a response to social depravity among the poorer classes in Britain and the U.S.

In short, these religions survived because they innovated in response to social change. It should have been obvious from the beginning that management and entrepreneurship are only two different dimensions of the same task. An entrepreneur who doesn’t learn how to manage will not last long. A management that does not learn to innovate will not last long.

Every institution—and not only business—must build into its day-to-day management four entrepreneurial activities that run in parallel:

**1** One is the organized abandonment of products, services, processes, markets, distribution channels and so on that are no longer an optimal allocation of resources. This is the first entrepreneurial discipline in any given situation.

**2** Then any institution must organize for systematic, continuing

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1999

## *You're Invited to Enter the Presidents' Award for Architectural Excellence*

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## Architectural Awards Deadline July 1, 1999

Board of Church Extension is seeking nominations for the 1999 "BCE Presidents' Award for Architectural Excellence."

This church architectural recognition, formerly known as the Wickes Award, will honor congregations and other organizations of the Christian Church (Disciples of Christ) and their design professionals for quality architecture in recent building programs.

Jurists will consider awards in the following categories: new construction, renovations/restoration, accessibility, and visual arts. Any congregation or organization listed in the *Year Book and Directory of the Christian Church (Disciples of Christ)* that has completed a religious building or work of visual art since January 1, 1990, is eligible to enter the competition.

A jury composed of design professionals and other consultative staff to the Board of Church Extension will determine the winners of the awards. The jury will consider many factors in judging the entries, including how the project facilitates the congregation's or organization's ministry, stewardship, design aesthetics, environment friendliness and accessibility.

Awards will include honor certificates plus a \$500 cash gift to the top award winner in each category, given to the outreach ministry of the winner's choice. All award recipients will be honored at the October 1999 General Assembly of the Christian

Church (Disciples of Christ) in Cincinnati, Ohio.

To enter, either a representative from the congregation/organization or the design professional should contact Board of Church Extension for an application. Board of Church Extension may be contacted at P.O. Box 7030, Indianapolis, Indiana 46204; by phone at (800) 274-1883; or by E-mail at [bce@bce.disciples.org](mailto:bce@bce.disciples.org). There is an entry fee of \$50 and entries must be postmarked by July 1, 1999.

Previous recipients of the BCE-sponsored Wickes awards for architectural excellence in church facilities include First Christian Church, Portsmouth, Ohio, in 1983, and Saguaro Christian Church, Tucson, Arizona in 1989.

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improvement (what the Japanese call kaizen).

3 Then it has to organize for systematic and continuous exploitation, especially of its successes. It has to build a different tomorrow on a proven today.

And, finally, it has to organize systematic innovation; that is, to create the different tomorrow that makes obsolete and, to a large extent, replaces even the most successful products of today in any organization.

I emphasize that these disciplines are not just desirable, they are the conditions for survival today.

These entrepreneurial tasks differ from the more conventional management roles of allocating present-day resources to present-day demands. These entrepreneurial activities start with the outside and are focused on the outside.

Executives of any large organization—whether business enter-

prise, Roman Catholic diocese, university, health care institution, government agency—are woefully ignorant of the outside, as everybody who has worked with decisions in a large organization knows. These executives must spend too much of their time and energy managing inwardly rather than managing outwardly.

Management does not need more information about what is happening inside. It needs more information on what is happening outside.

Growth and survival both now depend on getting the organization in touch with the outside world. Management has become an external, not an internal, task. For results take place outside the organization. Inside, there are only costs.

### **The role of an outward-directed management**

The first task of management is to define what results are in the enterprise that is in its keeping. This, as anyone who has ever engaged in it

can testify, is one of the most difficult, one of the most controversial, but also one of the most important questions. It is therefore the specific function of management to organize the resources of the organization for results outside the organization.

Therefore, the new paradigm on which management, both as a discipline and as a practice, must be based is that management must define the results it expects to attain and then must organize the resources of the institution to attain these results. The paradigm holds for universities, churches, charities and governments, as well as business enterprises.

Excerpts from Peter F. Drucker's forthcoming book *Management Challenges for the 21st Century* to be published this spring by Harper/Collins (New York). Prepublished by permission from the author.

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