Peter Drucker
and
the Governance of the Firm

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A bit of history

Savings and Loans Crisis Mid-1980s:

Deregulation
S&L institutions to act as banks
Asset-Liability mismatch
Real estate boom
Innovation: Deposit brokerage
Tax payer-funded bail-out of S&L institutions by governments, creating the “moral hazard” which led to the financial crisis of 2008
Peter Drucker (1986)

“Corporate capitalism is turning into speculator’s capitalism.

“The short term focus that speculator’s capitalism imposes on managements is deleterious to both business and the entire economy.

“Thinking short term makes traders rich and investors and society poorer.”
“The first performance requirement in a business is economic performance…and profitability.

“Adequate profitability alone can provide for the risks, growth needs and jobs of tomorrow.

“These needs are all long term needs and require commitments to the future”.
“But should economic results, even long-term and lasting ones, be the one and only goal in the publicly owned enterprise, the goal to which all other considerations are to be sacrificed?

“Or are even optimum economic goals achieved only by balancing competing claims?”
“But the real issues are political and moral rather than financial or economic.

“Can a modern democratic society tolerate the subordination of all other goals and priorities of a major institution, such as the publicly owned corporation, to short term gain?

“Can it subordinate all other stakeholders to one constituency – the shareholder – even to a ‘socially responsible’ one?”
“All conservative thinkers have held since Aristotle that to subordinate a major institution to a single value is a grievous mistake that will ultimately deprive the institution of the ability to produce any results.

“We may indeed be best advised to strive for balance.”
“This is what “free enterprise” really means – it clearly was meant to be more than a euphemism for capitalism, let alone for speculation.

“But how can we build accountability for such balance into the management structure?

“And to whom and in what form is this accountability to be exercised?”

(The Wall Street Journal, April 1986)
“Shareholder Value Maximisation” has led to:

- short-termism
- excessive risk-taking
- financial engineering/leveraging
- earnings manipulation
- wealth diversion from shareholders to top managers
- erosion of morality
Rehabilitating Value Creation

Business purpose
The purpose of the firm embedded in society
Maximising positive impacts and shared value
Performance goals for value creation
Value: market capitalisation, intrinsic value, option value
Managing social and environmental externalities
Responsibility in complex global industry systems
Business Schools

Peter Drucker: Business ethics courses are not the answer

Corporate governance
Business environment and strategy
The political and social context of business
Macro trends: sustainability, demographic change a.o.

Underpinned by: economics as a social science
Business Schools

University spirit of *Universitas Litterarum*

Critical skills, judgement, wisdom

Questioning cognitive limits and bias of knowledge systems

Historical awareness

Boundary spanning skills and competences

The Practice of Management:

Context

Complexity

Connectedness
Corporate Responsibility and the Business Schools’ Response to the Financial Crisis

Nigel Roome
David Bevan
Gilbert Lenssen
www.eabıs.org

Related conferences, calls for research proposals, special issue journals

The Future of Economics and Management

Strategic Management and the Goals of the Firm

Corporate Responsibility in Emerging Markets

Corporate Governance after the Financial Crisis

Organisational Transformation for Sustainable Enterprise

Entrepreneurship and Sustainability