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Peter Drucker, Transaction Institutions and Managing the Future

Abstract

This purpose of this paper is to demonstrate the importance of institutions in managing the future. Fundamentally, it is argued that Peter Drucker encourages managers to develop institutional processes in order to reach organizational objectives. These institutional processes revolve around the value created by the organization for its customers over time. Based on Drucker's work, it is shown how innovations in transaction institutions may provide a fundamental transformation in the way transactions are conducted in an organization or a market. This is important for managing the future because an innovation in transaction institutions may have a number of applications within a specific organization and, ultimately, across organizations.

Using a case study of the development of the American clock industry, it will be shown that institutional innovations may provide a leadership position for an organization. Strategically, the challenge is for management is to understand how institutional innovations can be used to create a leadership position in the future. It is argued that this occurs when management uses institutional innovations to create a sharp contrast between the values exchanged between the customer and the organization and the values exchanged between the customer and competing organizations.

Introduction

Peter Drucker often said there are no facts about the future. So, this begs the question, "How does an organization manage the future?" In one book, Drucker argues that the times ahead are certain to be turbulent (Drucker 1980). Accordingly, the most important task for management in such times is organizational survival (Drucker 1980). While the task is daunting, Drucker also left a legacy which provides guidance about how to manage the future.

Drucker argues that the modern enterprise is the major institutional innovation of the modern economy (Drucker 2005). He notes that the effect of the modern enterprise on the economy was greater than that of any material or conceptual invention. Accordingly, this research argues that the solutions to the problems of the future depend on the institutional innovations of organizations

Drucker was heavily influenced by institutional thinking. His work makes frequent reference to the institution of management, institutional innovations in management and the institutionalism created by management. Drucker often referred to management as an institution, the organization as an institution and cultural values as institutions. However, while Drucker used the word institutions quite broadly, the term is used here to refer to sets of rules (March, Schultz and Zhou 2000). Further, because Drucker was primarily interested in institutional processes used by management, in the context of this research, rules refers to the transaction institutions used by organizations to manage relationships.[i]

Drucker focuses on institutional processes used for management practice (Drucker 1954) and management strategy (Drucker 1964). These institutional processes used to manage relationships are considered the "rules of the game" (Hodgson 1998). Typically, this type of rule is of the form “in circumstance X, do Y” (Hodgson 1998). An example of an institutional process from Drucker’s managerial work is the concept management by objective (1954). An example from Drucker’s strategic work is the concept of defining the organization in terms of the customer (1964). In both cases the manager establishes the rules of the game in the relationship.

From Drucker’s perspective, strategy development is driven by an analysis of how transactions are conducted with customers at the market, channel or end-user level (Drucker 1964). In this view, transaction institutions play an important role in developing strategies to achieve organizational objectives.

Transaction institutions may be formal or informal. Obvious examples of formal transaction institutions are an organization’s written rules and procedures and its formal contracts. In fact, Drucker’s first management work describes the importance of formal institutions for organizing management practice (Drucker 1954). And, Drucker’s first strategic work describes the importance of formal institutions for attaining strategic objectives (Drucker 1964).

Drucker also emphasizes the importance of informal institutions. Typical examples of informal institutions used in transacting are norms, cognitive scripts, cultural standards and industry standards. Interestingly, in his first managerial work, Drucker discusses how to create an organizational culture based on participation and individual responsibility (1954). In addition, in his first strategic work, Drucker discusses how organizational values should be driven by a definition of the organization from the perspective of the customer (1964). Drucker is unique among management thinkers because he advocates the use of institutional processes to link management practices with the strategy of the organization. This is in contrast to most institutional researchers and strategy researchers.

Institutional research is grounded in sociology and economics. Most institutional researchers focus on the macro structure of institutions and its effects. In particular, researchers describe how institutional structure influences the form of the organization (Scott 1987), the culture of the organization (Scott and Meyer 1983) and the network of relationships between organizations (DiMaggio and Powell 1983 1989). However, recently institutional theorists have also focused on the dynamic nature of institutional processes in guiding management (March, Schultz and Zhou 2000; Scott 1987).

Institutional management includes both the management of the organization and the management of the institutional processes used by the organization. Interestingly, Drucker invented the concept of institutional management (Drucker 1954). Institutional management strategy is defined as the organizational processes and belief systems used to achieve strategic goals (Steidlmeier 1993).

Most strategy researchers concentrate on economic analysis (Porter 1980, 1985). However, Drucker maintains that the rational choice paradigm used in traditional economic strategy analysis is problematic. This is because of the difficulty in basing strategic decisions on the financial projections of alternative investments. Drucker notes that revenue, productivity and satisfaction can only be evaluated historically. From this perspective, revenue, productivity and satisfaction are outcomes of serving the organization's publics. Accordingly, Drucker argues that strategy should be driven by an analysis of how the organization serves its customers, not merely through the analysis of potential results.

Further, Drucker claims that an organization's results typically come from a small amount of exchanges. That is, a small number of transactions create a large proportion of results

(Drucker 1964). These types of transactions are similar to the concept of strategic transactions developed by institutional economists (Williamson 1985). In institutional economics, a strategic transaction is one that leads to routine transacting (Commons 1924, 1931).

In fact, strategic transactions occur when exchange rules are altered and accepted by transaction counterparts in order to create routine transacting (Rutherford 1983 p. 726). Strategic transactions may result in a fundamental transformation in the way transactions are conducted in a market. Thus, based on Drucker's thinking, we contend that historical examples of strategic transactions can be analyzed to understand how a few transactions account for a large proportion of the organization's growth.

Conceptually, Drucker admits that this type of analysis is influenced by Schumpeter and Weber. Similar to Schumpeter, Drucker views the manager as an innovator who creates exchanges in order to reach organizational objectives. And, similar to Weber, Drucker uses historical analysis of formal and informal transaction institutions to demonstrate how management practice should be organized to reach strategic objectives.

Accordingly, in the spirit of Drucker, this research will demonstrate how an institutional analysis can be used to identify how innovations in management institutions lead to strategic transactions. This paper will analyze the development of the clock industry in America in the 19th century to demonstrate how innovations in transaction institutions resulted in strategic transactions and helped develop the underpinnings of American management practice.

Transaction institutions and the American system of production

Drucker's approach to problem solving is often to avoid direct recommendations. Instead he advocates management processes to solve problems and utilizes historical examples of the development of management practices to illustrate his point (i.e. Sears, IBM, AT&T). In terms of analytical methods this is similar to Max Weber's historical institutionalism which identifies ideal types of organization. Historical institutionalism is based on an historical analysis of institutions (Katzenstein, 1978, 1987, 1989; Thelen and Steinmo, 1992). In terms of methodology, these researchers often use case studies to identify ideal types of organization, then evaluate concrete examples to show how they deviate from the ideal.

Historical institutional theorists assume that the actions and motivations of individuals are primarily determined by formal and informal rules (Thelen and Steinmo, 1992, p.2). It is argued that because social actors are rule driven, in a strategic context, rules shape opportunities. This is similar to Drucker's work which utilizes historical examples to illustrate how specific institutional innovations shape the opportunities of a variety of organizations.

In an historical institutional analysis, the decisions of managers are assumed to be based on rules at least as much as instrumental approaches to decision making (Cyert and March 1963). This is because research indicates managers are cognitive misers who develop rules to reduce organizational uncertainty (March 1994). The major problem in managing rules is that they may become rigid and, accordingly, may be poor policy mechanisms unless they are based on values which are compatible with transaction counterparts (March, Schulz and Zhou 2000).

Accordingly, Drucker provides numerous historical examples which demonstrate that when the organization's values are compatible with the customer's, the institutionalization of transaction rules can lead to results. In fact, it will be shown that some of the earliest examples of transaction institutions developed in the United States in the early 19th century provided the managerial underpinnings for the modern enterprise and modern economy described by Drucker.

For example, Eli Terry was an artisan clock maker in the United States in the early

1800's. At the time, there were no industries in the United States. Terry developed a wooden shelf clock which cost far less to produce than traditional clocks. Further, shortly after 1800, Terry pioneered the idea of using interchangeable parts (Chandler 1977). This allowed the simultaneous manufacture of multiple clocks, dramatically increasing production capacity. In effect, Terry systematized clock making (Murphy 1966). Termed the "The American System", Terry's methods revolutionized clock production.

Terry produced clocks to stock rather than the traditional method of producing clocks to order. One artisan clockmaker at the time suggested that even if Terry could produce all the clocks he expected to produce, it was unlikely that he would be able to dispose of them (Murphy 1966). In fact, after producing his first few clocks, Terry had an inventory of clocks that he needed to sell. So, like vagabond merchants of the period who sold books or tin, Terry went into the countryside on his horse to sell his clocks. However, he was soon faced with a dilemma. Although Terry's clocks cost far less than traditional clocks, they were still quite expensive and difficult to sell.

The American economy at the time was primarily an exchange-based economy. That is, exchanges were typically settled on the spot; cash for merchandise. Eli Terry, however, understood the value of transacting. Transactions are exchanges that account for one another's actions across time: trans-actions (Commons 1931). While exchanges are instantaneous, transactions are not. The concept of the transaction was actually identified by the institutional economist, John Commons, in the early 20th century when a transaction based economy emerged in the United States.

Commons noted that each transaction counterpart is a trans-actor whose actions over time are specified by rules. Thus, time and rules are fundamental to the creation of the transaction concept. Commons argues that the selling organization must specify its actions across time with rules in order to transact with the buyer. Because the organization must act across two points in time, a rule is created to satisfy the buyer that the actions of the organization are linked to the two points in time. This secures the expectations of the potential customer.

Commons developed the concept of the transaction in the field. As a practicing economist, Commons noted that when a transaction counterpart's demand for security of expectations is unfulfilled, transacting ceases and market potential is not realized. When security of expectations is unfulfilled a "limiting factor" halts transactions (Commons 1931). Similar to Drucker's thinking, Commons argues that when faced with a limiting factor the "negotiator, salesman, manager" will innovate and dynamically utilize rules in order to facilitate exchange (Commons 1931).

In fact, Terry innovated by developing a rule for transacting in order to sell his clock inventory. Terry's rule became known as the free trial offer. Terry promised customers that they could use the clock on a free trial basis. Then, when Terry returned to the countryside on subsequent trips, the customer could pay a portion of the amount due until the clock was paid off. And, if the customer couldn't pay, Terry could get his clock back. Because of the free trial offer, he was able to sell his clocks and return home. Similar to accounts reported by Drucker, this example demonstrates that challenges are met through management innovations in institutional processes which account for the actions of each transaction counterpart over time.

Accordingly, we will show that management practice in the United States was influenced by institutional management processes utilized in the clock industry in the 19th century. These institutional management processes emphasized risk taking and risk sharing both between the organization and its customers and the organization and its employees.

Drucker's method for strategy analysis is based on three assumptions. First, transactions are based on the provision of utility by the organization to its customers. In addition, the analysis must show how the organization provides leadership in the market versus competing organizations. Finally, the customer transaction is the focal unit of analysis because only the customer can determine the value of the organization's offer. Drucker's method will be demonstrated by comparing Terry's offer with that of the artisan clockmakers of the period using the value leadership framework (Wallman 2009).

Terry soon realized that he didn't have to sell the clocks personally. Instead, he could use vagabond merchants: "peddlers and itinerant dealers" (Jaffee 1991). At the time vagabond merchants typically sold books, tin and portraits. As a result, Terry utilized vagabond merchants who traveled the countryside selling clocks using the free trial offer. Terry, in turn, extended them credit during their extensive sales trips (Jaffee 1991). Once the free trial offer was developed in one market, it spread quickly to other markets and contexts. The growth of the Terry's enterprise resulted from systematic risk taking and risk sharing using transaction rules. Eventually, the practices used by Terry became institutionalized in the clock market.

When transaction rules become institutionalized, two effects result. First, each party's role in the transaction is defined. This allowed the Terry to develop shared expectations with customers. Then, once rules create shared expectations in one area, the same transaction rules are applied to other contexts (Scott and Meyer 1994). Terry developed a transaction rule in one context which spread quickly across other organizations. This is termed contagion effect (March, Schulz and Zhou 2000). Similar to Drucker's analysis of modern corporations such as

Sears, IBM and General Electric in the 20th century, the development of management in America in the early 19th century is associated with the development of institutional processes for transacting. Again, in each case, these institutional processes are characterized by risk taking and risk sharing.

When analyzing an historical example of a strategy, the exchange rules offered by each organization are compared using a framework to depict value leadership. In this example the customer is the potential clock buyer. It is assumed that the customer compares choices for purchasing a clock. For example, the potential customer compares the exchange rules of Eli Terry's clock sold by the vagabond merchant with that of the artisan clockmaker. (An artisan clockmaker provided a clock works to a consumer in exchange for a down payment and a sales contract. Thus, the customer still needed a cabinet to use the clock.) The analyst then creates a table comparing each supplier's rules for transacting from the perspective of the customer. The table depicts the competing transacting institutions (see TABLE 1).

TABLE 1
Value leadership framework
Alternative institutional exchanges
For choosing a clockmaker (America ca. 1805)

Transaction #1: A clock works provided by an artisan clockmaker

Product or Service	Actor A	Aa value offered	Actor B	Ab value offered
Clock	Potential buyer	CashA sales agreement	Clockmaker	The utility of a clock works

Transaction #2: A clock provided by Eli Terry

Product or Service	Actor A	Aa value offered	Actor B	Ab value offered
Clock	Potential buyer	Acceptance of the free trial offer	Eli Terry	Primary value effects:The utility of immediate useSecondary value effects: The utility of timeThe utility of productivityThe utility of financial profitThe utility of a higher quality of life

Assumptions:

Transactions involve not just cash, but the exchange of values
The organization must provide a leadership position in order to distinguish the values it offers
Value is determined by the customer

In a transaction each transaction counterpart can be considered an exchange actor. For example, there are two trans-actors in each alternative transaction depicted in TABLE 1. The customer, in this case the potential clock buyer, is Actor A in each transaction. The competitors, the artisan clockmaker and Eli Terry's vagabond salesman, are listed as Actor B in Transaction 1 and Transaction 2 respectively. Actor A's value offered is listed in the column "Aa value offered." Actor B's value offered is listed in the column "Ab value offered."

If the artisan clockmaker is selected (Transaction 1) the customer receives the utility of the use of the clockworks in exchange for a sales contract specifying a down payment and the remaining cash on delivery. Following purchase, the buyer would still have to house the clock in a custom cabinet in order for it to function.

If the vagabond salesman is chosen (Transaction 2 in TABLE 1) the clock purchaser gets immediate use of the product through the free trial offer. Because the free trial offer utilized the concept of risk taking and risk sharing, the purchaser immediately receives the utility of time without taking a large risk. As the example shows, through risk taking and risk sharing with the clockmaker, the buyer receives much greater utility (i.e. immediate gains in productivity and satisfaction). Risk taking and risk sharing thus led to a number of secondary benefits to the purchaser resulting in dramatic market growth (see Transaction 2 in TABLE 1).

When evaluating the growth of New England and the United States in the early 19th century, the significance of the clock market in the transition from an exchange economy to a more modern economy cannot be ignored. At the time a clock was an important managerial tool. The word clock is derived from the Latin word “clocca” or bell. That is because early clocks were typically used along with bell ringing to regulate prayer and work schedules.

In the United States at the beginning of the 19th century, the most popular commercial organization was the family farm. Clearly, once the family farm had a clock, the ability of each member of the household to transact was expanded considerably primarily because work schedules were easier to manage. In addition, once clocks became common in the factories of the period, it became easier to both measure and manage productivity on an hourly basis. Clocks could be used not only to improve the quality of life but, also, to increase productivity and make a profit.

Terry’s value proposition is manifested in its rules for transacting depicted in table one.

That is, clock purchasers receive the utility from a number of sources by taking advantage of Terry's free trial offer. However, what was perhaps most significant, is that by providing the free trial offer, Terry shared the risk with the buyer. When Terry accepted the buyer's promise to follow the rules it reflected a shift to institutional innovations based on systematic risk taking and risk sharing.

Institutional innovations were also formed by Terry to manage transaction relationships with his employees. Once again, the exchange rules are analyzed using the value leadership framework to demonstrate how institutional innovations fuel organizational growth.

In this example the customer is a potential worker in the clock industry (ca. 1805). It is assumed that the potential employee compares choices for a career. For example, the potential employee compares the exchange rules of Eli Terry with those of the artisan clockmaker. The table depicts the competing transacting institutions (see TABLE 2).

TABLE 2

Value leadership framework

Alternative institutional exchanges

For choosing a job in clock making (America ca. 1800)

Transaction #1: An employment agreement with a clockmaker

Product or Service	Actor A	Aa value offered	Actor B	Ab value offered
Clockmaking	Potential apprentice	An apprenticeship agreement	Clockmaker	Primary effect:The utility of moneySecondary effect:The utility of one day becoming a journeyman or master clockmaker

Transaction #2: An employment agreement with Eli Terry

Product or Service	Actor A	Aa value offered	Actor B	Ab value offered
Clockmaking	Potential employee	Agrees to operate a	Eli Terry	Primary

		machine		effect:The utility of moneySecondary effect:The utility of learning how to build a clock making enterprise

Assumptions:

Transactions involve not just cash, but the exchange of values
The organization must provide a leadership position in order to distinguish the values it offers
Value is determined by the customer.

The potential worker is listed as Actor A in Transaction 1 and Transaction 2. The competitors, the artisan clockmaker and Eli Terry, are listed as Actor B in Transaction 1 and Transaction 2 respectively. If the artisan clockmaker is selected (Transaction 1) the employee receives the utility of money in exchange for an apprenticeship contract, normally for a number of years. He also receives the utility of a future as a journeyman or master clockmaker.

If the transaction with Eli Terry is chosen (Transaction 2 in TABLE 2) the employee also receives the utility of money. However, in addition, he receives the utility of learning how to build a clock making enterprise. This was very appealing to a number of Terry's employees. Eli Terry's sons and his employees Seth Thomas, Silas Hoadley and Chauncey Jerome all established clock production facilities using the American System of production. Accordingly, it is clear that Terry's transaction institutions allowed employees to become entrepreneurs. Terry's acceptance of the potential employee's promise to follow the rules is another reflection of the shift to institutional innovations based on systematic risk taking and risk sharing. Thus, the elements of risk taking and risk sharing which became popular with participative management in the United States in the 20th century can clearly be traced to the first interchangeable parts production facilities in New England.

Through risk taking and risk sharing, the clock industry provided a means for individuals of the time to become entrepreneurs. This led to rapid growth. Further, the distribution system fueled the growth of the American System of production across New England. In fact, New England became the center of interchangeable parts production in the world. Interestingly, one historian has traced the development of the first mass production techniques used by arms manufacturer Simeon North to interchangeable parts production developed in the clock industry (Muir 2000).

By the 1820's a number of vagabond merchants specialized in selling shelf clocks. While vagabond merchants typically were either employees or commissioned agents of the manufacturer, clock peddlers usually operated on credit provided by the clock manufacturer (Jaffee1991). The number of vagabond peddlers continued to expand in the United States for a number of years. In fact, vagabond merchants such as clock peddlers controlled distribution for many types of products in the United States during the first half of the 19th century.

Eventually, however, clock makers relied on other forms of distribution such as merchants, commission agents and jobbers. By 1840, jobbers controlled the distribution of clocks in Eastern cities while commissioned agents and merchants controlled the distribution of clocks in the rest of the United States (Chandler 1977).

Similar to examples provided by Drucker, Terry's success resulted in part from the transaction institutions he utilized to make and sell his clocks. Also similar to Drucker, through innovations in Terry's transaction institutions at the customer level, a new class of merchants emerged and expanded; the vagabond merchant known as the clock peddler. Like Drucker's accounts of 20th century organizations, management practices used by clock peddlers influenced the growth of manufacturing in New England in the early 19th century. Finally, following Drucker's line of thinking, this example demonstrates that organizational growth may be fueled by transaction rules that are characterized by risk taking and risk sharing.

As Drucker notes, the institutionalization of transaction institutions provides evidence of the emergence of management. From a perspective of institutional theory, this happens when transaction practices become standardized (DiMaggio & Powell 1983). Through institutionalization, transaction rules can spread quite quickly and result in the emergence of a professional field; management. This can have a dramatic effect on economic growth as the example of Eli Terry, the vagabond merchant and the clock industry demonstrate. Perhaps this is why Drucker emphasizes institutional innovation as the solution to the problems of the future (Drucker 1980, 1986).

The transaction rules developed by Terry provided a distinct advantage to his organization in the market. Because of his system for developing transaction rules, Terry was able to spend his time making clocks instead of selling them. And, he expanded production dramatically. Eventually, Terry and his protégés changed clock making from an artisan craft into one of the United States' first industries. This helped to create an entire class of vagabond merchants who utilized the free trial offer. Finally, Terry's transaction institutions also influenced the development of trade financing and consumer financing which vagabond merchants subsequently used to market a variety of products. Thus, the roots of a number of management practices reported by Drucker in the 20th century are evidenced in the early United States in the clock industry.

Terry's efforts were successful, in part, because of the transaction institutions utilized to sell the product. Managerially, transaction institutions simplified management decision making and, strategically, they standardized the way his products were sold. Similarly, the lesson for managing the future is that developing transaction institutions is a primary management task used to simplify management decisions and reach organizational objectives.

As shown by the example of Eli Terry, the behavior of individuals is important in an institutional analysis. However, individual behavior is important primarily in terms of how the individual innovates and changes the rules by which transactions are conducted. As this analysis demonstrates, organization strategies may be particularly successful when they create utility for transaction counterparts beyond the primary benefit of the product or service. This is often done through risk taking and risk sharing.

A value leadership analysis begins with an understanding of the institutional context of transacting. Rather than trying to depict an individual choice, the analysis depicts the range of institutional alternatives available to the individual and how that range of alternatives is changed through innovations in transaction institutions. In the example of Eli Terry, the vagabond merchant expanded the range of institutional alternatives available to customers. This was accomplished strategically through innovations in Terry's transaction institutions. In addition, Terry expanded the range of institutional alternatives available to his employees. This was accomplished managerially through employment agreements. In both cases, Terry was willing to transact with customers and employees, not merely conduct exchanges. This involved both the concepts of risk taking and risk sharing which increased the value of transacting to both parties while substantially lowering risk.

Limitations and Conclusions

Peter Drucker's work is quite broad. In addition, he was never a traditional academic.

As a result, evaluating his work is often more difficult than evaluating research in one specific theoretical domain.

In addition, it should be noted that developing management practice or organizational strategy based on historical institutional comparisons of one ideal type may be problematic for two key reasons. First, the analysis is driven by determining how strategic transactions create value leadership. Unfortunately, identifying strategic transactions is by its very nature problematic. Second, this method may lack precision and become increasingly subjective unless a rigorous analysis is pursued.

However, this research demonstrates that Drucker is an institutional thinker. This has clear implications for future research. This research shows that, throughout his work, Drucker recognizes the importance of organized institutions and institutionalization in society.

Drucker's method of strategic planning is not rooted in a financial analysis of markets. Rather, it is rooted in the analysis of innovative transaction institutions in customer markets.

Similar to Schumpeter, Drucker feels that only innovation and entrepreneurship create true economic surplus. Thus, researchers need to investigate Drucker's contention that, regardless of the organization's designation as either corporate, government or non-profit, innovative, strategic solutions are rooted in products and services which solve the problems of transaction counterparts.

The implications for management are also clear. For example, the entrepreneurial role of each type of organization in solving problems is critical. Only through entrepreneurship can long-term solutions to problems be developed. This requires a deep understanding of the costs involved, even on a small scale. When the details of costs are understood entrepreneurial innovations can be developed in response. For example, once Eli Terry understood the customer's financing problems and the cost involved in solving that problem, he developed the free trial offer to absorb that cost. Because he shared the risk with the customer, transactional risk was hedged.

Accordingly, managers need to understand specifically what costs the organization will absorb in the future to serve its transaction counterparts. According to Drucker, the costs of the future are opportunities for management (Drucker 1980). In the case of Eli Terry, financing costs had to be absorbed for transacting to take place. Similarly, leaders must carefully think through their values and determine which costs their organizations can and should absorb in the future. Further, managers need to understand that there is some element of risk for an organization to absorb costs. Accordingly, Drucker argues that managers must use proven management processes to carefully think through the long-term consequences of alternative policy issues. Better to be slow moving and wise, Drucker notes, than fast moving and clever.

Perhaps Drucker's most important message for managing the future is that organizations must recognize the common good of society in order to survive. Organizational leaders must work for the community at large. This is accomplished through planning and operating practices which recognize organization values based on the common good. When values are shared, risk taking and risk sharing are more likely to succeed.

Drucker believes that society has become increasing pluralist. In such a society, the rights of all groups must be considered, not just the rights of one group. As the example of Eli Terry indicates, when organizational values are in conflict with the values of specific customer groups, transacting does not occur.

As Drucker notes, sales are made one customer at a time. Accordingly, in a pluralist society managers must use institutional processes to make a market with each customer. And, as the example of Terry indicates, when organizational values overlap with the customer at an individual level, transacting may occur.

Drucker contends that pluralist societies thrive because independent, autonomous institutions do both what is best for the organization and for the common good. As a result, managers need to focus on commonly held values which form the basis for cooperation with customers.

Drucker has a unique perspective of the functioning of organizations in society. He contends that organizations are organs of society. As such, organizational results in terms of finance, productivity and satisfaction are a function of how well the organization serves society. This creates a number of implications for leadership.

Of course, leaders must lead the organization to higher levels of performance in terms of profits, productivity and customer satisfaction. However, Drucker believes that unless the leader is also responsible to the community at large the survival of the organization is at risk. This implies that future researchers and practitioners must understand how to match the organization's values with the needs of the community in order to develop solutions to today's problems. Organizational survival depends on it.

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[1] Rules exist at three levels of analysis. First, customs, traditions and values embedded in culture are considered rules. Second, constitutions and laws are considered rules. Third, organizational processes used to manage relationships are considered rules.