

By Peter Starbuck. PhD

RECLAIMING DRUCKER

The world's most famous management writer may have spent most of his working life in the US, but he owes many of his ideas to his European origins.

Peter Drucker has been described as the world's greatest management thinker, and he certainly remains one of the most popular. Now in his 96th year and living in Claremont, California, he has spent most of his working life in the US. Yet he remains proud of his European origins. The influence of the European milieu in which he was born, educated and spent his early working life is very strong in his work. Associated in most minds with US management ideas, Drucker is also the most European of management gurus.

Drucker was born into a Viennese intellectual family on November 19, 1909. Five years later Austria-Hungary entered World War I, a conflict which resulted in defeat, the loss of empire and then economic crisis and hyper-inflation. Despite the disruption of these events, Drucker was well educated and exposed to the ideas of the outstanding Austrian intellectuals of his day; he later named Sigmund Freud, Ludwig von Mises and Friedrich von Hayek as early influences, as well as composers and writers like Brahms and Mann. All of these events and influences had the effect of broadening Drucker's mind, and from an early age he developed an open method of enquiry, challenging himself to go beyond the obvious. Here he was influenced particularly by the boundary less search techniques of Gestalt holistic analysis, developed by the Austrian philosopher Max Wertheimer.

The formative years

Drucker left Vienna in 1927, at the age of 18, to begin work as an apprentice clerk in a Hamburg export business. He also enrolled in the law faculty of Hamburg University. During this time, three more influences on Drucker's later thought can be identified. The first was the Italian composer Giuseppe Verdi, who impressed Drucker with his commitment to work. Verdi's most difficult composition, Falstaff, was not completed until the composer was 80 years old, and Drucker pledged to follow this example by continuing to work and improve his ideas throughout his life.

The second influence from the Hamburg period was Drucker's encounter with the work of the Danish theologian, Soren Kierkegaard. Drucker later wrote that it was through Kierkegaard that he discovered God. More specifically, it was Kierkegaard's somewhat severe Protestant message that later became the foundation for Drucker's imperative messages of integrity and the need for a functioning free market economy to provide its members with freedom, status and function.

Finally, while on a visit home to Vienna for Christmas in 1927, Drucker met the Austrian philosopher and economist Karl Polanyi. Drucker later recalled that from Polanyi he learned the ability to admire people for the quality of their thought processes, even while disagreeing with their conclusions.

After 18 months in Hamburg, Drucker moved to Frankfurt, where he enrolled at the university and joined the editorial staff of Frankfurt's largest daily newspaper, the *Frankfurter General Anzeiger*. During his first year with the newspaper, in 1928 Drucker met two people who would go on to become major influences, one negative and the other positive. The negative influence was the leader of the Nazi Party, Adolf Hitler, then in opposition but already a formidable political force. Drucker did not believe that Hitler was entirely irrational, and he did note that Hitler's later nationalisation of the German banks had saved them from collapse. But he perceived the threat of Nazi totalitarianism at an early date, and his writings against Hitler would have consequences for himself.

The other influential figure in Drucker's life from 1928 was the Austrian economist Joseph Schumpeter, a family friend and former colleague of Drucker's father, the economist Adolph Drucker. Such was Schumpeter's impact upon Drucker's ideas that the latter has sometimes been described as Schumpeter's successor. Drucker has never objected to this description, and he continues to acknowledge and praise Schumpeter. However, when asked why he himself never became an economist, Drucker's reply was that his interest was in people.

What appealed to Drucker was Schumpeter's concept of a free market economy driven by entrepreneurs, with government intervening only to protect people from extreme events over which they had no control. Schumpeter believed that the economy could never be in equilibrium but would instead always strive to attain this elusive balance. This, in turn, led to economic cycles. When the economy was at a low point in the cycle, entrepreneurs would see opportunities and their activity would increase. When the cycle reached its peak, however, entrepreneurs would cease looking for new opportunities because their markets were saturated. It was at this point of overheating that the classical economists were persuaded that governments should intervene.

Schumpeter's theory was that this was precisely the wrong action, for three reasons. First, intervention would precipitate a depression. Second, Schumpeter never did develop a method of predicting the peaks and troughs of an economic cycle, despite labouring for decades. This meant it was impossible to know exactly when to intervene. As Drucker later commented, "even the mighty Schumpeter could not find the answer". Finally, Schumpeter argued that if governments stood aside when the cycle had reached its peak, then the economy would be self-cooling and the peak would move naturally towards the trough, at which point entrepreneurs would see opportunities and move into the market once again.

From Schumpeter's basic ideas, Drucker developed his own key ideas on innovation, the role of the entrepreneur and the dominance of the customer as buyer or rejecter of goods or services. Following Schumpeter, Drucker argued that as money was pumped into the economy, those that could save money did so, while those who had nothing still had nothing.

Other economists whom Drucker admired included Adam Smith and the French economist, Jean-Baptiste Say. Drucker acknowledged Smith's essential contribution but, again following Schumpeter, argued that in the modern world balanced supply and demand would not drive markets. Here he turned to Say, who, following the earlier work of Richard Cantillon, had identified the role played by the entrepreneur in supporting economic growth and activity.

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A voice for freedom

Drucker’s next major influence was a figure who is all but forgotten today, the Bavarian Friedrich Julius Stahl. Born Joel Golson in 1802, Stahl was a convert from Judaism to Christianity who taught law at Berlin University. Stahl succeeded Edvard Gans, the last of the Hegelian left-wingers, in 1839 to the professorship of jurisprudence. His own views were rather more conservative, and the clash of politics between Stahl and Karl Marx, then a student at the faculty, had resulted in the latter’s leaving the university.

Stahl’s views were sometimes reactionary, and he argued that authority, not majority rule, was required for political decisiveness. His philosophy was also in the tradition of the infallibility of Christianity and the right of the monarch as the sole ruler in partnership with the church. He criticised the Enlightenment for rupturing this order. But, for Stahl, political rights were a nation’s greatest assets. He strongly opposed Marxism and totalitarian rule; despite his views on authority, he believed in the need for a democratic Christian state. Thus his ideas were in diametric opposition to those of the Nazis.

This, plus his Jewish birth, was of interest to Drucker, who regarded Stahl as Germany’s foremost political philosopher. From Stahl, Drucker added to the building blocks of his views on what constituted a workable society, combining Stahl’s ideas with those of Schumpeter on democratic free-market economy. He took the view that Stahl was anticipating many of the developments of the US contribution, and began to regard the US as the only possible hope against the rise of totalitarian rulers such as Hitler, Stalin and Mussolini. Further inspiration came from Drucker’s study of the French political philosopher, Alexis de Tocqueville, who regarded the US as being able to solve the problems of democracy when most countries in Europe had failed to do so.

Drucker chose to write his first major published work on Stahl’s philosophy, in part in order to make his own views plain. His monograph, *Friedrich Julius Stahl: Conservative Theory of the State and Historical Development*, was published by the distinguished publishers J C B Mohr of Tübingen on April 26, 1933. The Nazis reacted as expected, and the book was eventually banned and ordered destroyed. By this time, Drucker had prudently left Germany for Austria and, after a few weeks, moved on to England later in 1933. Here he stayed until moving permanently to the US in 1937.

Economic man

Further dynamic force was given to Drucker’s ideas by the German economist and philosopher, Max Weber, who had concluded that the growth of the US could be attributed to Protestant Christianity and its “work ethic”. Weber’s other influence on Drucker was his theory of bureaucratic management. For Weber, bureaucracy was a highly developed and responsible method where everyone knew their place and contribution within the organisation, with control coming from the top. Of Weber’s contribution, Drucker wrote “that amongst the great men of management here are only two pure scholars”, one being Max Weber and the other the Australian sociologist, Elton Mayo. But, although he respected Weber’s theory of bureaucracy, he did not adopt it. For Drucker,

management had to be driven by the needs of market. His most remembered epigram is the statement that “the purpose of a business is to create a customer” (to which he later added, “and get paid”).

Many of Drucker’s early influences began to come together in his writings from 1939, beginning with *The End of Economic Man*, published in May 1939. Here he names many of these influences, with frequent references to Christianity, Hitler and Marx. Drucker’s position on Christianity and Hitler has been established. Of these two influences, Christian values continue to appear throughout Drucker’s work, while the malign influence of Hitler was to be exorcised in Drucker’s next book, *The Future of Industrial Man* (1942), although Marx occasionally recurs.

Marx receives the same rational treatment that Drucker had given to Hitler. He accepts the existence of a proletariat, but argues that once the workers had become industrialized with skills that gave them mobility, then communism would not take root. He showed respect for Marx’s intellect in general while steadfastly rejecting his ideas. As Drucker’s search for his workable society evolved into his ideas on management, however, he dismissed Marx’s economics as “a dupe” because the latter failed initially to regard the contribution to production made by technology and, even more unforgivingly, management’s contribution to productive output.

Another influence that appears in *The End of Economic Man* is the Russian, Fyodor Dostoevsky, today best remembered as a writer. Drucker aligns himself with Dostoevsky’s general Christian beliefs, and in particular the obligation that individuals must make their own decisions regarding their personal life evenly and especially the most difficult ones. Dostoevsky’s is endorsing the earlier influence of Kierkegaard. For Drucker, Dostoevsky’s message is a warning against the individual surrendering to a dictator the likes of Hitler who promised to relieve people of having to make unpleasant decisions by making them for them.

As Drucker continued his search for a workable society, he began also to consider the works of important business leaders. In particular, he considered the work of the Welshman Robert Owen, who developed his model mill community in New Lanark, Scotland. Owen’s ideas on free education, social support and humane working conditions were very advanced for their day, and Drucker attributes to him the concept of industrial democracy, referring to him as “that almost saintly figure of early capitalism”.

Rational management

One of the most important influences on Drucker’s ideas on business management is the German polymath, Walther Rathenau (1867-1922), an intellectual, philosopher, diplomat, politician, social thinker, industrialist and banker, and author of over 20 books. Rathenau was Jewish by birth and, despite his family’s wealth, he was excluded from certain political and military posts. After a brief period of military service he completed a doctorate on Light Absorption of Metals at Berlin University, then joined the family business Allgemeine Elektrizitäts-Gesellschaft (AEG), one of the German electrical giants. By applying his organisational ability and banking skills, he reorganised much of German heavy industry and was the German equivalent to the US firm, JP Morgan. As a devout patriot, he organised war materials in Germany during World War I, and later helped to negotiate the Versailles peace treaty. Then, as a minister of state, he negotiated the Rappallo Treaty with Russia in 1922. He was assassinated shortly after in Berlin in June 1922, the first Jew to be killed by the Nazis. Ironically, many of Rathenau’s ideas on how an industrial society should be organised were integrated into the Nazi programme, albeit in a manner that he never intended.

Rathenau’s most important management ideas were on rationalisation. Quality and the elimination of waste were key elements, which were then linked to continually improved

productivity. He recognised that society had not developed in a manner that complemented the way that people now worked, and proposed that the new society should be found within the workplace. Drucker adopted this idea for his own concept of the “autonomous self governing plant community”, but he rejected Rathenau’s prescriptive control over peoples’ lives.

Rathenau and Drucker disagreed on other ideas as well. Rathenau regarded the entrepreneur as a parasite, whereas Drucker followed Schumpeter and found entrepreneurs to be essential. Rathenau also supported cartels and monopolies. In Drucker’s view, they stifled trade and progress. The areas on which they did agree, however, were considerable, to the extent that Drucker ranked Rathenau equal in importance with the American Frederick Winslow Taylor and the Frenchman Henri Fayol as pioneers of management thought.

Influences in Britain.

During his stay in London where he worked as a banker Drucker continued to accumulate influences. He attended Keynes’s lectures at Cambridge during the period when the latter was completing his *General Theory of Employment, Interest and Money*, and claims to be the only person to have attended lectures by both Keynes and Schumpeter. Drucker’s interest in the arts of Japan also began at this time, when he claims to have attended an exhibition in order to take shelter from the rain; he went on to become an expert and professional lecturer on Japanese art. He also launched his career as an English-language journalist, and met and married his wife, Doris Schmitz.

Other influences came from a variety of sources. A complimentary reference to Winston Churchill in *The End of Economic Man* was followed by a vigorous review of the book by Churchill, an endorsement of the value of Drucker’s early promise. Other early European influences continued to have impact: the French management philosopher Henri Fayol, whose ideas helped to give management an essential formative structure; the British General Sir Ian Hamilton, who emphasises the need for leaders to care for those they lead; and the British management consultant and philosopher Lyndall Urwick, who explored many of the ideas of management that interested Drucker.

After moving to the US, Drucker continued to develop his ideas, influenced not only by American thinkers, writers and business leaders but also by European émigrés like himself who made the US their home. But despite these new discoveries, Drucker always remembered his early influences and these can be seen and traced in all his later work right into the nineties.

“On New Year’s Day 1950, Peter drove his father Adolph Drucker to visit Joseph Schumpeter, then in his last year of teaching at Harvard and in rapidly failing health (he died eight days later). He and Adolph reminisced about their young days in Vienna. The conversation took a more serious turn when Schumpeter, answering a question from Adolph, said: ‘You know, Adolph, I have now reached the age where I know that it is not enough to be remembered for books and theories. One does not make a difference unless it is a difference in people’s lives’. Drucker says he has ‘never forgotten that conversation’. It gave him the measure of his achievement.” (Beatty 1998:187-8)

This article is drawn from Peter Starbuck’s PhD thesis, *Peter Drucker: His Sources and Contributions to Management* (Open University Business School)

REFERENCES

- Beatty, J (1988), *The World According to Drucker*, London: Orion.