

# **Peter Drucker and the Governance of the Firm**

Prof Gilbert Lenssen  
President  
The Academy of Business in Society

Vienna, November 2010



The Academy of  
Business in Society

# 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



The Academy of  
Business in Society

# 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



[www.eabis.org](http://www.eabis.org)

# Corporate Responsibility and the Business Schools' Response to the Financial Crisis

Nigel Roome  
David Bevan  
Gilbert Lenssen



The Academy of  
Business in Society

[www.eabis.org](http://www.eabis.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*



The Academy of  
Business in Society



The Academy of  
Business in Society