



**Drucker's 'Theory of the Business' and Organisations:  
Challenging Business Assumptions**

**by**

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## **One of Peter Drucker's Big Ideas - that Businesses are Theories!**

**...“These are the assumptions that shape any organisation's behaviour, dictate its decisions about what to do and what not to do, and define what the organisation considers meaningful results.**

**These assumptions are about markets. They are about identifying customers and competitors, their values and behaviour. They are about technology and its dynamics, about a company's strengths and weaknesses. These assumptions are about what a company gets paid for.**

**They are what I call a company's *theory of the business*”...**



**“Every organisation, whether a business or not, has a theory of the business.**

**Indeed, *a valid theory that is clear, consistent, and focused is extraordinarily powerful*”.**

**...Peter Drucker, *Harvard Business Review*, Sept-Oct, 1994 – ‘The Theory of the Business’, p. 95-104. [italics added]**



## **AHA! - The Big Power of Small Assumptions! [sorry, Peter!]**

**Our research question – “How do ‘theories of business’ form? -  
– especially in new, high growth-oriented entrepreneurial firms?**

**i. e. - can we map the thinking processes of entrepreneurs at early  
stage – i.e. ‘the TOB *in utero*’ – in the early stage, immature firm...**

**Conventional 3-step Methodology for assessing growth  
prospects of new business includes:**

- 1. Idea – Feasibility**
- 2. Proof of Concept**
- 3. Business Plan...**



**BUT – conventional linear business development approaches miss WHY the idea has potential, by focusing exclusively on WHAT the idea is!**

**We, like Peter, want to understand what theory [the explanation; the ‘if, then’ thinking] underpins the founding idea - but *before* the idea ‘grows up’ and becomes a business! [and the foundational assumptions get buried under custom and practice]...**

**What is it the entrepreneur has ‘taken-for-granted’ – what is their *TFG*?**

**We want to assess the nascent TOB as an ‘assumptive design’ – and to reveal this ‘assumptive design’ to the founding entrepreneur – so that s/he can ‘see’ the foundations of their idea...**

**Because, like any building, there is only so much ‘load-carrying capacity’ in the foundations – unless these are constantly renewed...**



**Large sample [c. 100 high growth-oriented entrepreneurial firms] in Ireland...**

**Unique PhD study – leading to new workshop model & manual for entrepreneurs, funding agencies, business development advisors focused on assessing the prospects of high growth-oriented new firms...**

**First attempt to ‘operationalize’ Peter’s great insight about the established business in growth-oriented new firms...**

**Adapting his model of 3 sets of assumptions [environment, mission, capabilities] and 4 tests – [reality, complementarity, understanding, constant testing]...**



## **The Manager as Theorist/Assumptive Designer**

**“I never considered myself as a ‘theorist’ – but of course I must be because I can ‘explain’ my idea now and I don’t even have a product yet!”**

**“You are right - I can see my assumptions for the first time – and they’re all wrong! Thanks for showing me my TFG and how to think better about my ideas!”**

**“Doing this work has been pretty powerful – unlike a building, I *can* change my assumptions about growth anytime I wish. Knowing this before I develop my business too much should help me not get stuck in doing just the one thing over and over again”.**



## The New Business Advisory Context

- **“A very clear, powerful tool for looking forensically at the new business in terms of growth potential”.**
- **“A very effective means of helping the entrepreneur see what they cannot see – the tentative, almost speculative nature of business!”.**
- **“Looking at new firms as new theories is a unique contribution to the small firms field – well done!”.**
- **“As Drucker said, ‘every practice rests on theory – even if the practitioners themselves are unaware of it’ - this method is a great way of getting the serious growth-minded entrepreneur to really think about what s/he is doing – and really think about what s/he is thinking!”.**





## Implications

Even a small change in entrepreneurial assumptions yields powerful breakthroughs in the ways entrepreneurs and entrepreneurial managers think about the growth of their business

Re-conceiving the new business as a new theory – as a set of assumptions about the future – is a powerful new tool in the new/small business planning and advisory contexts

It is possible to see a ‘theory of business’ as it forms – Drucker’s insight is empirically valid