Examining the theoretical inspirations of a management guru

Peter F. Drucker and the Austrian School of Economics

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Abstract This manuscript discusses the contributions of Peter F. Drucker and the seminal influences on his logic made by the Austrian School of Economics. According to our research, Drucker focused on four critical elements of the Austrian School: an interdisciplinary approach and philosophical sophistication; the vision of market competition as an endless dynamic process (creative destruction, entrepreneurship); the firm as a social entity and as a depository of knowledge; and the role of the government. The research also suggests that Peter Drucker’s prolific legacy has significantly influenced modern management theory and practice through its grounding in Austrian School logic.

One of the greatest influences on modern management: Peter F. Drucker

According to a recent book on management gurus, Peter Drucker is one of the few thinkers in any discipline who can claim to have changed the world: he is the inventor of privatization, the apostle of a new class of knowledge workers, the Champion of management as a serious discipline. Drucker has been called everything from “the father of management” to “the man who changed the face of industrial America” to “the one great thinker management theory has produced (Beatty, 1998, p. 87).

His insights and work have a wide influence on leaders and organizations throughout the world. Drucker is also the foremost philosopher of world management practice (Wren and Greenwood, 1998, p. 198).

Peter F. Drucker was honored recently as “the” guru of management thought on his 90th birthday in The Wall Street Journal. Drucker has published thousands of manuscripts, 26 books and given tens of thousands of lectures over the past seven decades. His works have been translated extensively for international managers. There seems to be no stopping his continued proliferation of management advice. Drucker has produced volume upon volume of influential managerial ideas and lessons. Yet, the question remains: “What school of thought has been the most influential in the development of his logic?”
Great thinkers are foundationally influenced by lifetime experiences. These experiences structure their processes of thought and direct their theoretical inclinations. Many ancient philosophical contests argued the idea of original thought as not original at all – but fundamentally based on prior knowledge and experience. The mathematical economist John Maynard Keynes supported the idea that management philosophers often consider themselves free from any scholarly influence despite actually being tied directly to their learning origins (Lowry, 1979). Thus, it is not surprising that nearly every economist today uses some bit of his/her history in arriving at his/her conclusions given economic theory (Small, 1924). Following this logic, we will strive in this manuscript to create a clear relationship between the Austrian School of Economics’ theoretical parameters and the origin of Peter F. Drucker’s logical concepts and prolific career. We suggest that Drucker’s early writings, which consisted of political and philosophical content, parallel closely with the Austrian School of Economics (ASE). As Drucker’s career matured, he may have deviated from specific ideals exemplified by the ASE but sound theoretical tenets remained the same throughout his career linking him to the ASE.

The manuscript is organized in the following manner: first, the ASE is discussed. Second, four major perspectives that we categorized that link Peter Drucker to the ASE are discussed:

1. an interdisciplinary approach and philosophical sophistication;
2. the Austrian vision of market competition as an endless dynamic process (creative destruction, entrepreneurship);
3. the firm as a social entity and as a depository of knowledge; and
4. the role of the government.

Third, we introduce Peter F. Drucker and delve into his background. Fourth, we review the same four major ASE perspectives from Peter Drucker’s viewpoint. Finally, we review the four points, summarize and conclude. The timeline that is shown in Table I will assist the reader in the understanding of the relational inferences noted throughout the text.

**ASE**

**History and foundations**

Carl Menger (1840-1921) founded the Austrian School in 1871, in Vienna, Austria with his published work *Grundsätze der Volkswirtschaftslehre*. Two younger economists, Eugen von Böhm-Bawerk (1851-1914) and Friedrich von Wieser (1851-1926) became enthusiastic supporters of the new ideas put forward in Menger’s book. During the 1880s a vigorous outpouring of literature from these two followers drew attention from the international community of economists.

As the rest of the world was embracing socialism as the answer to societal needs, the ASE was an island surrounded by hostile adversaries to the free-market philosophy. The ASE was profoundly pro-free market economy and anti-Socialism, anti-Fascism and against the concept of the planned economy. Thus, they went to great lengths to denounce works by pro-socialists such as Marx and Lenin and to debunk theories of government control and wealth redistribution. There were numerous exchanges of heated written debates between the Austrians and their German and British colleagues with respect to this new reasoned doctrine. Subsequently, the
Austrians acquired a reputation for being argumentative and pernicious. Although the ASE sank into obscurity in Europe, its ideas were kept alive through the writings of individuals like F.A. von Hayek (1899-1992) and Ludwig von Mises (1881-1973), both of whom would teach in the USA and would become two of the ASE’s main contributors (Laclau, 1994). These early writings became even more important when, in the 1930s, many promising German and Austrian scholars fled the Nazi regime, dissolving the school, as they knew it (Craver, 1998).

The term “school” itself is a misnomer, as no physical school existed. Yet, prominent Austrian School member Karl Menger’s initial exertions influenced many brilliant philosophers/economists to continue and develop his line of thought despite the absence of organizational infrastructure. One of the most prominent minds that Menger influenced was Joseph A. Schumpeter (1883-1950) who was also a close friend of the Drucker family.
The ASE relied on historical precedence borrowing from various disciplines. Despite a reputation for argumentativeness, Karl Menger’s early writings attempted to placate his opposition within the academic community. As a function of this, the German historical economic school (influence by Keynes) ignored his work. Hence, his later efforts would not attempt to draw acceptance from the work of others outside the Austrian School. The ASE departed from standard historical thought and continued on their unique path of innovative idea generation.

The present status of the ASE is roughly studied in five different forms:

(1) Strictly in a historical sense (since it was partly absorbed into mainstream microeconomics and was partly displaced by emerging Keynesian macroeconomics).

(2) A revival of Bohm-Bawerk capital-and-interest theory.

(3) A libertarian ideology in political and social discussion, or free-market favoritism.

(4) A refusal to adopt modern mathematical and econometric techniques – which standard economics adopted largely as a result of its equilibrium orientation.

(5) An emphasis on the radical uncertainty that surrounds economic decision making.

The ASE’s major characteristics and Peter Drucker’s extension of their conceptions that will be discussed here are:

- an interdisciplinary approach and philosophical sophistication;
- the Austrian vision of market competition as an endless dynamic process (creative destruction, entrepreneurship);
- the firm as a social entity and as a depository of knowledge; and
- the role of the government.

Each of these concepts will be compared to Drucker’s body of work and contributions.

**Interdisciplinary approach and philosophical sophistication: Austrian School**

One of the most intriguing facets of the ASE is the frame of reference from which their philosophy is founded. The utilization of a priori knowledge to further the realm of thought and through deductive reasoning likens itself to the roots of Aristotelian philosophical thought. In fact, a link has been drawn between the Austrian School (e.g., Menger) and Aristotelian logic (Grasole and Smith, 1986). The Austrian School was not noticed in purely academic circles only. For example, the *Financial Times* suggested support for their ideas as being realistic, philosophically sophisticated, contained a lack of reverence for mathematics, and had a willingness to draw on insights from other disciplines such as political science and law (Prowse, 1995). The point long emphasized by Austrians is that the subject matter of economics is not at all similar to that of science. The objects of study in economics are thinking, feeling human beings who possess freedom of will. Similarly, Schumpeter contested that economics could only be labeled a science if by science one meant any kind of knowledge that has been the object of conscious efforts to improve it (Perlman and McCann, 1998).

From its earliest writings to much later declarations, the Austrian School always pursued the importance of a depth and breadth of thought. Rather than the
development of academic functional silos, they sought to incorporate as many theoretical disciplines as possible to bring light to human truth. For instance, F.A. von Hayek always regarded himself as an economist, but was convinced that many of the answers to existing social questions could not be answered by mathematical economics (von Hayek, 1960). Alfred Schutz (von Hayek’s student) would later make a tremendous cross-disciplinary tie linking humanistic social science with mathematical economics (Prendergast, 1986). Along the same lines, Schumpeter counseled economists to study law, sociology, history and even literature, to broaden the scope of economic discourse. Schumpeter clearly believed in the wealth of knowledge these other disciplines offered and in the value of the assumptions that mathematical economics often held constant (Perlman and McCann, 1998). Much like Schumpeter, Ludwig von Mises considered economics to be more about men and their conduct. Specifically, he called for greater attention to the psychology of man in the study of economics (von Mises, 1949).

Given the combination of so many theoretical disciplines, the Austrians did not attempt to present their ideas in mathematical form. Rather they focused on rebuilding the foundations of economic science in a way that retained its theoretical and abstract characteristics. Here in lies the strongest tie to Peter Drucker. Much like the Austrian School, Drucker was one to postulate theoretically yet derive concepts that were not empirically founded. This same lack of empirically prepared data to support his theories assisted in his not being recognized by academics much in the same way the Historical School treated the Austrian School.

The vision of market competition as an endless dynamic process (creative destruction/entrepreneur): Austrian School

The ASE admitted that the free-market system was an imperfect system, and wrought with continuous problems. Still they considered capitalism superior to socialism. Along these lines, Schumpeter thought capitalism was doomed to destruction. Schumpeter’s version of capitalism crumbling was due to three reasons:

1. obsolescence of the entrepreneurial function;
2. destruction of protective political strata; and

Drucker in his later works also was concerned about the outlook for capitalism, especially in the overpriced pay or executives and the ownership of firms by disinterested short-term stockholders/employees versus the manager/owner (Drucker, 1999, 1993a, b, 1992; Caulkin, 1999).

The Austrian School determined two major factors to be the success of the free-market. The concepts of creative destruction and the entrepreneur are intertwined and dependent on one another. Capitalism requires this process of creative destruction. Through destruction, capitalism creates new enterprise through the entrepreneur who in turn is the impetus for creative destruction. The capitalist process not only destroys its own institutional framework, but also creates the conditions for future frameworks in cycle (Schumpeter, 1950).

The key process in economic change is the introduction of innovations, and the central innovator is the entrepreneur. The entrepreneur is the actor/initiator in this change process. The entrepreneur, seeking profit through innovation, transforms the static equilibrium into the dynamic process of economic development (Oser, 1970).
function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention or new pattern of production (Schumpeter, 1952). For example, utilizing an untried technological possibility for producing a new commodity or producing an old one in a new way can open a new source of supply of materials or a new outlet for products and can reorganize or create a new industry.

The Austrian economists drew very basic humanistic principles or apparently self-evident axioms: humans act, their decisions are based on subjective values, and uncertainty exists. As such, markets are a continuous dynamic process that results in innovation driven by the entrepreneurs (Laclau, 1994). Further, competition is an ever-changing process attempting to discover and allocate relevant resources. Therefore, the Theory of Equilibrium is purely a fictional. It is a useless concept since it is impossible to know all data defining it (von Hayek, 1935). These concepts of the entrepreneur, innovation/innovator, creative destruction, and dynamic equilibrium are incorporated in Drucker’s philosophical framework. Much like the Austrian School, Drucker’s academic strength lies in his ability to translate abstract ideas so they may be applied, and to permeate a body of knowledge and decipher its value as he did in the concept of dynamic disequilibrium.

Firm as a social entity and as a depository of knowledge: Austrian School
The McLane Report of 1832 depicted the typical firm was family owned with relatively few employees. The growth of the US economy in the latter third of the nineteenth century, however, created unprecedented accumulations of human and physical resources in transportation and manufacturing organizations. The Social Gospel emerged which suggested a duty by the firm to reform social and economic relations. In the USA, the social or welfare secretary was developed to improve the lives of the workers, both off and on the job (Wren, 1994). President Woodrow Wilson understood this Social Gospel concept and thus he promised labor that there must be a genuine democratization of industry based on a full recognition that those who work will have the ability to participate in some organized way in every decision that directly affects their (the workers’) welfare (Baker, 1920).

The Austrian School repeatedly argued that the firm has social responsibility not only to its workers, but also to society as a whole. The Austrians had determined that humans were motivated by societal concerns, not just by monetary reward. In essence, they anticipated the workplace to be a nurturing society in its own right, supplying and supporting their internal society, as well as society in general. Hence, Schumpeter further developed the socio-economic principle of methodological individualism. He suggested that the scholar must make it a rule of procedure to include the individuals present in the study of an economic system. Thus, one must take into account the individuals when discussing nations, classes, groups, etc. In a lecture, Schumpeter explained the importance of the firm as a social entity. In his opinion, both civic privatism (expressing itself in an apolitical public life) and family privatism (an orientation towards family, consumption and career interests) are beginning to lose value but are still elements of vital importance to the survival of capitalism system (Seidl, 1984).

Nurturing, communal roles were present in early agrarian communities, and established again in the Industrial Revolution. In today’s global economy the firm as a social system is being dismantled piece by piece, replaced with temporary workers,
and directed by stock speculators who have little interest in the firm as an entity. Von Mises would have complained about this trend due to of his ideology of the firm as an imminently important social structure, as the most important effect of the division of labor is that it turns the independent individual into a dependent social being. In capitalism’s division of labor, social man changes adapting himself to new ways of life, while some energies and organs atrophy, others develop (von Mises, 1922). Drucker’s writings paralleled the social firm concept and later developed it further applying it to current industry/economic trends. He considered firms to be the community’s mirror, a symbol of social order. Every study of workers showed that they consider the social function of the firm most important. They are citizens, not subjects (Drucker, 1951).

The role of knowledge and the accumulation of knowledge within the capitalist society were seen as paramount in value generation by the Austrian School. Centralized decision-making authorities like those in socialist or communist countries fail due to bounded rationality. The value of social institutions is measured by their conduciveness to generate and transmit knowledge. Broadly, the ASE conceived of markets themselves as institutions geared to the production and distribution of socially valuable knowledge (Bohm-Bawerk, 1891). Institutions also play a valuable role in harboring and transmitting knowledge. They have a stable and inert quality, tending to sustain and thus “pass on” their characteristics through time, preserving knowledge, particularly tacit knowledge in relation to skills (von Hayek, 1988). Similarly, Drucker emphasized in detail the importance of knowledge within the firm for competitive sustainable advantage in the knowledge worker of the twentieth century.

**Government’s role: Austrian School**

If the sole comparison between Drucker and the Austrians was the concept of limiting the government’s role to the free market, one might marvel at the audacity to write such a manuscript. Surely, any free-market economist would have similar views. Yet as additional evidence of the influence of the Austrian School on Drucker’s early thought process, we will factor in this comparison. What is so compelling is the overwhelming fervor both the ASE and Drucker feel towards the intervention of government in the economy or society.

The Austrians created the template from which Drucker drew and developed his privatization and anti-governmental stance. One reason why the free market functions adequately and why government intervention is a recipe for failure is due to the importance of methodological individualism and human decision making in disequilibrium that is often overlooked by mathematical economists (von Mises, 1949). In a socialist economy, the Central Planning Authority must take into consideration all the interdependent factors (the quantity of goods produced, prices, production coefficients, etc.) and solve the equations for all goods and services. This is a system composed of hundreds of thousands of equations, with hundreds of thousands of unknown quantities, and the underlying assumption that the latest data are used. These equations and factors do not and cannot include the human factors of preference, seldom utilize the latest data, and would be impossible to calculate; therefore, it can hardly be assumed that these requirements can be met. As such, a rational socialist economy, although theoretically conceivable, cannot exist in practice (von Hayek, 1935).
Both the ASE and Drucker feel the government should maintain the defense of its citizens (police, military, national guard, etc.) but beyond that, its scope of effect should be limited. Drucker and many of the prominent members of the Austrian School lived though the terrors of Hitler and Nazism. It is quite understandable that these academicians developed similar concepts influenced by these horrid personal experiences.

Peter F. Drucker

History and foundations

In most areas of intellectual life nobody can quite decide who is top dog – sometimes because rival schools of thought have rival champions, sometimes there are so many fine specimens from which to choose. In the world of management gurus, however there is no debate. Peter Drucker is the one guru to who other gurus kowtow (Mickelwait and Wooldridge, 1996, p. 201).

Drucker was born in 1909 in Vienna, Austria, the home of the ASE. Ignored early in his career by academicians, Drucker is now embraced by the academic community and is widely quoted. Vienna in the early 1900s was an intimate though profoundly diverse society of the well educated, artistic and famous. The Drucker family was part of this inner circle and this is where young Peter met Schumpeter for the first time. Schumpeter and Drucker’s father were close friends that gave Peter continual direct access to the master Austrian School economist for most of his life (Drucker, 1997). It has been strongly supported by other academicians that Drucker was particularly influenced by Schumpeter over the course of his childhood (Wren, 1994). Drucker (1999, p. 23) chronicles an interesting fact from his childhood:

My father [Adolph Drucker, economist and lawyer] had a dinner party every Monday and there were often economists, as well as ranking civil servants, even a major international lawyer.

It would be surprising if Joseph Schumpeter, who was a close friend of the Drucker family, were not present for many other lively dinner discussions. Owing to this long and continued relationship with Schumpeter, it is easy to assume an influence on Drucker. Not surprisingly, Drucker visited Schumpeter on his deathbed with his father five days before Schumpeter’s death, on January 3, 1950 (Drucker, 1997). Despite this relationship, Drucker rarely cited the writings of the ASE, or its champions. This may be a function of becoming so immersed within a doctrine that one loses sight of the origin as discussed in the introduction.

Drucker’s major competency is to take the most complex and to communicate it simplistically. For example, although management by objectives (MBO) was championed by Harold Smiddy, of General Electric, it took Drucker to put it all together, think through the underlying philosophy, and then explain and advocate it in a form others could use (Greenwood, 1981). His greatest strengths were in analyzing information, constructing a paradigm, and explaining his thoughts with understandable acumen. Drucker has said that he considers himself fortunate to be in the right place at the right time and that explains his popularity and prolific contributions:

I was lucky. When God rained manna from heaven, I had a spoon (Tarrant, 1976, p. 87).

Interdisciplinary approach and philosophical sophistication: Drucker

The aspect of bridging the functional barriers of several disciplines is not altogether unique. Modern academics/business people tend to become specialized in their
respective domains and do not venture out into new fields of endeavor. This silo effect limits creativity, as all disciplines are interrelated in some fashion. Drucker could well be considered a modern Renaissance man who has broken the specialization mold to explore many different disciplines. He:

forced himself to study in the afternoons and evenings: international relations and international law; the history of social and legal institutions; finance; and so on. Gradually, I [Drucker] developed a system. I still adhere to it. Every three or four years I pick a new subject. It may be Japanese art; it may be economics. Three years of study are by no means enough to master a subject, but they are enough to understand it. So for more than 60 years I have kept on studying one subject at a time. That not only has given me a substantial fund of knowledge. It has also forced me to be open to new disciplines and new approaches and new methods – for every one of the subjects I have studied makes different assumptions and employs a different methodology (Drucker, 1997, p. 63).

Growing up in Vienna and exposed to Verdi, Freud, Mahler, Schumpeter, and many other great thinkers of that time surely exacerbated Drucker’s desire for his ultimate wealth of cross-disciplinary knowledge and philosophy. Yet, his philosophical context parallels the Austrian thought, and the effect we propose that Schumpeter and the Austrian School had on Drucker. Von Mises, for instance, proposed an a-priorist “praxielogy” or “science of human action” in reasoning to his axioms. The only significant source of anti-naturalism in economics has been the Austrian School. Anti-naturalism offers alertness to the difficulties unique to the social sciences, such as self-consciousness, historical change, culture, and ideology (Jackson, 1995).

Drucker also attempted to define his surroundings much as the Austrian School did, as a philosopher who has made bold and breathtaking attempts to probe the real meanings of life in what is often a mechanistic and cruel world (Tarrant, 1976). Drucker’s work was not of numbers and in-depth mathematical formulas, but one of observation and theoretical acumen. Thus, it is not a surprise that he encountered adversaries much like the Austrian School due to his cross-disciplinary approach. Drucker’s (1942) book, The Future of Industrial Man, annoyed academic critics because it mixed economics with social sciences by arguing that firms had a social dimension as well as an economic purpose (Mickelwait and Wooldridge, 1996).

Drucker’s books were not about a narrow stream of topics within economics but varied from management (i.e. The Practice of Management, Management Challenges for the 21st Century) to political (i.e. End of Economic Man, Future of Industrial Man) to society (i.e. The Ecological Vision, The New Society) to fiction (i.e. The Temptation to Do Good, The Last of All Possible Worlds). Drucker’s philosophical bent, which mirrored those of the Austrians towards diversity in knowledge, assisted with this interdisciplinary foresight.

The vision of market competition as an endless dynamic process (creative destruction/entrepreneur): Drucker

There was no magic to entrepreneurship, a teachable discipline like chess. Biographical circumstance made entrepreneurship congenial to Drucker; the economics of innovation had been established by his father’s friend and former colleague from the economics faculty of the University of Vienna, Joseph Schumpeter (Beatty, 1998, p. 97).
Drucker builds on Schumpeter’s premise of entrepreneurship. In Drucker’s terms, the essence of entrepreneurship is motivation of doing something different rather than doing the same thing again in an attempt to do it better. In *Innovation and Entrepreneurship* Drucker (1985) devotes sections and chapters to seven sources of innovative opportunity, “the principles of innovation”, “the bright idea”, “the new venture”, and a pair of entrepreneurial strategies for established firms, “Fustest and the Mostest”, and “Hit Them Where They Ain’t”. In *The New Society*, Drucker (1951) gives Schumpeter the credit for the concept of the innovator. In *Managing for Results* (Drucker, 1964), he suggests that no leadership position is more than a temporary advantage. He posits that business tends to drift from leadership to mediocrity. This is nothing but a restatement of Schumpeter’s theorem that profits result only from the innovator’s advantage and therefore disappear as soon as the innovation has become routine.

In one of his few references to the ASE, Drucker (1993, p. 106) would admit:

> if the centenary of Schumpeter’s birth was noticed at all, it would be in a small doctoral seminar. And yet it was Schumpeter who will shape the thinking and form the questions of economic theory and economic policy for the rest of the century, if not for the next thirty or fifty years.

Drucker supported and furthered Schumpeter’s concept of a “Profound shift” going on around us from a “managerial” to an “entrepreneurial” economy (Beatty, 1998). Drucker continuously builds on this premise and devises unique management tools to participate, be proactive, and survive this dynamic process. The economy was incessantly churning, shifting, with some industries failing, others surging, the modern economy was in this state of flux (Drucker, 1993a).

**Firm as a social entity and as a depository of knowledge: Drucker**

Neither the ASE nor Peter Drucker would abandon their social view of the firm. As such, each considered many favorable aspects of the socialistic state, despite condemning the same. The condemnation was towards governmental control of the allocation of resources, versus self-imposed cooperation. For instance, the apparent imbalance of today’s executive salary to average worker salary has grown from a $20-1 ratio to nearly $200-1:

> I [Drucker] am appalled – and rather scared – by the greed of today’s executives. I have said frequently that it is both obscene and socially destructive for chief executives to get a $20 million bonus for firing 10,000 workers (Caulkin, 1999, p. 56).

Drucker has always argued that free enterprise cannot be justified as being only good for business. It should also be good for society. It follows that management must be a humanist undertaking. On the one hand management must practice social justice; and on the other, only management can breathe life into organizations and use its ingenuity to turn social problems into wealth-creating opportunities (Caulkin, 1999). The firm as a plant community is more than a revenue generator, although that is its primary goal. Thus, Drucker (1964) considered the firms had two laws of institutional social responsibility:

1. limit the impact; and
2. anticipate the impact of unemployment.
Even early in his career, Drucker considered the role of employees in the firm as gaining a voice in government, at work, and in their local communities (Beatty, 1998). Drucker continued to point out that the firm must generate a role for the individual within the firm that was anti-specialization because it:

- fails to utilize man’s real efficiency; and
- leads to real and tangible inefficiency in the form of fatigue, stress and strain (Drucker, 1951).

In Drucker’s (1946) book *Concept of Corporation*, he treated the firm as a social system as well as an economic organization. The book’s two longest sections are entitled “The corporation as human effort” and “The corporation as a social institution”. Drucker found the way people worked together dynamic in its own right, rather than just a means to make a profit. He felt that an organization is a human, a social, and indeed a moral dilemma (Drucker, 1946). Hence, the best way to create value for customers is to treat workers not as production costs but also as resources, capable of making a sustained and valued contribution. He also furthered the institutional firm with two other concepts – creating the self-governing plant community and the rise of the knowledge worker (the worker whose value is in his knowledge) (Drucker, 1946).

Social institutions are seen as a means to carry out the basic promises of life. Big firms must give status and function to the individual and the justice of equal opportunity. Firms should be representative social institutions of the society. In addition to being an economic tool, the firm it is also a political tool and social body. Its social function as a community is as important as its economic functions as an efficient producer. Individuals’ demand for status and function suggests that workers must obtain both the standing in his society and individual satisfaction through his membership in the firm (Drucker, 1946).

Knowledge retention and generation for the firm was given considerable importance in Drucker’s research. Success between competitive firms is the result of differentiation. The source of this specific differentiation is a specific, distinct knowledge possessed by a group of people within a firm (Drucker, 1964). Drucker considers knowledge as a perishable commodity in which no firm can excel all knowledge areas and those that try will eventually become obsolete.

Since his early forays into the firm as a social entity (self-governing plant community), Drucker has given up that concept in favor of the knowledge worker. Still, he feels strongly that the firm should still maintain respect for its employees, if only to retain them. In the past, Drucker’s concept of the social organization was that of the traditional factory with a homogeneous mass of anonymous workers who needed the jobs far more than the jobs needed them. The new economy must assume a highly diverse work population, wherein the production process needs workers more than they need jobs (Panchak, 1998). Therefore, the market’s impact has forced Drucker to narrow his focus, turning from the organization to the knowledge worker. Individuals are living longer and the firms’ life span is decreasing, therefore employees are “outliving” their firms, and must learn to manage themselves (Reingold, 1999).

*Government’s role: Drucker*

In the *Age of Discontinuity*, Drucker (1969) argues that the job of government is to govern rather than to try to do things that could be done by the private sector. If
nothing more than unavoidable, the government and private industry must “live in harmony” or disastrous consequences for both (Drucker, 1951). Drucker also fought the Keynesian tide (which called for governmental influence given mathematical foundations) and the implicit role of government intervention embodied within that economic thought:

The Keynesian remedy of the “reflation” of consumption is the very worst thing for it; and the Keynesian medicine men who inherited their master’s prescriptions without having his diagnostic skill are a real menace (Drucker, 1951, p. 82).

Drucker had the insight to apply management thought to all spheres of life: universities, churches, charities, American Girl Scouts, etc. However, his enthusiasm for taking management theory to the public sector should not be mistaken for government. He gave the world the importance of privatization based on the government’s inability to run just about anything (Mickelwait and Wooldridge, 1996). Drucker’s ever-present humor outlines government’s role, as “Warfare is the only example of a modern government program that has achieved its objectives” (Mickelwait and Wooldridge, 1996, p. 46). His contribution to the role of the free market and opposition to governmental intervention is considerable, much like the works of the ASE.

Conclusions and summary

There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.
On such a full sea are we now afloat,
And we must take the current when it serves,
Or lose our ventures.
(Julius Caesar, IV, iii, 217).

Shakespeare was a visionary with Peter Drucker in his thoughts when he choreographed this passage. Drucker’s artisans (ASE) assisted in the framing and assembly of a strong ship that he rode through the flood of opportunity, deviating his course as he saw fit. His accomplishments and originality are admirable, although the framework of his thoughts was formed through historical reference, with the major players the ASE. For clarity, we provide a brief review below:

- *An interdisciplinary approach and philosophical sophistication.* The Austrian school was associated with realism and the attempts to describe these exchanges through philosophical sophistication and the willingness to draw on insights from many other disciplines. They thought that the recognition of principles of social questions lie outside the scope of technical economies and as a whole avoided the use of mathematics to explain their position. Drucker actually was critically reviewed for utilizing cross-disciplinary knowledge in his development of his theories. His early associations with Schumpeter and his analysis of early Austrian School economic literature prodded him along this path. Drucker also avoided mathematical formulas and preferred to utilize observation and theoretical acumen much like the other Austrians.
• The vision of market competition as an endless dynamic process (creative destruction, entrepreneurship). The Austrian School recognized the free-market as the superior mechanism for the individual and consisted of “creative destruction” and the “entrepreneur”. Drucker is credited with developing the concept of the “entrepreneur” and included a very similar concept to creative destruction called “dynamic disequilibrium”. Drucker also admitted his theoretical foundation was based partly on Schumpeter’s work (member of the Austrian School).

• Firm as a social entity and as a depository of knowledge. The Austrian School repeatedly argued that the business institution was valuable to the society and the individual not only as a source of employment, but also as a social institution with an internal society. By the time Drucker had written his concepts of the firm as a social entity, the Austrian School had published many works on this concept. Drucker agreed with the Austrian School of thought early in his career, but revised and updated the concept to relate to the modern industry setting of the “knowledge worker”, which did not alleviate the responsible social role the firm must play, but evolved the concept further. The value of knowledge to the firm, find both Drucker and the Austrians in agreement.

• The role of the government. Both the ASE and Drucker were vehemently opposed to any government interference in the economy. Drucker’s privatization and free-market policy inclination mirrors that of the Austrians.

• Schumpeter and the ASE. The long-term relationship and interaction between Schumpeter and Drucker indicate a direct influence on Drucker’s thought. In addition, Drucker would have read the works of his fellow compatriots during his study of economic thought and initiated a preliminary foundation from which he will later build.

The sheer volume of literature created by Peter Drucker and the Austrian School is immense, often groundbreaking, influential, and frequently unique. The cross-disciplinary prowess of both are necessary elements of success in evaluating the philosophical role of people, society and industry. Both the ASE and Drucker were convinced that the free market was the most favorable venue to satisfy the requirements of the general population. Both had concerns with monopolies, unsavory firm practices, and other hindrances to the free flow of goods and services. Both found that government intervention was unnecessary and created artificial disturbances with far reaching negative consequences. Both felt strongly that if left alone, the free market would not take care of its general population and due to that foreknowledge; the institutions for which they work should care for them. All these striking similarities of thought, thought processes, and concepts in combination with his association with the Austrian School’s members and literature leads one to conclude that Peter F. Drucker’s theoretical foundation was significantly influenced by the ASE.

References


**Further reading**