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Managerial Harmony: The Confucian Ethics of Peter F. Drucker

Edward J. Romar

ABSTRACT

"Confucianism... is a universal ethic in which the rules and imperatives of behavior hold for all individuals." (Peter F. Drucker, *Forbes*, 1981).

Peter Drucker is credited as the founder of modern American management. In his distinguished career he has written widely and authoritatively on the subject and to a large extent his work possesses a distinctive ethical tone. This paper will argue that Confucian ethics underlie much of Drucker's writing. Both Drucker and Confucius view power as the central ethical issue in human relations. They emphasize authority, leadership, legitimacy, hierarchy, interdependence and individual ethical responsibility in their analysis of human affairs. Drucker views the development of large-scale formal organizations and the concomitant rise of the managerial class as the most significant developments of the 20th century, which makes the management of interdependent roles and relationships a central ethical challenge. Confucius, and the early Confucians, understood human relationships as based upon hierarchy, interdependence and personal ethics. The paper will analyze Drucker's work in light of the early Confucian Classics (*The Analects*, *The Mencius*, *The Great Learning* and *The Doctrine of the Mean*). Drucker, himself, considers *The End of Economic Man* (1939), *The Future of Industrial Man* (1942), *Concept of*

the Corporation (1983), and *The Essential Drucker* (2001) as his most important and influential works. The paper will analyze these along with other works by Drucker as appropriate.

Peter F. Drucker is often credited as the founder of modern management (Flaherty, 1999, p. 1). In a career of more than six decades and the publication of numerous books and articles, Drucker has become an influential thinker on the subjects of management and the role of organizations in contemporary society. However, he is not thought of, usually, as a major contributor to the discipline of business ethics. Although there are numerous references to ethical systems, whether Platonic, Aristotelean, Kantian, or rights-based, in Drucker's writings, often these references are used to illustrate specific points, or to suggest the inadequacy of a particular theory. There is no attempt to systematically apply these theories to business ethics and Drucker does not view any of these as a useful ethical foundation for a business. While this is the case, it does not suggest (Schwartz, 1998) that Drucker denies the existence of ethics in business.

What Drucker denies is a distinct discipline of business ethics that seeks to identify ethical standards for business and business leaders separate from those of the remainder of society.¹ Drucker argues this is both wrong and dangerous. It is wrong to have different standards of behavior for different levels and roles in both organizations and society. It is dangerous because, by setting up different standards, business leaders can conclude they are subject only to the standards they set for themselves. Recent developments appear to confirm Drucker's prescience. It seems just a short step from setting your own standards to viewing the organization as an extension of managerial interests, as the Enron,

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Global Crossing, MCI/WorldCom examples suggest.

Drucker suggests Confucianism is the most appropriate ethical approach applicable to organizations and their activities.

“But there is another non-Western ethics that is situational. It is the most successful and most durable ethics of them all: the *Confucian* ethics of *interdependence*.

Confucian ethics... is a universal ethic in which the same rules and imperatives of behavior hold for every individual. This is no ‘social responsibility’ overriding individual conscience, no cost-benefit calculations, no greater good or higher measure than the individual and his behavior... In the Confucian ethics, the rules are the same for all. But there are different general rules, according to the five basic relationships of *independence*, which for the Confucian embrace the totality of individual interactions in civil society: superior and subordinate (or master and servant); father and child; husband and wife; oldest brother and siblings; friend and friend. Right behavior – which in the English translation of Confucian ethics is usually called ‘sincerity’ – is that individual ethic that is truly appropriate to the specific relationship of mutual dependence because it optimizes benefit for both parties. Other behavior is ‘insincere’ and therefore wrong behavior and unethical. It creates dissonance instead of harmony, exploitation instead of benefits, manipulation instead of trust.” (Drucker, 1981, pp. 166–167).

This paper will argue that Confucian ethics underlie much of Drucker’s writing and are the ethical support for the many themes and ideas Drucker has developed over the course of his career regarding management and the role of individuals and organizations in contemporary society. The paper is divided into two sections. The first section will analyze Drucker’s foundational work: *The End of Economic Man* (Drucker, 1939), *The Future of Industrial Man* (Drucker, 1942), and the *Concept of the Corporation* (Drucker, 1983). The second section will analyze Drucker managerial ideas. While many of his works will be cited, it will concentrate primarily on *The Essential Drucker* (Drucker, 2001). This work is a collection of essays that were chosen by Drucker as representative of his best work over the course of his illustrious career. The Confucian analysis is based on

the four classics: *The Analects*, *The Great Learning*, *The Doctrine of the Mean* and the *Mencius*.

Drucker identifies five developments that had a profound impact on the 20th century and will continue to influence developments well into the 21st. These are: (1) the development of large-scale formal organizations, most notably the industrial concern; (2) the development of the industrial managerial group separate from the ownership group; (3) the acceleration of social change, illustrated by the rise and decline of the industrial blue-collar worker, measured in decades not centuries, as was the decline of other social groups; (4) the emergence of the “society of organizations;” and (5) the rise of the “knowledge worker.”

The End of Economic Man analyzes the failure of Capitalism, Fascism and Socialism to solve the social challenges of industrialization. All three are what Drucker views as “salvation by society” (*Adventures of a Bystander*, 1978, 1994, p. 179). All three attempt a solution to the rise of industrialism and the disintegration of traditional society. Fascism, especially National Socialism, promising salvation through the recreation of a “racially pure” community based upon traditional values, ended in nihilism and the utter destruction of society. Socialism viewed society as being composed of two classes, with the preordained victory of the workers, yet failed to see the emergence of the industrial middle class, the managerial group, as the most important group in industrial society. Capitalism, too, has its shortcomings.

“Capitalism as a social order and as a creed is the expression of the belief in economic progress as leading toward the freedom and equality of the individual in the free and equal society... Capitalism has therefore to endow the economic sphere with independence and autonomy, which means that economic activities must not be subjected to noneconomic (sic) considerations, but must rank higher. All social energies have to be concentrated upon the promotion of economic ends, because economic progress carries the promise of the social millennium. This is capitalism; and without this social end it has neither sense nor justification nor possibility of existence.” (Drucker, 1939, pp. 37–38).

Yet capitalism is based upon greed, selfishness, the quest for materialism, and “economic man,” a

concept that makes economics the primary human motivation. As Flaherty suggests:

“The elevation of economics as the dominant value of capitalism divorced capitalism from ethics, making it inevitable that the centrifugal forces of narrow self-interest would produce wealth within the state only at the price of rupturing the centripetal social bonds that provided society with a cohesive sense of community. Instead of establishing a mundane Eden of materialistic fulfillment, the separation of economics from ethics produced a society in which the worst rather than the best aspects of human nature prevailed.” (Flaherty, 1999, p. 24).

The Future of Industrial Man views the rise of the large industrial concern and the professional managerial group as central social issues. Contemporary society is dominated by these organizations and depends upon them for wealth creation, the goods and services required to keep a modern, complex and interdependent society functioning and, perhaps, most importantly, for the employment necessary to make workers productive members of society. However, the rise of these organizations and society's dependence upon them presents some serious issues, most importantly a question of legitimacy.

“This brings us to the final and most important conclusion from our analysis: Managerial power today is illegitimate power. It is in no way based upon a fundamental principle accepted by society as a legitimate basis of power. It is not controlled by such principle nor limited by it. And it is responsible to no one... (T)oday managerial power is independent of, uncontrolled by, and not responsible to the shareholders. And there is no other fundamental principle to take the place of individual property rights as a legitimate basis for the power which management actually wields.” (Drucker, 1942, pp. 97–98).

According to Drucker, “*The Future of Industrial Man*” was the first book “that saw ...that the business corporation – indeed any organization – is as much a social organization, a community and a society, as it is an economic organ” and its conclusion was “that the business enterprise had become the constitutive institution of industrial society and the institution within which both principles of governance and the individual's

status had to be realized.” (*Adventures*, 1994, p. 135, 256).

Consequently, the social disintegration caused by industrialization and the separation of management from ownership are political issues that require political solutions (Drucker, 2001, p. 9). While the economic performance of the firm is important, the purpose of the firm and its social and political role are equally, if not more, important because the firm's economic success rests on power, the power to allocate resources and manage its behavior. Its social success depends on the organization's mission, that is how well it integrates members into the organization and how it contributes to society's success by producing something of value. These are ultimately political questions.

In *Concept of the Corporation* Drucker (1983) begins the exploration of the role of the corporation in society. Industrial society is dominated by the large industrial concern that determines the productivity of the economic system. This organization is a human and collective enterprise whose crucial aspect is human behavior and performance. Analyzing this situation requires answers to two fundamental questions: “(1) What is necessary to make the institution function efficiently, to make it survive, to provide adequate leadership? and (2) What requirements must the institution fill in order to make society function and be stable?” (Drucker, 1983, p. 22). Answers to these questions fall into three categories: (1) policy, now called strategy, which develops the long-term corporate program and the rules of the organization; (2) the human element, which Drucker considers the most important and most difficult because the corporation must develop capable leaders and contribute to achieving the human fulfillment of all members, and (3) the corporation in society, that is the relationship between the corporate function and its social purpose.

Before we develop Drucker's answers to the questions of the role, purpose and legitimacy of the corporation, it is useful to suggest what may have attracted Drucker to Confucianism as an organizational ethic. Confucianism addresses many of the issues raised by Drucker in the analyses presented in *The End of Economic Man*, *The Future of Industrial Man* and *Concept of the Corporation*. Confucianism is, in the first place, a conservative political philosophy that, in an age of discontinuity and change not

unlike the 20th century, sought to temper power by linking it with authority and to reassert and redefine the values of community, ethics, and the primacy of social relationships.² It is a situational ethic based upon hierarchy and interdependence, the fundamental characteristics of formal organization. It defines relationships as morally based where all members in the relationship must benefit. It provides for a special role for the leader that confers both a functional and moral requirement. Finally, Confucianism can provide legitimacy – the acceptance of institutions as essential to social success and stability – in both transitional as well as stable social situations. (Schwartz, 1985; p. 283; Yao, 2000, p. 143). Fingarette argues that

“(w)e must begin by seeing Confucius as a great cultural innovator rather than as a genteel but stubbornly nostalgic apologist for the status quo ante... He was the creator of a new ideal, not an apologist for an old one.

In short, what Confucius’ idiom and imagery portray as the increasing chaos of a civilization in the course of degeneration was, in fact, the inevitable disorder attendant upon the evolution of a new, larger and greater single society out of the various older, smaller, culturally separate and more primitive and provincial groups.” (Fingarette, 1972, pp. 60–61).

The proper and effective behavior of the hierarchical institutions is Drucker’s central concern, just as it is for the Confucians. Not only are institutions hierarchical but so also is society. Like the Confucians, the challenge for Drucker is making essentially undemocratic organizations responsive to the needs of society and its members. Part of the solution is to place society and its needs at the top of the social order by dividing society into two categories: the customer and society itself.

“There is only one valid definition of business purpose: *to create a customer*... It is the customer who determines what a business is. It is the customer alone whose willingness to pay for a good or for a service converts economic resources into wealth, things into goods. What the customer buys and considers value is never just a product. It is always a utility, that is, what a product or service does for him.” (Drucker, 2001, p. 20, italics in the original, CF; Drucker, 1954, p. 37).

“But the governmental authority of the enterprise is neither to be discharged in the interests of its members nor in that of the management but in the economic interest of the enterprise and society.” (Drucker, 1949).

By serving the customer properly, an organization is far along the path to serving society well. Providing the customer the goods and services they want becomes the foundation of the interdependent and mutually beneficial relationship between the customer and the firm and is the basis of all other mutually interdependent relationships between the firm and other individuals and organizations.

In order for an organization to create a customer it must organize people productively, for, while machines, facilities and other tools are important, it is people who create wealth by providing the goods and services customers purchase. Drucker states quite clearly in *Concept of the Corporation* that “the essence of the corporation is social, that is human, organization... it is not based on raw materials or gadgets but on principles of organization – organization not of machines but of human beings, i.e., on social organization.” (Drucker, 1983, p. 31). This means, following Fayol, Weber and others, hierarchy and division of labor. And he is quite clear that hierarchy is both a necessary and essential ingredient of organization. “One hears a great deal today about ‘the end of hierarchy.’ This is blatant nonsense. In any institution there has to be a final authority, that is, a “boss” – someone who can make the final decision and who can expect to be obeyed.” (Drucker, 2001, p. 75). According to Drucker, organizations consist of two general membership categories: management and worker. Each has different responsibilities and each can be divided in several subgroups. The worker performs the actual work of the organization, the production of the organization’s product or service, has the responsibility to perform their allotted tasks properly and to fulfill the legitimate directive of superiors. While one should not minimize or devalue workers’ contributions, the most important organizational group is management. This is the leadership group tasked with the responsibility to set organizational direction, create the appropriate structure, and hire, develop and promote employees (Drucker, 2001, p. 4).³ Although leadership is important to organiza-

tional success, it is not the leadership of the “great person.” Perhaps “directorship” might be a less glamorous, though more descriptive characterization.

“Books, articles, and conferences on leadership and on the ‘qualities’ of the leader abound. Every CEO, it seems, has to be made to look like a dashing Confederate cavalry general or a boardroom Elvis Presley.

Leadership does matter, of course. But, alas, it is something different from what is now touted under this label. It has little to do with ‘leadership qualities’ and even less to do with ‘charisma.’ It is mundane, unromantic and boring. Its essence is performance.

What then is leadership if it is not charisma and not a set of personality traits? The first thing to say about it is that it is work...

The foundation of effective leadership is thinking through the organization’s mission, defining it, and establishing it, clearly and visibly. The leader’s first task is to be the trumpet that sounds a clear sound.

What distinguishes the leader from a misleader are his goals... And whether he holds fast to a few basic standards (exemplifying them in his own conduct), or whether ‘standards’ for him are what he can get away with, determines whether the leader has followers or only hypocritical time-servers...

The second requirement is that the leader sees leadership as responsibility rather than rank or privilege. Effective leaders are rarely ‘permissive.’ But when things go wrong – and they always do – they do not blame others...

But precisely because an effective leader knows that he, and no one else, is ultimately responsible, he is not afraid of strength in associates and subordinates. Misleaders are; they always go in for purges...

The final requirement of effective leadership is to earn trust. Otherwise, there won’t be any followers – and the only definition of a leader is someone who has followers – Trust is the conviction that a leader means what he says. It is a belief in something very old, called ‘integrity.’ A leader’s actions and a leader’s professed beliefs must be congruent, or at least compatible. Effective leadership – and again this is very old wisdom – is not based on being clever; it is based primarily on being consistent.” (Drucker, 2001, pp. 268–272).

Drucker’s emphasis on trust and integrity is well placed and Confucians would agree heartily with Drucker’s definition of leadership. Leadership, for them, is individual, situational, and based upon the virtues of responsibility, trust, and integrity. In addition, Confucianism is a theory of moral leadership where an individual cannot become a complete person without living a moral life. Furthermore, the leadership of the moral person is critical to organizational and social success and a central concept in Confucianism. It is especially important that the moral people fill high offices. In the early Confucian Classics there are many examples of the importance of leadership in the development of a moral person and the just and moral society.

“The Master said, ‘Fine words and an insinuating appearance are seldom associated with true virtue.’” (*Analects*, I, 1971, iii, p. 139).

“The philosopher Tsang said, ‘I daily examine myself on three points: – whether, in transacting business for others, I may have been not faithful; – whether, in intercourse with friends, I may have been not sincere; – whether I may have not mastered and practiced the instructions of my teacher.’” (*Analects*, 1971, I, iv, p. 139).

“The philosopher Yu said, ‘When agreements are made according to what is right, what is spoken can be made good. When respect is shown according to what is proper, one keeps far from shame and disgrace. When the parties upon whom a man leans are proper persons to be intimate with, he can make them his guides and masters.’” (*Analects*, 1971, I, xiii, p. 143).

“The duke of Ai asked, saying, ‘What should be done in order to secure the submission of the people?’ Confucius replied, ‘Advance the upright and set aside the crooked, then the people will submit. Advance the crooked and set aside the upright, the people will not submit.’” *Analects*, 1971, II, xix, p. 152).

“The Master said, ‘At first, my way with men was to hear their words, and give them credit for their conduct. Now my way is to hear their words, and look at their conduct...’” (*Analects*, 1971, V, ix, 2, p. 176).

“Mencius said, ‘Benevolence brings honour (sic); cruelty, disgrace. Now people who dwell in cruelty while disliking disgrace are like those who are content to dwell in a low-lying place while disliking dampness.

If one dislikes disgrace, one's best course of action is to honour (sic) and to respect the Gentleman. If, when good and wise men are in high office and able men are employed, a ruler takes advantage of times of peace to explain the laws to the people, then even large states will stand in awe of him." (*Lau, Mencius*, 1970, II, A, 4, p. 81).

According to Drucker, the manager, regardless of location in the hierarchy, obtains the legitimacy to exercise power and authority by performing the three fundamental tasks of management in a way that benefits the entire organization. The three tasks are: "(e)stablishing the specific purpose and mission of the institution, whether business enterprise, hospital, or university; (m)aking work productive and the worker effective; (and) (m)anaging social impacts and social responsibilities." (Drucker, 2001, p. 14).

Since organizational success depends primarily on the performance of human beings, the development and maintenance of effective and appropriate human relationships is critical. Without effective organization, no institution can expect to fulfill its primary mission to provide something of value to society. Organization is, essentially, a series of human relationships of specialized people performing specialized tasks and organized into specialized functions that include, finance, marketing, operations and management. To secure organizational success each individual must be willing to work toward collective success. This means every organizational member must be willing to perform her specialized task appropriately, not simply as a separate task but also by how it relates to the tasks and success of others. Drucker argues that organizational success is the result of an inward/outward perspective where each member looks inwardly to how she should perform her tasks properly and outwardly to how her behavior contributes to the success of other organizational members and the organization itself. If the inward/outward perspective is applied conscientiously, the organization will become inward/outward focused and positioned better for success in the marketplace. (Drucker, 1986, p. 227). However, while the institution's primary responsibility is to organize people productively, success depends upon how well social roles are performed. As a result, individual and collective success are linked into a complex set of human relationships and the effec-

tiveness of their performance. Furthermore, not only does the organization benefit from the relationship, so, too, does the employee. "(The) institutions in today's society are increasingly the means through which individual human beings find their livelihood, find their access to social status, to community and to individual achievement and satisfaction." (Drucker, 2001, p. 16). The ability of the organization to provide useful work to individuals is an important social responsibility. (*Management: Tasks, Responsibilities, Practices*, 1973, p. 187).

Consequently, the issue is both organizational and ethical. Since organizational success depends upon the performance of specialized tasks by the individual members of the organization and, since the individual seeks work, status, community and achievement as an organizational member, the interdependent relationship must be mutually beneficial. The Confucian concept of the "Rectification of Names" plays a crucial role in addressing this challenge. According to the Confucians, each member of a community and an institution performs a role that is critical to both the success of the individual and the group. Each role has a name associated with it that describes how it should be fulfilled based on both the specialized knowledge of the role and the ethics associated with the role's social position or situation. The parent/child relationship, for example, requires both the parent and the child to act according to their name that denotes their position in a relationship and, so long as each performs correctly, the relationship will be mutually beneficial. By extension, when all the roles and relationships are performed correctly, society will be organized correctly and harmony will result.

There are two additional aspects of these relationships that must be fulfilled for the role to be carried out properly. These are the application of benevolence or sincerity (*jen*) and etiquette or the rites (*li*). Benevolence or sincerity is the foundation of social cooperation and is "a willingness to do what is best socially" (Bahm, 1992, p. 28) and "an unselfish concern for the welfare of others" (Graham, 1989, p. 19). This helps explain why the Confucian "Golden Rule" is framed in the negative. "Tsze-kung asked, saying, 'Is there one word which might serve as a rule of practice for all one's life?' The Master said, 'Is not RECIPROCITY (sic) such a word? What you do not want done to yourself, do

not do to others.” (*Analects*, XV, xxiii, p. 301). The Confucian “Golden Rule” requires an individual to judge how their actions will impact others’ performance of their roles and names. This is clearly stated for hierarchical situations in the *Great Learning*.

“What a man dislikes in his superiors, let him not display in the treatment of his inferiors; what he dislikes in inferiors, let him not display in the service of his superiors; what he hates in those who are before him, let him not therewith precede those who are behind him; what he hates in those who are behind him, let him therewith follow those who are before him; what he hates to receive on the right, let him not bestow on the left; what he hates to receive on the left, let him not bestow on the right: this is what is called ‘The principle with which... to regulate one’s conduct.’” (*Great Learning*, 1971 X, 2, pp. 373–374).

Benevolence or sincerity is, therefore, the foundation for the virtues of reciprocity and loyalty, the understanding that success is relational and individuals are mutually dependent (Yao, 2000, p. 213).

Ritual (*li*) is the mechanism that permits the roles to be performed correctly because ritual is a process that allows for a collective activity to be successfully concluded. Confucians view social success through the carrying out of interdependent relationships in a prescribed manner. It requires the participants both to execute their part correctly and to apply the proper attitudes while doing so (Graham, 1989, p. 18). Therefore, a ritual can be viewed as a process of social interaction designed to achieve a collective good.

Drucker easily updated the Confucian use of ritual to apply to the modern organization with its specialized tasks organized into specialized functions. The success of the organization is based upon each individual fulfilling their role and tasks in a prescribed way and with an attitude that will be mutually beneficial to both those they relate to immediately and the entire organization as well. Managers play an important role, and senior managers the most critical one, because they determine the structure of the organization, how the parts relate, the rules of the organization, how each member and group will interact and interrelate, and the future direction of the organization. How managers fulfill their function, the values they exemplify, and the behavior they demand from the members will determine the success of the organization.

This is illustrated by the idea of profit. As the wealth producing institutions, business organizations must use resources wisely and effectively. Consequently, making a profit is morally required. Profits are required to pay debt, train workers and fund the future through investment in new businesses and products. They are critical to the economy and society.

“Profit and profitability are, however, crucial – for society even more than for the individual businesses. Yet profitability is not the purpose of, but a limiting factor on business enterprise and business activity. Profit is not the explanation, cause, or rationale of business behavior and business decisions, but rather a test of their validity. If archangels instead of businessmen sat in the directors’ chairs, they would still have to be concerned with profitability, despite their total lack of personal interest in making profits.” (Drucker, 2001, pp. 18–19).

While profit is essential to allow the corporation to make a contribution to the welfare of society through wealth creation and the integration of the individual employee into the organizational community, reducing organizational performance to economics through the slogan “profit maximization” is wrong.⁴

“I am for the free market. Even though it doesn’t work too well, nothing else works at all. But I have serious reservations about capitalism as a system because it idolizes economics as the be-all and end-all of life. It is one dimensional...”

Today, I believe it is socially and morally unforgivable when managers reap huge profits for themselves but fire workers. As societies, we will pay a heavy price for the contempt this generates among middle managers and workers.

In short, whole dimensions of what it means to be a human being and treated as one are not incorporated into the economic calculus of capitalism. For such a myopic system to dominate other aspects of life is not good for any society.” (Drucker, 2002, pp. 149–150).

This view is similar to Mencius’ regarding the responsibility of the prince to provide for the material well being of his subjects through of benevolence and the realization that people cannot

be moral without a minimum level of material goods. "Only the Gentleman can have a constant heart in spite of the lack of constant means. The people, on the other hand, will not have constant hearts if they are without constant means." (Lau, 1970, I, A, 7, p. 58). By thinking only of himself, the manager, by firing workers, puts them at risk, both materially and morally, and may damage the long-term prospect of the organization.

According to Drucker, people do not work for profit or gain; they work for self-fulfillment, where gain or profit is a result of their work. (Drucker, 2001, p. 19). Personal gain is the result of work and to put it at the forefront is to misplace its role in human motivation. To motivate them and expect them to seek profit is detrimental to both the individual and the organization because it undermines community and the mutually dependent relationships essential to individual and collective success. Being self-centered the individual views her situation strictly from her own perspective. This is an inward focus that cannot take into consideration how behavior affects others and the whole. It is at best limiting, at worst, damaging to the collective effort of the entire enterprise. Therefore, an individual seeking only individual profit and gain is a danger to both themselves and the organization. Similarly, a firm seeking only profit is a danger to itself and society. What both individuals and firm must seek is the appropriate balance between profit requirements and the other needs of the business, an idea very similar to the Confucian concept of balance found in the *Doctrine of the Mean*.

This view is the same as the Confucians who view profit or gain as, not something to be avoided, but confronted and dealt with morally. When faced with a situation where one can profit, one must guard against selfishness and personal gain. To seek personal gain at the expense of others violates the "Golden Rule" by denying the interdependency and mutual benefit of relationships.

"The Master said, 'He who acts with a constant view to his own advantage will be much murmured against.'" (Analects, 1971 XV, xii, p. 169).

"When he who presides over a state makes his revenues his chief business, he must be under the influence of some small, mean man. He may consider this man to be good; but when such a person is employed in the

administration of a state or family, calamities *from Heaven*, and injuries *from men*, will befall (sic) it together, and, though a good man may take his place, he will not be able to remedy the evil. This illustrates again the saying, 'In a State, gain is not to be considered prosperity, but its prosperity will be found in righteousness.'" (Great Learning, 1971 X, 23, pp. 380–381, italics in the original).

"Now if you should practice benevolence in the government of your state, then those in the Empire who seek office would wish to find a place at your court, all tillers of land to till the land in outlying parts of your realm, all merchants to enjoy the refuge of your market-place, all travelers to go by way of your roads, and all those who hate their rulers to lay their complaints before you. This being so, who can stop you from becoming a true King." (Mencius, 1970 I, A, 7, p. 58).

Drucker's conception of managerial harmony comes together in the way an organization serves the larger society and establishes its legitimacy, which is his views of corporate social responsibility. For Drucker social responsibility is not some charitable contribution made as an apology for making a profit. Drucker is quite clear that profit is the first responsibility of a business. (Drucker, 1954, p. 386; 1993, p. 101; 2001, p. 38). Profit allows firms to continue their wealth producing activities and as the wealth producing organizations, society depends upon them for its standard of living, employment and stability. For Drucker the moral issue is how a business, or for that matter, any organization, conducts its affairs: how it deals with its customers, employees, partners, creditors and society. All of these constitute relationships of mutual dependence.

Corporate social responsibility, therefore, should be limited to the particular function of the organization. This is an application of the Confucian idea of the "Rectification of Names." Each organization is specialized and its relationship to society is based upon the organization's name. Society is composed of many organizations and each must perform their specialized tasks for society to be successful. This is what Drucker means by the "society of organizations." Society is composed of specialized and interdependent organizations, and no one organization can, or should, perform every task required for its success. For example, the hospital depends on

pharmaceutical companies and other suppliers of medical products and services. The supermarket depends on many suppliers. If any fail to fulfill their function, they will have a negative impact on others in their dependency chain. If too many organizations fail to perform properly their specialized function they may lose their legitimacy and cause a crisis. The concepts of specialization and interdependence are extended into the organization itself through the complex set of specialized tasks, relationships and functions needed by the organization to fulfill its function. Members of the organization, needless to say, carry these out. How this is done is of crucial importance to the organization, its members and society.

Organizations fulfill their functions by serving the customer by providing valuable goods and services as defined by the customer. And by serving the customer, they serve society, because, when all the specialized goods and services required to function are available, wealth is produced and individuals employed. Consequently, if all these specialized tasks are completed satisfactorily, society will be successful and stable.

According to Drucker, the social responsibility of a business is to manage its behavior morally. This includes not only its internal efforts, how it makes its products and services, but also how its activities impact customers and society. As Drucker suggests:

“But what is most important is that management realize that it must consider the impact of every business policy and business action upon society. It has to consider whether the action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength and harmony.” (Drucker, 1954, p. 388).

For this world of the networked organization to succeed, organizations must build their social responsibility from the inside of the organization. Each and every member of the organization must understand the purpose and mission of the organization and measure their behavior according to that standard. Each member must be responsible for their contribution to the organization and “(t)he knowledge-based organization therefore requires that everyone take responsibility for that organization’s objectives, con-

tribution and, indeed, for its behavior as well.” (Drucker, 1993, p. 108, italics in the original). The knowledge-based organization, populated by the knowledge worker represents a more complicated and complex managerial issue. Previously, there were fundamentally two groups within the organization, managers and workers, with clearly defined functions and responsibilities (Drucker, 1983). In this situation, management, with the greater general knowledge and skill, was responsible for the general welfare, general direction of the organization and the allocation of the resources to accomplish the mission and objectives. The worker possessed the technical skills required to produce the organization’s products and services. Simply put, management managed and workers worked.

This situation was transformed by the development of the knowledge worker – the individual educated and trained to make professional judgments and successfully perform complex tasks and operations. No longer do employees simply perform tasks and accept the directives of superiors. Today, many subordinates are likely to be more knowledgeable in the specifics of their complex tasks and processes than management, resulting in a collegial rather than a command organization. Consequently, in the knowledge-based organization, knowledge workers are more likely to act as managers than workers. As a result the moral responsibilities of knowledge workers are closer to the moral responsibilities of management. (Drucker, 1999b, Chapter 5, pp. 133–161). In short, the knowledge worker must assume the role of a Confucian moral leader, if individuals, organizations and society are to prosper and succeed.

Whether a business has responsibilities beyond fulfilling its specialized functional responsibility is for Drucker problematic. The answer turns on responsibility and authority and this is a political question. Responsibility is related to authority because one implies the other. In the economic sphere business can claim responsibility and authority legitimately because it needs both to accomplish its social mission, wealth creation and employment. Beyond this, they have no responsibility and authority because,

“(W)e also know that a developed society needs performing institutions with their own autonomous management... These organizations, including most of

the agencies of our government, are special-purpose institutions. They are organs of our society for specific performance in a specific area. The greatest contribution they can make, their greatest social responsibility, is performance of their function. The greatest social irresponsibility is to impair the performance capacity of these institutions by tackling tasks beyond their competence or by usurpation of authority in the name of social responsibility." (Drucker, 2001, p. 63).

For Drucker there are two possible solutions to tackling society's social issues. One solution is for business to find a way to "convert the solution of these problems into an opportunity for performance and contribution." (Drucker, 2001, p. 63). The other is for private non-profit organizations to address social issues.

"Business supplies, either goods or services. A government controls. The 'non-profit' institution neither supplies goods or services nor controls. Its 'product' is neither a pair of shoes nor an effective regulation. Its product is a *changed human being*. The non-profit institutions are human-change agents. Their product is a cured patient, a child that learns, a young man or woman grown into a self-respecting adult; a changed human life altogether." (Drucker, 1990, p. xiv, italics in the original).

Social problems and ills require separate institutions with separate names and different relationships to accomplish the mission to address these challenges.

Ethics are an important part of managerial and organizational behavior, according to Drucker, and are a critical ingredient in individual, organizational and social success. The dependencies and interrelationships manifest in a modern, complex industrial society require organizations to perform their specialized function in the interest of society. For individuals, organizations and society to succeed, relationships must be grounded on performance, knowledge, trust, responsibility and interdependence. Without these the networked society cannot function. Society is not composed of autonomous but mutually dependent individuals and organizations. The profound challenge is to maintain and manage the interdependence for the mutual benefit of all. This is why Peter F. Drucker chose Confucianism as the ethical foundation for his work.

Notes

¹ Schwartz (1998) argues that Drucker denies there is a discipline of business ethics though there is a preoccupation with morality in his work and "a Kantian bias, which overrides any possible utilitarian calculus." A reading of Drucker's work supports clearly the idea that he considers business ethics a serious issue and worthy of study. Drucker is critical of the way business ethics is approached as a discipline, however. In *Ethical Chic* (Drucker, 1981) he states that contemporary business ethics is founded on casuistry, which he defines as setting for organizational and social leaders moral standards different from those applied to remainder of the organization and society. However, as Drucker states quite clearly in *Ethical Chic*, Confucianism offers a solid foundation for business ethics. As Flaherty (1999, p. 270) suggests

"If there ever is a viable ethics of the organization, it will have to follow the key Confucian concepts: clear definition of fundamental relationships, focusing on right behavior rather than on avoiding wrongdoing, emphasis on behavior rather than motives and intentions, and optimization of each party's benefits, to enhance trust and harmony."

In *Ethical Chic* Drucker indicates that the Confucian relationships of parent/child, older sibling/younger sibling, etc. are outdated and a new set of relationships more conducive to the contemporary situation be identified, explored and understood. The following relationships may be appropriate, bearing in mind these relationships and roles are populated with morally responsible individuals. The fundamental organizational relationships of interdependence are: customer/firm, society/firm, manager/employee, employee/employee, and firm/supplier.

² For the foreseeable future there will be significant instability in the contemporary world, as Drucker (1999b) points out in *Management Challenges for the 21st Century*. The world is dynamic; paradigms are changing; and significant discontinuities exist. He foresees a period of intense pluralism (Drucker, 1999c), where individual and group identities will prevail over a sense of community. He suggests this is a transitory period, not unlike the 1920s and

1930s, where old relationships are being destroyed and where the new relationships of the knowledge worker – one who applies professional training and intellectual effort in their work – globalization, and greater dependencies have not fully developed. As a result, a new illegitimacy is developing based upon a new “feudalism” of autonomous groups prosecuting their single interest agendas. However, Drucker argues, even as this unfolds the world is becoming increasingly more interdependent as organizations become more specialized.

³ Drucker relates in *Adventure of a Bystander* how Alfred Sloan at GM became involved in many personnel issues throughout the organization (Drucker, 1996, p. 281; Drucker, 2001, p. 128).

⁴ For Drucker the most important objective of a business is to advance the economic and social well being of society. “(T)he overriding goal is common for every business: to strive to make whatever is productive for our society, whatever strengthens it and advances its prosperity, a source of strength and profit for the firm.” (Drucker, 1954, p. 82). Rejecting the line of reasoning from the Classical Economists, including Marx, he argues that profit is singularly important for the future success of any business. He finds fault with the equilibrium capitalism of Friedman and the “Chicago School” as “desperate attempts to patch up the Keynesian system of equilibrium economics.” (*The Frontiers of Management*, 1991, p. 108). Agreeing with Schumpeter that capitalism is not equilibrium but “creative destruction,” Drucker reverses the view that profit is immoral. The pursuit of profit is, on the contrary, a

tomorrow.” (Drucker, 1999a, pp. 111 and 225, italics in the original).

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“moral imperative’... indeed, the question then is no longer the question which agitated the classicists and still agitated Keynes: How can the economy be structured to minimize the bribe of the functionless surplus called profit that has to be handed over to the capitalist to keep the economy growing? The question in Schumpeter’s economics is always, Is there sufficient profit? Is there adequate capital formation to provide the costs of the future, the costs of staying in business, the costs of ‘creative destruction’?... I have always maintained – often the scandal of liberal readers – that the *first* social responsibility of a business is to produce an adequate surplus. Without a surplus, it steals from the commonwealth and deprives society and the economy of the capital needed to provide jobs for

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