Peter Drucker on Managerial Courage

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Each product, operation, and activity should be justified every two or three years, wrote Peter F. Drucker in 1963. But that's a hard step for managers to take. A Harvard Business Review classic.

by Peter F. Drucker

I do not propose to give here a full-blown "science of management economics," if only because I have none to give. Even less do I intend to present a magic formula, a "checklist" or "procedure" which will do the job for the manager. For his job is *work*—very hard, demanding, risk-taking work. And while there is plenty of laborsaving machinery around, no one has yet invented a "work-saving" machine, let alone a "think-saving" one.

But I do claim that we know how to organize the job of managing for economic effectiveness and how to do it with both direction and results. The answers to the [following] three key questions . . . are known, and have been known for such a long time that they should not surprise anyone.

1. What is the manager's job? It is to direct the resources and efforts of the business toward opportunities for economically significant results. This sounds trite—and it is. But every analysis of actual allocation of resources and efforts in business that I have ever seen or made showed clearly that *the bulk of time, work, attention, and money first goes to "problems" rather than to opportunities, and, secondly, to areas where even extraordinarily successful performance will have minimum impact on results.*

2. What is the major problem? It is fundamentally the confusion between effectiveness and efficiency that stands between doing the right things and doing things right. *There is surely nothing quite so useless as doing with great efficiency what should not be done at all.* Yet our tools—especially our accounting concepts and data—all focus on efficiency. What we need is (1) a way to identify the areas of effectiveness (of possible significant results), and (2) a method for concentrating on them.

3. What is the principle? That, too, is well-known—at least as a general proposition. Business enterprise is not a phenomenon of nature but one of society. In a social situation, however, events are not distributed according to the "normal distribution" of a natural universe (that is, they are not distributed according to the U-shaped Gaussian curve). *In a social situation a very small number of events—10 percent to 20 percent at most—account for 90 percent of all results, whereas the great majority of events account for 10 percent or less of the results.*

This is true in the marketplace. A handful of customers out of many thousands produce the bulk of the orders; a handful of products out of hundreds of items in the line produce the bulk of the volume; and so on. This is true of markets, end uses, and distributive channels. It is equally true of sales efforts: A few salesmen, out of several hundred, always produce two-thirds or more of all new business. It is true in the plant: A handful of production runs account for most of the tonnage. It is true of research: A few men in the laboratory produce all the important innovations, as a rule. . . .

This is part of the last and most crucial "how to do it" requirement: the courage to go through with logical decisions—despite all pleas to give this or that product another chance, and despite all such specious alibis as the accountant's "it absorbs overhead" or the sale's manager's "we need a full product line." (Of course, these are not always unfounded alibis, but the burden of proof of every alibi rests with those that plead it.) It would be nice if I did, but unfortunately I know of no procedure or checklist for managerial courage.

What I have sketched out in this article is the manager's real work. As such it requires that he/she attack the problem of increasing business effectiveness systematically—with a plan of action, with a method of analysis, and with an understanding of the tools he needs.

And while the job to be done may look different in every individual company, one basic truth will always be present: Every product and every activity of business begins to obsolesce as soon as it is started. Every product, every operation, and every activity of a business should, therefore, be put on trial for its life every two or three years. Each should be considered the way we consider a proposal to go into a *new* product, a new operation or activity—complete with budget, capital appropriations request, and so on. One question should be asked of each: "If we were not in this already, would we now go into it?" And if the answer is "no," the next question should be: "How do we get out and how fast?"

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Peter F. Drucker (1909-2005) was a prolific and influential management thinker whose books include *Managing for Results* and *Managing in a Time of Great Change.*