

Drucker on government, politics, economics and society

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Abstract

Purpose – To provide students, professors, political leaders, members of non-governmental sector and economists with a review of Drucker's major works on recent changes in politics, government, society and economy.

Design/methodology/approach – This article briefly illustrates and discusses Drucker's thoughts and analysis presented mainly in the books *Post-Capitalist Society*, *New Realities* and *Managing in a Time of Great Change*. However, reference is also made to other books and articles written by Drucker, as well as papers and books produced by other authors on his works or on subjects discussed in his works.

Findings – This article provides Drucker's views on recent changes in politics, government, society and economy, which have brought about new realities and challenges and have fundamentally transformed politics, economy and the society. Thorough considerations of these challenges would not provide fixed solutions but rather support and would enable governments, organizations and society at large to anticipate these transformations. It is believed that Drucker has made sound analyses of which one ought to take notice.

Practical implications – This article provides a useful source of information on political and economic changes in this turbulent world and recommendations on how to anticipate these changes.

Originality/value – It is believed that this paper contains an original review of Drucker's politically oriented writings. The findings and recommendations in this article can be useful for scholars, students, politicians, economists, leaders of civil society organizations and businesses to better understand the transformations taking place in society and hence enable leaders to make better decisions.

Keywords Government, Society, Economic theory, Management theory, Politics

Paper type Literature review

1 Introduction

Historically a few transformations have had an enormous impact on mankind's development, and in particular – on politics, economy and the society. These transformations, or shifts, often create rapid changes, which challenge the society in rearranging and accommodating itself in order to meet the new realities. Currently, we are living through such transformations in the society, politics and economy.

Peter Ferdinand Drucker has in a number of books discussed these shifts in political and economical developments that induce rapid transformation of our society. This article briefly illustrates and discusses Drucker's thoughts and analysis presented mainly in the books *Post Capitalist Society*, *New Realities* and *Managing in a Time of Great Change*. However, other books and articles written by Drucker, as well as papers and books produced by other authors on his works or on subjects discussed in his works, are also referred to.

The first section of this article discusses the new realities in politics and how they may influence governments' actions and activities. Then, the major economic features of the current transformation is illustrated and analysed with respect to their possible impact on

society. Finally, the third section covers current developments that rapidly transform society into a knowledge- and organisation-based society.

Issues and possible developments discussed in this article are related by large to the countries of so called “developed world” though some of the features of rapid transformation and their impact are inevitable in developing countries as well, but to a smaller extent.

2 Government and politics

In recent decades, the perception of politics and the role and functions of government has changed tremendously. These changes and the corresponding new realities in government and political processes demand careful analysis. The purpose is to increase the understanding of current developments in political environment, to better define the role and functions of the government as well as to draw up strategies for increasing government effectiveness.

In the subsequent sections we discuss these issues in greater detail.

2.1 *The new realities in government and political process*

Drucker (1989, 1993, 1995, 1999) defines several very important and newly emerged realities, which are significantly affecting current political processes and government actions in many developed and developing countries. These new realities are related to: the phenomena of new pluralism in political environment; unprecedented developments in political processes which are partially the consequences brought about by the pluralism; and Transnationalism, regionalism and tribalism currently happening almost in all the countries across all the continents.

Though theory of political science still postulates that there is only one organised power centre – government, but “both society and polity in developed countries have become pluralist” (Drucker, 1989). In such countries there are multiple power centres other than government located outside of, and separate from it. The new reality of pluralism in society is related to the creation and development of single purposed organisations, which are concentrated on one social task while being completely apolitical such as business, education, health, youth and so forth. Meantime, the new pluralism in political environment is characterised by “single-cause and single-interest” (Drucker, 1989, 1993) groups which focus on political power. These groups feature movements of highly organised minorities whose objective is to obtain through power what could not be achieved through other means. Pluralism both in society and in polity is to be perceived as a challenge to political processes and political leadership as well as to all the represented groups and individuals of our society. The challenges of the new pluralist institutions (Drucker, 1989) require particular attention in terms of: their social responsibility; their community responsibility; political responsibility; individuals’ rights and responsibility; and the newly perceived role and functions of government.

As noted, in political processes the small and single-cause concerned groups are becoming increasingly dominating. The power drive of these groups is in their small numbers – they are minorities, and their strength is derived from their single task or purpose, which are usually related to prevent or to stop rather than to be organised to do something. These minority groups are increasingly dominating the mass movements of modern politics though they count only 5 per cent to 10 per cent of the electorate (Drucker, 1989). In contrast, the major political electorate is not well organised, is inert and not committed to a particular purpose and or a unified objective.

The world has faced large number of cases when single-task minority political groups heavily affected the political life including the Nazi regimes in a number of countries, “Bolsheviks” in Russia and so on. In our days as well, such examples are quite numerous – green parties and groups as an environmental movement in many developed countries, human rights groups, nationalistic political movements, anti-abortion groups, and of course

anti-globalisation movements nationwide and worldwide. The following behaviour of such groups is generally monitored (Drucker, 1989) because:

- They hold their own single cause to be a moral absolute. They perceive themselves rather moral than political.
- In this regard, they do not compromise.
- Generally speaking, they do not aim for majority support, because they might have to compromise.
- These groups mainly attempt to paralyse and they are mostly against something than for something.

The minority political groups – though being small but focused, may influence the final votes by providing the margin of victory. The last elections in Germany in 2002 is a good example when the majority ruling party had to accept a coalition with the Green Party to form a government in which the minority group got certain key posts in the cabinet such as Minister of Foreign Affairs. The elections held in Russia in 1996 have shown to what extent the minority political groups could eventually gain the margin of victory when a nationalistic group called the Liberal Democrats (albeit they are against democratic movements) provided the decisive margin for Jeltsin to remain in power.

Drucker (1989) points out that these new movements shift the centre of political decision making from politicians to lobbyists. The decision process is being increasingly diversified into the manipulation of these minority groups. Policy itself is made by people who have no political power or agenda and in many cases no political mandate at all. Thus, most of the important political decisions are taken behind the scene in non-transparent way, creating a solid base for threat or bribe. In many cases, decisions have to be postponed until a critical stage or emergency situation under which the minority groups lose their power.

The other recent developments in politics are related to a changing demand on political leadership and their traditional political and socio-economic programs. Most of the political leaders base their approach on charisma and avoid committing themselves or participating in concrete and measurable programs. The traditional programs no longer provide answers to many issues arisen in society or in politics both nationally and internationally. They simply cannot address most of the challenges and new realities we currently face.

Traditionally, the political process was directed towards the issue itself, and political leadership was organised around disagreements arising from the issues. Increasingly, the task of the new political leadership will be to organise around agreements over ends (Drucker, 1989) and to direct the political processes towards ends. In this sense there is a need for competent and committed leaders to concentrate on certain priorities for the society and country. Perhaps a commitment to global programs that make political sense is needed as well as specific programs targeted to single-core tasks using specific rather than unified approaches. To address the new realities only through charisma will only result in poor leadership and mal-performance.

The political developments across nation-states in terms of transnationalism and regionalism should be considered seriously by the governments when formulating and implementing policy. However, these policies can only be effective if they simultaneously target all the actors of the political scene with all their differences such as minorities, various social organisations, geographical areas, etc.

In the twentieth century, especially since the 1970s, the nation-state has been increasingly endangered by the creation and successful operations of multinational treaties and transnational agencies. These operations occur in all spheres of our lives – in military, in economy, in business, in culture, in politics. The challenges in those areas can no longer be dealt with on national levels alone – involvement of transnational agencies to set common standards, to monitor these standards and to follow up common interests is necessary. Drucker (1993) identifies several key areas of transnational nature where national governments have no sovereignty. First, the amount of money traded in foreign exchange

markets, beyond the control of central banks, by far exceeds anything needed to finance national and international transactions. Hence, the money flows cannot be entirely controlled or limited. Second, the access to information cannot be controlled using the current level of technological development. While money can still be bounded by transnational banking institutions through certain fiscal and tax policies, controlling information is practically impossible. Thirdly, issues that have global impact such as environment, arms control, fight against terrorism and so forth go beyond sovereignty of a single state requiring organised actions both worldwide and locally.

Regionalism is the other new reality rapidly being developed in the world. In all the continents there are various regional political and economic groups. Regionalism creates regional governing agencies that sideline national government in important areas and make it increasingly irrelevant (Drucker, 1993). The European Community (EC) is perhaps the most successful example of regionalism. Its boundaries are rapidly expanding to include eight new member states in 2004, a single European currency, non-tariff movements of goods, labour and capital, unified custom policy, unified or harmonised laws and legislation are today in place to be followed by the member countries.

There are also attempts by states to create regional groups on a smaller scale based on geographical proximity and political and economic interests. For example, the Nordic countries have done so for many decades and the former Soviet Union countries created Commonwealth of Independent States (CIS) in 1993 attempting to maintain the previous economic and political links for common interest in the region.

From the outside, the sovereignty of nation-states are, in addition to increasing internationalism and regionalism, undermined by growing "tribalism". The trend towards tribalism is worldwide, spreading independently of the socio-economic conditions of the country. The examples are everywhere – in Europe, the USA, Canada as a part of the developed world, and for instance in emerging countries of the former Soviet Union. The nature for the trends towards tribalism are quite diversified – cultural, religious, national identity, language, historical background, political interests and so on. However, the main reason for tribalism is neither political nor economic – it is existential (Drucker, 1993). The people need roots and community in an increasingly globalising world. Thus, the more transnational the world becomes, the more tribal it will also be (Drucker, 1993).

Internationalism, regionalism and tribalism are shaping the today's polity and are creating a new, complex and unprecedented political structure. The first priority in our society, would perhaps be revising the capacity of the government and its performance in meeting these challenges.

2.2 Limits of the government's activities and challenges for its performance

The new realities in politics and political processes discussed earlier create a demand for different strategies, programs, tasks and activities to be performed by the government. In order to meet these challenges, the limits and functions of the government should be of primary concern especially considering the new political environment with underlined pluralism. The government should aim at improving its competence and performance to better meet the challenges faced in politics, economic development and social transformation. However, extra attention has to be directed towards the fact that governments are no longer the only power centres.

In the new political reality the limits and functions of the government are the key issues since the government is not the only power centre challenged by both internal and external factors. There have been serious discussions regarding the extent of the government's influence on the society and economy. In terms of interventions in economy, classical, monetarist and supply side economists find the markets superiors to the government and its macroeconomic policies arguing that markets perform more effectively and efficiently with possible less government intervention. They also stress that government interventions cannot solve the major macroeconomic problems, which have to be targeted in the long run by policies aimed at promoting efficiency and flexibility in the market (Ghatak *et al.*, 1995). In

contrast to these theories, Keynesian economics argues that the markets do not always work, respond perfectly and automatically achieve balance. Market equilibrium requires that the government intervene through macroeconomic policies.

Drucker (1989) points at three reasons that are dramatically shaping the perceptions regarding the limits to what governments can do:

1. Failure of government programs and government operations in last decades.
2. Limits to what taxation and spending can achieve, i.e. the adopted macroeconomic policy (fiscal and monetary interventions) of the government is not always successful. The discussion on this has recently increased due to the success of supply side economic policies in the USA and Western Europe. In contrast, the government ability to ensure economic growth through a fiscal policy has failed in many countries.
3. Limits to government's ability to raise revenues.

These reasons have changed the whole perception of the concept and the extent of government interventions and power as well as strengthened the necessity of defining the limits of government functions. Drucker suggests the following limits of the government functions to be considered:

- *Monopoly activities.* There are functions that can only be performed by the government as monopoly such as defence and maintaining law, order and justice.
- *Setting rules.* The government should set ground rules to be followed by everybody in terms of laws and regulations of divert nature.
- *Timing, target and economics of the activities.* Government programs need to be organised in a limited period of time with clear statement of expected results and assigned resources. Governments should also abandon activities that fail to produce results.
- *"Privatisation"* of certain activities performed non-efficiently by the government, because functions or services that can be done more efficiently by outsiders should not be performed by the government.

The new realities and challenges in political processes demand high government competence (Drucker, 1993). Externally, government should redefine its scope and should be thinking through continues innovations in the areas related to: relationships between national government and transnational tasks; new developments in regional organisations and the relationships to be followed; relationships between different regions; building up relationships with the political institutions transcending the national boundaries. Internally, effective government is required due to the transformation into new pluralist society, reduced capacity to make decisions and increasing pressure from single-task groups.

All the aforementioned demands to meet both global and internal challenges suggest more rather than less government and a different form of government (Drucker, 1993). To turn around like this, any institution – being a business, university or a government –always requires the following steps:

- abandon of the activities or programs that do not work, they have outlived their usefulness and they are not any longer in a capacity to contribute;
- concentrate on the programs and activities that produce results and improve the organisation's capability to perform; and
- analyse semi-successes and semi-failures; abandon the ones with slim chances to be successful, and focus on the ones that succeed.

Continuing improvements and benchmarking are paramount for successfully reforming the government. They are not largely inserted into the structure of government and they require radical changes in policies and practices (Drucker, 1995). They require every division, department, or agency within the government structure to define its objectives. More

importantly, define the results the particular unit is expected to produce. Benchmarking enables the government to increase efficiency of its operations and programs by comparing the performance of different units and identify the standard to be met by the others.

3 The new realities and transformation in economy

The last few decades have led to significant transformations not only in political processes but in economic development as well. Drucker indicates several new realities in the economy, which have to be taken seriously by governments, businesses, non-business organisations and the society at large. These new realities such as the world economy and paradoxes of economic development cannot be entirely explained within existing economic theory, and the synthesis of a new comprehensive economic theory is becoming increasingly urgent.

3.1 *The world economy as a new reality*

In recent decades the world economy has become a dominant controlling factor, to a large extent, of the domestic economies. The world economy – changed from being international to transnational, is a new reality (Drucker, 1989). Drucker (1989, 1995) summarises the main features and challenges of the world economy as follows:

- *Money flows* with their dynamics, rather than trade in goods and services, mainly shape the transnational economy. Macroeconomic policies are largely reactive towards transnational money and capital markets rather than proactive.
- *Management* has become the major decisive factor of production. Labour and land – traditional factors of production – play secondary roles, and money that have become transnational, is not longer the most important factor of production. They may have short-term effects, but it is management on which the long-term competitive position of the countries should be based on.
- *Market maximisation* rather than profit maximisation is the goal of the transnational economy, and the trade following investments is increasingly becoming its function.
- *Economic policy* is no longer sourced and influenced solely by the national state. In the world economy there are several important players, such as the nation-state itself, region, world economy of money, credit and investments organised by information that does not recognise national boundaries, and transnational business which considers the world as one market for its operations.
- *Trade/economic policy* is to a significant extent the reciprocity between regions rather than policies targeted to free trade or protectionism.
- *Ecology* like money and information has become transnational. The major environmental problems can only be effectively addressed by the joint efforts of countries through adopting and enforcing transnational environmental policies targeted at common interests.
- *The need for efficient and effective institutions and international law* for the transnational economy is growing. There are no fully established institutions and enforced laws targeted to new economic realities.

3.2 *Paradoxes of economic development*

Economic development encompasses how economic circumstances of nations and societies change over time (Ezeala-Harrison, 1996). But more importantly, it also envisions how these circumstances can be made to change positively and progressively. In this context, Drucker (1989, 1995) points out two major paradoxes of economic development:

1. two global controversial views regarding economic development successes or failures; and
2. most popular and successful economic development policies no longer work.

There are two controversial views regarding the level of success of economic development throughout the world. One side contends that economic development has experienced a complete failure compared to the expectations everybody was having, while the other side – points at achievements that no one had earlier expected. There are indeed both successes and failures in recent history and practice of economic development.

Generally speaking, the economic development and growth for the post WWII period is comparatively high to any other periods in history. The most important achievements and successes of the economic development in recent decades are mainly related to Japan, South Korea and a few other countries in the Far East. Other successful economic development examples include Italy, southern parts of France, Germany, Spain, Portugal and Greece, and some of the countries of former socialist block such as Slovenia, Czech Republic, Hungary and the Baltic States. Major positive economic developments are also experienced by China and several Latin American countries such as Brazil and Chile.

However, there are many arguments pointing to the economic development as a failure – especially in comparison to what economists, politicians and the public at large were expecting. In this regard, it is worth mentioning that during the last decades most of the regions in Africa, Asia and Latin America suffered severe declines in for example per capita incomes. This situation is increasingly worsening due to global recessions that are coupled with heavy burden of accumulated debt. Several countries have experienced serious social and economic difficulties followed or accompanied by so-called “financial default”. Most of the former Soviet and socialist countries still struggle to cope with the difficulties of the transition period and for them the economic growth is far beyond its anticipations.

Of central concern of world development are poverty, rising gross disparities in the distribution of income and wealth, rapid population growth, urban congestions, desertification and local environmental degradation. Poverty is certainly to be placed as a central target of economic development, and mainly because of its failure to eradicate poverty – as politicians and economists promised it, the impact of economic development is perceived negatively. 80 per cent of the world’s population live in underdeveloped (less than US\$580 per capita GDP) and developing countries (GDP per capita is between US\$580-6,000), and in these countries more than 39 per cent of the population live in poverty (Ezeala-Harrison, 1996). At the same time only 0.2 per cent of the population in developed countries live in poverty.

The negative perception of economic development has been further strengthened by macroeconomic or structural reforms imposed by international financial institutions in developing countries. Critics argue that these reforms associated with orthodox structural adjustments policies have produced neither significant growth nor poverty reduction (McKinley, 2001). Often the poor are directly harmed by such policies even when growth occurs since it is frequently slow and its impact is mitigated by rising inequality. The defeat of poverty, we had to learn again, comes at the end and not at the beginning of economic development (Drucker, 1989).

In recent decades new economic development theories have been proposed, but according to Drucker (1989) these theories have not produced much development due to: aid is sent to governments and not to businesses; more investments have been made into large projects for political reasons and not out of economic justifications; a good deal of investment has become military aid; and the countries lack necessary infrastructure such as good governance, educated and democratic society and so forth. However, two policies have successfully worked in post WWII period:

1. exporting the products of low-wage industries; and
2. infant-industry protection.

In fact, these two policies jointly have been first successfully experienced by Japan later followed by the other countries in Fast East. Export-led development based on low labour cost but on high quality products has become the mean to an enormous success of development for Japan. However, low-labour cost can no longer be considered the only

comparative advantage mainly due to a sharp decline of direct labour cost in total cost. Without attaining the productivity of industry leaders a business cannot survive on cheap labour. Then, the low-wage export policy was combined with “infant-industry protection” aimed at protecting home markets from imports. This combined policy has temporarily worked for Japan and for a few Asian countries but it led to lack of development in many other countries including India and Mexico. Even in Japan these policies no longer work as effectively as they used to. The latest crisis in Japan and in the other countries of Far East region – continuing until today, can be in some extent considered as a consequence of not abandoning on time these policies. Infant-industry protection is justified by temporary enabling environment for non-competitive industries to become strong enough for competition with importers. However, experience has shown that infant industries become even less competitive after implementation of such policy while at the same time becoming more dependent on import of machinery, technologies, tools and industrial materials from more developed countries. Ultimately, infant industries can neither grow further without constantly increased imports nor export competitively to earn the foreign exchange needed to pay for these imports. In the end the very growth of the infant industries defeats them (Drucker, 1989), and the present crisis in Japan is in large part the result of the failure to make bulk of Japanese business and industry globally competitive (Drucker, 1999). The economy has become global and such protectionist policies are no longer effective. On the contrary, they weaken national industries in an increasingly global and competitive world economy.

3.3 New challenges in economic theory

Drucker (1989, 1995) states that none of the existing economic theories explain satisfactorily the new realities. The followers of “Classic economists” believed that the economy would always come to equilibrium, and they considered the “invisible hand” as being the most effective mechanism in directing inputs towards the most effective production “Keynesian economists” challenge the theory of classical economics arguing that the markets do not always work and respond perfectly and they do not automatically come to the balance. It is therefore the duty of governments to intervene when necessary. “Monetarist economists” believe that the markets are superior to government decisions and macroeconomic policies claiming that markets perform more efficiently with less government interference. Neo-classical economists emerged from monetarism believing that the individuals make their own judgements in the most efficient way to arrive at the expected outputs provided that individuals and firms are well informed and act intelligently. Supply side policies suggest increasing the output of economy by implementing programs targeted at shifting the aggregate supply and not aggregate demand since shifting the demand affects only inflation without changing GDP and unemployment.

One may conclude that each of these theories has strong points and weak spots, but the current developments discussed earlier in this paper question all the above indicated theories. Drucker points out that there are currently no economic theories to describe the complexity of present economics as a coherent system. There may then be some useful economic formulas or theorems that explain a specific phenomenon and solve certain problems, but nothing coherent. In this situation, the efficiency of economic policy by the government may be questioned since the foundations for the governmental actions to manage business cycles and economic environment are rather questionable.

The economic theories focus on national economies of individual state while assuming that international economy is controlled by the internal economy of nation-states. This assumption holds even less for developing economies that are even more open to the world economy. Policies such as “export-led development” or “foreign-investment-led development” are good examples of how national economies are greatly affected by their relationships with the world economy. For developed countries, and especially for large developed countries, economic theory and policy postulate that the domestic economy alone matters, but one of the most important lessons of last few decades is that increased participation in the world economy has become the key to domestic economic growth and prosperity (Drucker, 1995). Thus, there is a direct correlation between a domestic economic performance and participation in the world economy. These phenomena show convincingly

that participation in the world economy has become the controlling factor in the domestic economy of a developed country (Drucker, 1995) in contrast to the assumption of orthodox economic theories.

The other issues – not yet covered by contemporary economic theories – are related to technology, innovation and to change in general. There have been several attempts to bring such factors into economic model including the ones made by the followers of “supply side policies”[1]. So far, most of these attempts have failed since there is very little correlation between monetary policy, credit and interest rates on one hand and innovation and entrepreneurship on the other because the controlling factors of the latter is independent of macro economy. Yet, entrepreneurships, invention and innovation can change the economy in a remarkably short time (Drucker, 1989).

The efficiency and scope of economic policy has to be investigated as well. Economics and economic policy deal with short-term phenomena including recessions, unemployment and price changes. Contemporary economic policies suggest that the long-term system is made by short-term policies influenced by, for instance, changes in tax rates, interest rates and government spending. Drucker (1989) argues that for a complex system – such as an economy of developed country – this does not reflect reality that is explained by the failure of most of the governmental economic policies.

All the aforementioned issues highlight the importance of having a new synthesis of economic theory that can predict and control economic behaviour in all four economies (Drucker, 1989): the micro-economy of individual and firms; the macro-economy of the national state; the economy of transnational businesses; and the world economy including new features of economic regionalism. Without such a synthesis, the economic theory would only provide solutions to certain problems rather than enable us to analyse the economy from comprehensive point of view and to develop and implement coherent policies.

4 The new realities in society

According to Drucker (1989, 1993, 1995) the biggest and the most important shifts – by far greater than those in politics, government and economics – have occurred lately in society. These changes were mainly due to the enhanced role of knowledge and education caused by the shifts in politics, in economy and in business. Our society has been gradually transformed into a “post-capitalist” and “post-business” society, and is making tremendous steps towards a “knowledge society”. The success of business has played a key role in this transformation, which has made management a central social function and distinctive discipline.

4.1 Post-capitalist and post-business society

Some of the major features of the great changes occurred in society is characterized by Drucker (1989) as follows:

- Drastic increase of the role of knowledge and education in society including access to carrier opportunities.
- Shift of gravity of social sector to the knowledge worker. Knowledge has become the capital of a developed economy and a knowledge worker is the single fastest growing social group.
- The shift to knowledge and education also results in a shift from a society in which business was considered as the main possibility for advancement to a society in which business is no longer a distinct opportunity.
- Emergence and rapid growth of non-profit and non-governmental (NGO) institutions in developed countries.
- Management has become both a central social function and a distinctive liberal art. It is not any longer attached only to business but rather all institutions independent to their social role, legal constitute, functions, provided services, and so on.
- Organisations are transforming into new forms by becoming information-based.

The huge success of business during recent decades has co-developed with an unprecedented expansion of production and productivity, world trade and world investment. A few decades ago, business – being typical to capitalist society – was seen as an anachronism to be “engulfed everywhere in a rising socialist tide” (Drucker, 1989). However, we all witnessed the recent collapse of socialist and communist world after which all the countries[2] of the former socialist oriented Eastern Europe and communist Soviet Union declared market economy and capitalist principles as their foundation.

The success of business may be seen in education as well. Business schools – recently, not considered higher education – are becoming the largest departments in many respectable educational centres. Furthermore, all institutions adopt business management principles in their every day work. For instance, almost all the United Nations agencies and in particular UNDP (United Nations Development Programme) have adopted results based management as one of the major principle to enhance efficiency and effectiveness of operations. In several years, UNDP – at that time being entirely activity oriented focusing on procedures, inputs, costs, etc. – has become result or performance oriented.

This success of business has developed it into a distinct culture (Drucker, 1989), but certain developments have also taken place in business and management concerning business values, principles, mission and organisation. Management has to be considered as distinguished organ in all organisations and not only as business management (Drucker, 1999). These days, former business schools are becoming schools of management concentrating on management as an organised purposeful activity in society at large.

Consequently, the capitalists have become an economically irrelevant group in developed countries and something different than perceived and described in the past. Of course, their lobbying power is still significant. Pension funds, instead, owned by their multimillion members – you and me – are increasingly becoming the most powerful pressure group in the developed world. We wonder what Marx would have said.

Drastic changes have also occurred to so called “factors of production”, and in particular to workers. This is largely explained by development of the knowledge workers who significantly differ from the ones described by Marx. The knowledge workers are employees but at the same time they are capitalists knowledge is intellectual capital. They are rather specialists, colleagues and associates than subordinates to bosses. The knowledge workers have mobility since their knowledge has a multitude of applications, and because of it they are independent of employers. Knowledge makes knowledge workers free, which is further enhanced by raising new career opportunities both in business and non-business organisations driven by the increasing role of knowledge in society.

All the aforementioned shifts have significantly impacted society in transforming into “post business” and “post capitalist”. Knowledge is now fast becoming the sole factor of production sidelining both capital and labour (Drucker, 1993) having transformed our society into “post capitalist” and the economy – into a knowledge economy, thus creating an environment for the knowledge society to emerge.

4.2 Emerging knowledge society

Drucker viewed the legacy of technology as the foundation of today’s knowledge society (Flaherty, 1999) – technology was the engine of change, and knowledge its fuel. The pace of change and transformation was therefore mirrored in the availability of sophisticated tools and the quality of knowledge. Drucker pointed out three significant technological breakthroughs which radically altered the environment and had revolutionary impact in shaping the society: the shift from nomadic to sedentary society around 6000 BC (Flaherty, 1999); the explosion of mechanical inventions around AD 1750; and the introduction of technologies producing an information and knowledge explosion in the 1950s.

These technological revolutions – especially the second and third – have been differed by the application of knowledge and in the meaning of knowledge. Knowledge at the beginning of the second technological breakthrough – the Industrial Revolution – was applied to tools, processes and products. Meanwhile, in the later stages knowledge was applied to create

the Productivity Revolution. Now, knowledge is being applied to knowledge itself (Drucker, 1993) thus transforming the productivity revolution into the Management Revolution.

The latter produced more accelerated and sustentative changes than previous revolutions combined. Drucker characterised these unprecedented transformations as major forces shaping contemporary society. According to Drucker, the social and economic impact of the Management Revolution (together with the last technological revolution) may be characterised as following (Flaherty, 1999):

- *From literacy to knowledge.* The basic literacy of workers is no longer enough. Drastic increase in production would not be achieved solely by technological innovations without knowledge. Drucker considers knowledge a unique form of mental capital that is characterised by: storability, measurability, mobility, impermanence and responsibility.
- *From craft to credentials.* The craft model of learned and repeated training of workers in the knowledge society may be vulnerable in meeting current standards and requirements. An educational degree and formal higher education are becoming necessary for more challenging job opportunities and increased performance.
- *Postponed workforce entry.* Prolonged schooling naturally altered young people's entry time into the workforce thus becoming an irreversible social reality. However, it has not caused any loss of national productivity in developed countries.
- *Proliferation of professions.* Today it is difficult for professionals to perform remarkably without being networked with larger institutions. The professional choices have been significantly expanded both by diversification within the same profession and development of new disciplines.
- *From physical to informational resources.* Drucker states the world is becoming not labour or material intensive, but knowledge intensive hence reducing the importance of the traditional production factors. Knowledge workers should therefore be perceived as assets and not as costs.

Clearly, knowledge workers are the fastest growing, single group in society. They may not become the ruling class in society, but they already are the leading class (Drucker, 1995). Knowledge workers provide knowledge society character, leadership and social profile. There are various definitions of the knowledge work and knowledge worker developed since they were first coined by Drucker in 1959. Knowledge work has been defined as a profession, as an individual characteristic, as an activity and as various combinations of these (see, for example, Kelloway and Barling, 2000). Drucker (1995) points out that the jobs of knowledge workers require formal education to acquire and apply theoretical and analytical knowledge as well as different approaches to work. Continuing learning is also considered an essential element of the knowledge work. Despite all these definitions there is a common understanding that knowledge work and work are indeed very important elements in the management discipline and practice.

Knowledge workers ensure access to job, work and social position through formal education and theoretical knowledge. Hence, education will increasingly become the centre of the knowledge society and schooling its most important institution. Ironically, the educational system may not gain more importance in knowledge society because educational processes may not take place at traditional schools. The knowledge may be acquired during employment or on-line via computers and the internet. Drucker considers knowledge society to be far more competitive than any other known society in history because knowledge is universally accessible and it creates no excuses for non-performance or mal-performance. There will not be poor countries but ignorant which may be equally applicable to individuals, companies and industries.

Six factors are considered by Drucker (1999) in determining the productivity of knowledge worker: definition of task; autonomy; continuing innovation; continuing learning and teaching; importance of both quality and quantity; and defining and treating knowledge worker as an asset. However, for specialised knowledge to be productive two additional guidelines (Drucker, 1995) should be applied: team work; and access or affiliation of

knowledge worker to an organisation, because only in a context can the knowledge possessed by knowledge workers be converted into performance. This is mainly why our society is becoming a society of organisations.

4.3 The society of organisations

As argued earlier, the knowledge society is also a society of organisations. Drucker identifies several tensions or challenges, which are already materializing in society or they may arise in the knowledge society (Drucker, 1995): community's need for stability and the organisation's need to destabilise; relationships between individuals and organisations; organisation's need for autonomy and society's stake in the common good; rising demand for socially responsible organisations; and organisation's need for team performance and specialists with highly specialised knowledge.

As Drucker states the society, community and family are considered to behave as conserving institutions usually maintaining stability, preventing or slowing down the processes of change. In contrast, the modern organisations are being targeted to change to succeed. The organisation's main functions are to put knowledge to work by interconnecting it with tools, processes and products. Moreover, it is the nature of knowledge to change fast, hence challenging the organisations to continuously introduce policies and face the new environment brought about by this change. All these changes introduce certain challenges to all types of organisations.

Drucker (1995) suggests that the dynamics of knowledge impose changes into the structure of every organisation. He proposes the following change policy for every organisation (Drucker, 1995, 1999):

1. *Organised abandonment* is the first change policy the organisation should consider that is, first of all, driven by the need to free scarce available resources engaged in activities no longer supporting performance and contributing results. Drucker does not limit the principle of systematic abandonment to just products and services (Flaherty, 1999).
2. *Management of change* should make continued efforts for creating the new through:
 - *Organised improvement* – the performance and results of the organisation have to be continuously improved which locally transform certain operations and later turn into fundamental changes.
 - *Exploring success* – is very important because management focus only on problems and put all its efforts into solve them, while successful change is guided by exploiting your own and others' successes and to build on them.
 - *A systematic policy of innovation*, which will create change and perceive innovation as an opportunity is important to design and implement.

The organisation – as said earlier – should treat its employees as assets and not as costs. Thus, loyalty has to be built among the knowledge workers to not only maintain the intellectual capital but to make efforts in increasing and building it up. Loyalty can no longer be obtained by offering higher remuneration – the organisation must earn loyalty by providing exceptional opportunities for putting their knowledge to work (Drucker, 1995).

The modern organisation is operating in a community, its members are part of a community participating in its every day live, but this does not mean that the organisation should submerge itself in the community or subordinate itself to the community's needs and priorities. The "culture" of the organization has to transcend community (Drucker, 1995) since it is the nature of the task that determines the organisation's culture and not the community wherein this task is performed. Additionally, each organisation has its value system which depends upon its mandate, vision, mission and consequently upon its tasks. Therefore, its members should strongly believe what the organisation does. As Drucker points out, if an organisation's culture and the values of its community clash, the organisation must prevail – or else it will not make its social contribution.

Today's organisation possesses significant social power in order to make decisions. However, the power should be balanced by social responsibility – otherwise the process may lead to unwanted effects for both the organisation and the society. Economic performance should, however, be the primary concerns of any business because without sound economic performance it cannot discharge other responsibilities.

Unlike communities and societies, organisations are designed purposefully and are targeting specific tasks. The organisation is effective if it concentrates on one task since diversification destroys the capacity for performance leading to mal-performance. Drucker considers society and community to be environments – and therefore to be multidimensional, and the organisation to be a tool. As any other tool, the more specialised it is, the larger is its capacity to perform the given task. Knowledge – and even more so specialised knowledge – is therefore essential for the performance of the social system; businesses, government and so on. The changes this brings about is starting to appear, but are yet to be seen in full.

5 Summary

Drucker (1989, 1993, 1995) suggests that there are certain shifts and realities currently shaping the transformations in politics, economy and the society: the society will be non-socialist and post-capitalist being transformed into a society of organisations and a knowledge society; the primary resource of the society is knowledge and its role will increase fundamentally; politics have shifted from sovereign nation-state to a pluralism of political integration; an economical and political system is emerging in which transnational, regional, national and local structures compete and co-exist; and current economic developments and realities do not fit existing economic theories and models.

These shifts enable new political and economical developments to emerge. As discussed, there are a number of challenges and realities to be met and considered. In this regard Drucker (1995) summarises several most important tasks:

- To re-look at education, its values purpose and content as well as to learn to define, to measure and to manage the quality of education and the productivity of education.
- To work systematically on the quality and productivity of knowledge on which the survival of any organisation and the society will depend in the already emerging knowledge society.
- To prioritize matters of any country's competitive position in an increasingly competitive world economy. Domestic policy should enhance the country's competitive position or as minimum – to mitigate the possible impact of the world economy in the country's economy.
- To develop a new economic theory to explain and tackle economic realities.
- To understand better the organisation and to attempt to balance two contradictory requirements in performing their specialised tasks while at the same time be socially responsibility.
- To make governments efficient since the function of government is becoming the key element of political reality. As Drucker points out, effective government has never been needed more than now.

Considering the extremely large political, social and economical transformations, the above mentioned tasks would not provide fixed solutions. Instead, they will support and enable the governments, organisations and the society at large to be ahead of transformations. If the last century was one of these transformations, the twenty-first century is to be one of political and social innovations (Drucker, 1993).

Notes

1. For detailed explanations of "supply side policies" see Langdana (2002).
2. Belarus and Turkmenistan are perhaps exceptions.

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