In the years following World War II, Peter F. Drucker was the most prominent management writer and consultant in the world. One commentator has claimed that Drucker’s writings were “read by more managers than those of any single author, living or dead.” Such popularity allowed Drucker to become the foremost postwar champion and critic of Frederick W. Taylor’s scientific management. Drucker’s critique, unlike those of the union officials of the 1910s, was not based on some specific deficiency or danger. Rather it reflected a sense of the limitations of contemporary business practice in contrast with the potential of an approach based explicitly on internal cooperation and harmony—an approach rooted in European corporatist philosophy and Drucker’s early theoretical training.

Drucker often expressed respect for Taylor, who had created “an all but systematic philosophy of worker and work.” The influence of Taylor’s philosophy, he added, was “the most powerful as well as the most lasting contribution America has made to Western thought since the Federalist Papers.” Later Drucker praised Taylor for anticipating the human relations ideas that developed after World War II.

Because such comments represented only one side of Drucker’s ideas, he had been hard to understand. At least one scholar has taken the praise of scientific management out of context from the rest of Drucker’s writing and has thus overlooked the ways in which Drucker criticized Taylorism and proposed alternatives. Indeed Drucker has seldom been credited for having his own
theory of management. Commentators have typically described him as an inconsistent thinker, an enigma, a "guru." As one business journalist put it, Drucker has been "known for many concepts" despite the absence of "a clear and identifiable message, body of research or theory to his name." Such perceptions may be due in part to the "eclectic" way in which he has illustrated his essays and lectures, using examples drawn from history or music or art as well as contemporary business. Because of his apparently unsystematic style, one historian has concluded that Drucker's "real contribution" to management had been not so much in "the cash value of his ideas as in the rigorous activity of mind" by which they were formulated and that managers could learn more from "watching him think than from studying the content of his thought."  

Nevertheless, searching beneath stylistic impressions reveals that Drucker developed a managerial theory that sought to go beyond Taylorism. With such writers as Douglas McGregor and Chris Argyris, Drucker charged that Taylor's ideas had helped make American management excessively bureaucratic. Taylor's principles had called for managers to centralize power, separate planning from performing, and specialize tasks. This had helped lead to bureaucratic firms with managers divided from managed. Managers were thus isolated from, and ignorant of, many production matters. And managers manipulated people just like any other factor of production, thus oppressing and underusing their personnel. Consequently Taylorism, so the critics charged, created problems that debilitated American business.

Drucker's therapy for Taylor's bureaucratic disease, like that of McGregor and Argyris, was for managers to integrate planning with doing and synthesize tasks. This quest for an alternative to Taylorism and bureaucracy was a quest for new, corporative principles of management. It called for managers to stop treating people, especially professional employees, as factors of production and begin treating them as members of a community. One scholar has wrongly concluded that "nothing" in American thought has been similar to the German idea that the business corporation was a "social institution" and "the central locus of identity, loyalty, and community." Such a conclusion seems to have been made without knowledge of what American managers have learned from Peter Drucker, an Austrian immigrant, and how they have
voiced a desire for "an ethic of mutuality" and a disgust for "bourgeois egotism." The key to Drucker's corporatism is the technique he labelled "management by objectives and self-control," called "MBO" in the business vernacular. The story of Drucker's method and managers' reaction to it has not been told by a historian. But the story tells much about recent efforts to transcend Taylorism and establish corporatism. And the story also illustrates the failure of Drucker's efforts, largely because his corporatist principles differed little from Taylor's bureaucratic ones. Druckerism, rather than being antibureaucratic and a genuine alternative to scientific management, proposed new Taylorist techniques.

European Philosophy, American Practice

Drucker's search for remedy for Taylorism began in the 1940s and early 1950s, when he set out to synthesize European political theory with American business practice. The synthesis became management by objectives, a technique designed to make capitalism corporative and corporatism capitalist.

Capitalism and corporatism had been important parts of Drucker's youth in Vienna, Austria. He absorbed ideas from the conservative, Fascist, and especially Catholic versions of corporatist thinking popular in Austria after World War I. Such thinkers as Heinrich Pesch and Othmar Spann had been disturbed by the selfishness, irresponsibility, and class conflict that accompanied industrial capitalism. They believed that these trends alienated workers, fostered socialism, endangered private property, and threatened freedom. To overcome these problems, they envisioned a harmonious polity composed of functional economic groups, or corporations.

These corporations, as corporatists defined them, took precedence over their members. Corporate goals were not merely the sum of the goals of their members. Yet because corporations were by definition organic groups, members would recognize that their needs and group needs were identical and would spontaneously subordinate themselves to the group. In exchange, individuals received income, status, and fulfillment. Seeking freedom from the group amounted to self-destructive and antisocial behavior, for real freedom was in the corporation, especially in service to it. Because corporatists envisioned natural harmony between
members and groups, moreover, popular sovereignty was at best irrelevant, at worst divisive and counterproductive. Government would come from a natural elite; and since this elite possessed superior wisdom and virtue and performed necessary functions by mediating conflicts and leading members toward common goals, its power was self-justifying.  

Given the lack of harmony in interwar Austria, however, these corporatists had from the beginning faced the problem of creating either corporate eggs or corporate chickens. In other words, they had either to convince individuals to adopt common goals so that together they could construct a corporatist system, or they had to construct a corporatist system that synthesized the goals of conflicting individuals. Above all, they needed a natural elite, but could not find one. The authority of traditional leaders of corporatist schemes, clerics and aristocrats, had been discredited in an increasingly industrial, scientific, and democratic society, and business managers were unsuitable given workers' distrust. Eventually some of the idealogues would help establish a fascist dictatorship that used coercion to establish cooperation, a solution that contradicted their presumption of corporate consensus but sustained the hierarchy, privilege, and private property that they had been anxious to defend.

After fleeing the Nazis and beginning an academic career in America in the 1930s, Drucker wrote at length about the good and bad of European culture. In 1939 he expressed admiration for three corporatist thinkers of the Restoration era, conservatives Joseph de Maistre and Vicomte de Bonald and right Hegelian Friedrich Stahl (about whom he had written his first book). He admired their “Christian” conception of “authority,” which stressed the “duties” of property ownership, not merely its “privileges,” and which called for responsible exercise of power in the interest of “its subjects.” Beyond this, according to his “oldest friend” Berthold Freyberg, he was trying to do for the twentieth century what Stahl had attempted for the nineteenth. He wanted to create a social and political structure adapted to the present but preserving the best of the past, and offering through “responsibility” and “commitment” a “synthesis” of power and freedom. Stahl had failed because he could not find the appropriate institution. But Drucker came to believe that he had found the right vehicle in the properly managed business corporation.
That Drucker should turn to a capitalist institution was another legacy of his central European roots. Bourgeois intellectuals in interwar Austria had been torn between desires for a corporatist and a liberal-capitalist order, reflecting a social conflict between an old professional and a new entrepreneurial middle class. Drucker had been affected by the old and the new. He had been born into a prominent family that respected public servants more than businessmen. But as a young man he had worked in business and his education, while scarcely technical, was more practical and professional than most of his class.15

Drucker had also respected another Viennese, the economist and historian Joseph Schumpeter, and had learned from him the importance of the entrepreneur. For Schumpeter the entrepreneur was the economic leader whose marketing and administrative skills converted "inventions" into "innovations" and thus created jobs and new wealth. But late in life Schumpeter had come to believe that entrepreneurial success was undermining capitalism and entrepreneurialism. Above all, a new elite of business managers increasingly thought like employees, was interested in perpetuating current projects, and felt little incentive to innovate. These managers were motivated by an ethic of consumption rather than production, and were committed to short-term personal gratification rather than long-term service to family and society. Capitalism, Schumpeter lamented, was in the process of transforming itself into socialism.16 This prospect apparently appalled Drucker. By 1940 his search for a new social order became a quest for ways of integrating Schumpeter's innovating entrepreneur with Stahl's conservative, responsible ruler. He wanted business managers who could reconcile capitalist with corporative values.

In The End of Economic Man, published in 1939, Drucker explained what had happened when central European managers had failed to meet social responsibilities. They had, he said, valued people only for their labor and treated them as factors of production. Treated like things, people had felt isolated and governed by irrational, "demonic forces" beyond their control. Society had ceased to be a "community of individuals bound together by a common purpose" and had become a "chaotic hubbub of purposeless isolated monads." Confused and desperate, some were drawn to the nihilism of Marxism, which in turn undercut traditional values and institutions and paved the way for Fascist
dictatorships. Both Fascism and Marxism, as Drucker saw them, were escapist; they could establish order but never fulfill human needs. What people needed was a new “noneconomic society” that could provide freedom, “status,” and “function,” and it was the task of business managers to help create such a society by shaping the proletarian into the industrial citizen and the company into a community. 

In subsequent works, particularly in *The Future of Industrial Man* (1942), *Concept of the Corporation* (1946), and *The New Society* (1949), Drucker emphasized that only satisfying work could fulfill the needs of individuals for autonomy, security, dignity, usefulness, belonging, and peer respect. Work was needed as much to provide “status and function” as income and only the hierarchical corporation could provide satisfying work. People were frustrated when managers valued labor only as a commodity or when workers just sought money from their jobs. In these cases, the firm and the worker valued each other only as a means to an end. But the “apparently irresolvable conflict between the absolute claim of the group” and “the absolute claim of the individual” could be resolved if each accepted responsibility for satisfying the needs of the other. Through responsible acts of “citizenship” by manager and worker alike, the “two autonomous sets of purposes,” the ends of society and of the individual, could be brought into “harmony” and thus “fulfilled in one and the same movement.”

Drucker found such corporative ideas both in German traditions and in American management publications of the 1930s. The German ideology of industrial leadership held that management was a “calling,” which was more than an avenue to status and wealth; it imposed obligations on managers to serve employees and the public good. American management theorists such as Chester Barnard claimed that the manager integrated organization and its members. A manager, Drucker said, took “responsibility for the whole” by getting his subordinates to work toward a common goal. But true to his European heritage, he expressed these responsibilities in a Viennese way and compared the managerial task to that of an orchestral conductor. The conductor selected the piece, the goal. Each musician knew the score and played one instrument. But the conductor harmonized all the parts so that the goal was achieved. “The conductor himself,” Drucker
explained, “does not play an instrument. He need not even know how to play an instrument. His job is to know the capacity of each instrument and to evoke optimal performance from each.” “Instead of ‘doing,’ he leads.”

Drucker liked the orchestral metaphor because it assumed that harmony in the corporation came from consensus rather than from control. Concurrently it assumed that firms could no more do without managers than orchestras without conductors. The “hierarchy of command” in the business enterprise was a natural “hierarchy of skills and functions.” Managers were skilled in selecting goals and in integrating specialized tasks. And without hierarchy, organization was not possible. There was no escape from management; the choice was between management and mismanagement. For Drucker management was “grounded in the very economic and technological nature of modern industrialism.”

As for managerial goals, Drucker acknowledged that economic goals must come before social ones. If the firm went bankrupt, managers would be unable to create a corporate community. Corporate “survival” depended on making a profit that not only covered costs but provided insurance against future risks. To make such a profit, managers must “create” customers by providing them with useful products and services. Profit, in Drucker’s analysis, was the result of, and reward for, economic service, not the cause of it. But profit was “the ultimate test of business performance,” indeed “the only possible test.”

The primacy of economic performance, however, should not obscure that the business corporation was “as much a social organization, a community and society” as it was “an economic organ.” In the “new society,” which was an employee society, the firm had a responsibility to realize social values and fulfill individual needs.

Still, as Drucker developed his theories, a central problem emerged, a problem that originated in his admission that the survival of the firm took precedence over the needs of any employee. This priority could prevent the firm from acting responsibly toward its citizens. It means that the interests of individual and firm might not be in harmony, a condition that contradicted his belief that managerial power was indispensable and self-justifying. Two dimensions of legitimacy were involved,
one dealing with the assumed usefulness of a managerial elite to society as a whole, the other with the congruence between particular elite decisions and the needs of every organizational member. In other words, employees could condone management as an institution but condemn individual managers or specific decisions. Reconciling these two dimensions of legitimacy would continue to cause Drucker difficulty.

For Drucker legitimate power was "authority" based not on "submission to force," but on "the rule of right over might." The ruled, in other words, must voluntarily grant the ruler's right to command and thereby their own obligation to obey, thus empowering the ruler. Real legitimacy, however, would transcend passive submission to managerial authority. It would inspire the ruled to active commitment to organizational goals, and instill the "self-discipline" that would produce peak performance. They would voluntarily subordinate personal needs to corporate needs. Then the firm could become a harmonious community.

Yet Drucker acknowledged that managerial power, because the firm could never "act primarily in the interests of those over whom the enterprise rules," would always have some illegitimacy. The firm served customers, not employees; managers could not solve this problem through paternalistic forms of "enlightened despotism." When corporate interests conflicted with employee interests, managers had to sacrifice those of the employee. Nor could the problem be resolved through schemes of employee ownership and democratic decision making. Even if the enterprise were a "government of the people and by the people," it could never be a "government for the people." Hence, workers could passively submit to corporate authority, withdraw their efficiency, and refuse to "subordinate" their needs to the corporate "welfare."

Legitimacy caused Drucker so much trouble because he was trying to find ways of authorizing despotic bureaucracy in a society that valued liberal democracy. In a liberal government citizens granted legitimacy by freely choosing a constitution, leaders, and political ends and means. Yet legitimizing corporate government in a liberal way would of course undercut Drucker's management theory of value, so he rejected free citizenship and would only allow employees to choose personal goals within the limits of managerial objectives. Such choices were less acts of
consent by citizens than of convenience and necessity by subjects. Constrained in "voice," employees could only "exit" to become entrepreneurs.

As Drucker struggled with the conflict between the need of society for managerial power and the need of the individual for satisfaction, he concluded that conflict could be minimized through methods that would lead employees to adopt "managerial attitudes" and seek fulfillment through commitment to the corporate good. Workers needed to be persuaded that employment as a social contract was both an agreement of "association" and one of "subjection." But they could experience some degree of "self-government" at work. Control over jobs, work methods, and work environments would allow workers to be participants in their "government." Participation would lead them toward the "Christian" conception of freedom, which was ethical, "responsible choice," not "license" or a right to "freedom from something." In addition, he thought that the firm should reward the committed worker.\(^{28}\)

In the 1940s Drucker believed that labor unions could become a "loyal opposition" and help inculcate a "managerial attitude."\(^{29}\) After 1949, however, Drucker largely dropped this idea. With the waning of organizing drives, unions no longer concerned him much. And more importantly, he became attentive to a new type of nonunionized worker.

Initially Drucker labelled these new workers the "new industrial middle class," but eventually he called them "knowledge workers."\(^{30}\) More recently several historical economists have named them "independent" workers. Formally educated, independent workers applied general knowledge and skills to unique situations. These managers, professionals, technicians, and scientists had been in part created by the way Taylorism and bureaucracy had centralized controls and specialized tasks. But Taylorism did not work well to manage them. Their work was difficult to "routinize," and so they had substantial autonomy. Managers expected independent workers to "internalize the formal objectives" of their organization and to accept "a kind of implicit contract," exercising initiative and solving problems while at the same time respecting "corporate authority."\(^{31}\)

Managers depended on the skills and autonomy of knowledge workers but were also threatened by them. Druckerism responded
to that threat in the same way that Taylorism had responded to industrial craftsmen. Indeed, Drucker would argue that “just as the economic conflict between the needs of the manual worker and the role of an expanding economy was the social question of the nineteenth century,” so “the position, function, and fulfillment of the knowledge worker is the social question of the twentieth century.”

Knowledge workers, as he saw it, were the new skilled workers, and their tasks and self-perceptions were different from those of manual workers. They used knowledge rather than “physical force or manual skill” and produced ideas rather than things. Each saw himself as a professional, if not as an intellectual, and collectively they saw themselves “as ‘part of management’ without being ‘managers,’ and as ‘workers’ without . . . considering themselves ‘proletarians.’” They did not command people, but their command of information influenced management.

Because of their independent tasks and bourgeois self-images, these “knowledge professionals” caused peculiar problems for managers. Their work had to be managed because most of them were dedicated to their careers, professional “ethos,” or technical specialty rather than to the enterprise. They possessed the knowledge that the firm needed but not the “responsibility” to see that their projects were often irrelevant to “the goals of the whole,” especially to the survival of the firm. Yet they could not be easily managed through the traditional forms of bureaucracy. They refused to be treated as inferiors or subordinates, and bullying tactics would likely lead them to sabotage or exit.

For independent workers, Drucker doubted that Taylorism was useful because planning could not be separated from doing. The worker was hired to apply professional knowledge, to think, innovate, adapt to change. He was both planner and performer, and managers could not “take the knowledge out of the work” without destroying its usefulness. Furthermore, since the knowledge worker must design his own work, a control system in which managers regulated work through formal, written rules was self-defeating. Unskilled labor and machines could seldom be adequate substitutes for professionals. Nor could the productivity of independent work be measured in quantitative terms. Other ways would have to be found that could make the necessity of autonomy into a virtue and get the new workers to manage themselves.
Thus, as early as the mid 1950s, long before “intrapreneurship” became a fad, Drucker was calling for corporatist government consistent with entrepreneurship.36

To reconcile corporatism and entrepreneurship and achieve legitimacy and rationality, Drucker called for business reorganization. Knowledge work organizations would be less “pyramids” of power like those of the military or the church, but more “concentric, overlapping, coordinated rings” like those of a university or a hospital. In such decentralized structures, the relationship of managers to knowledge workers would be one of mutual dependence. Although managers would still select corporate goals, they would allow professional “juniors and colleagues” to choose work processes and standards. And in conjunction with their integration of corporate effort, managers would teach the knowledge worker to work “under orders” and “subordinate the authority of knowledge to organizational objectives and goals.” A new operational “organization ethics” would emerge, leading to a new corporate “common law” and “constitution.” The knowledge worker could become a corporate “citizen” with corporate “virtue.” He could help the firm, develop himself, and “harmonize” organizational goals and individual needs.”37

Before Drucker, such management writers as Chester Barnard, Henri Fayol, and especially Mary Parker Follett had emphasized that goals should be clear and legitimate. Follett had argued that managers should obey “the law of the situation” to “depersonalize” directives.38 To learn more about management “as an integrating mechanism,” Drucker in the late 1940s sought work inside a major corporation. He approached Westinghouse but was turned away because he talked like “a Bolshevik.”39 He turned to General Motors and in 1942 the company asked him to study its top management structure. Before finishing his study in 1945, he became acquainted with a managerial tool that seemed to provide at least some of what was needed. Alfred P. Sloan had used something very similar to management by objectives at GM since the 1920s. Donaldson Brown had given the method theoretical expression in a 1927 paper entitled “Decentralized Operations and Responsibilities with Coordinated Control.”

Sloan developed his technique to cope with the problem of operating a large, complex agglomeration of business units that sometimes worked at cross purposes. It worked through design-
ing a central marketing strategy, creating several semiautonomous operating divisions, and using a central staff to provide advice, coordinate efforts, and measure performance of the divisions. Managers made policy by negotiating with one another up, down, and across the organizational chart. The system combined, in Sloan's words, "the initiative, responsibility, development of personnel, decisions close to the facts, [and] flexibility" of decentralization with the "efficiencies and economies" of centralization. Drucker found such business "federalism" intriguing, and he discussed it in some detail in his 1946 book on General Motors, *Concept of the Corporation*.

In his autobiography, Drucker recalled that Charles E. Wilson of GM had told him that a generation of "Federalists" had designed the "structure" and "constitutional principles" of big business, and that the subsequent generation of "Jeffersonians" would have to foster "citizenship and community." Drucker would attempt to do so when he helped convert Sloan's technique for managing a multidivision firm into a technique for managing managers and knowledge workers.

**Management by Objectives and Self-Control**

Drucker worked out his ideas with Harold Smiddy, a vice president at General Electric who had been impressed by Drucker's book on GM. Smiddy hired Drucker as a consultant, and with Drucker's prompting began using participative management techniques. Superiors, the two men decided, could best get subordinates to work under "self-control" if goals and methods were jointly defined. Smiddy began clarifying objectives with his employees and in 1952 made the process part of company policy. Drucker labelled it "management by objectives and self-control." Its purposes were to direct managerial vision, to promote monetary rationality, to legitimize managerial power and corporate goals, to fulfill individual needs, to guide knowledge work, and to unify ethics and entrepreneurship. By achieving these aims, he intended it to synthesize capitalism and corporatism.

Drucker first prescribed management by objectives in the sections entitled "Managing a Business" and "Managing Managers" in 1954 in *The Practice of Management*. He altered the prescriptions slightly thereafter. He quickly broadened it, for example,
from a technique for managing managers to one for managing knowledge workers.

The technique had four parts: centralized determination of corporate goals, decentralized definition of operational targets and task organization, measurements of performance against objectives, and a system of rewards and punishments based on results.

First of all, Drucker wanted managers to set corporate strategy. Corporate goals comprised the "compass bearing" of the corporate ship, guiding it to its destination and preventing it from becoming "the plaything of weather, winds and accidents." Management must have a clear understanding of the "mission and purpose" of the firm. And determining this purpose required more than study of what the firm was doing, for studying present efforts might perpetuate obsolete processes and projects. It required careful market analysis of business opportunities because the customer decided "whether the efforts of a business become economic results or whether they become so much waste and scrap." Managers must learn who their customers were, who they could be, what their unsatisfied wants were, what they regarded as value, and what products would satisfy them. After such questions had been answered, entrepreneurial goals could then be set.42

The second step in clarifying goals was to convert these broad aims into specific operational objectives. Managers should proceed, in other words, from learning what their business was and envisioning what it could be to marshalling the means to achieve its goals and devising a plan for utilizing these means. Operational objectives must set forth what was to be achieved in marketing, product innovation, output, resource allocation, personnel performance, corporate social responsibility, and performance measurement. The objectives must then be kept current with changing market conditions. There should be no attempt to "outguess" the business cycle or project the past into the future, for such attempts to escape risk were dangerous in a competitive and innovative economy. Profit making, Drucker emphasized, should not be the only objective. Overemphasis on profits would lead to shortsightedness, postponement of desirable investments, and continuation of obsolescent projects. Commitments to future actions should be used to make decisions about "present means" to
achieve "future results." When everyone in the firm knew these objectives, they could better organize their efforts to produce market results.\textsuperscript{43} Obviously Drucker realized that clear goals could contribute not only to entrepreneurial effectiveness of managers, but to their political effectiveness as well.

He believed that only top managers should select goals. But central control could lead to goals that subordinates did not understand or accept. Balancing despotism and legitimacy was always precarious, and initially Drucker offered only a few isolated examples of how to juggle both. But by the 1960s he would point to the "consensual decision-making" of Japanese corporations as the one best way to set goals, and would even claim that his books and seminars had taught the Japanese this system.\textsuperscript{44} His celebration of Japanese management anticipated the American Japanophilia of the 1980s.\textsuperscript{45}

His view of decision making in Japanese corporations overplayed how initiatives came from the bottom up and downplayed how managers used consultations to legitimate decisions from the top down. He claimed that employees throughout the firm began by defining the problem to be solved. They decided what the question was before answers were solicited. Then discussions explored alternatives and their implications. The result usually was that "every decision comes up from below" and was "an expression of a general will." Finally, top management selected "the appropriate people" to make the decision, and once it had been made, their orders would be "obeyed without argument or reservation." Implementing ideas came swiftly because the decision process was seen as a means to action rather than as an end in itself. And because plans resulted from "consensus" rather than "compromises," the peculiar combination of "autocracy" and "democratic participation" insured that decisions never had to be sold to subordinates; "authority from the top down" was always matched by "responsibility from the bottom up." The system, Drucker said, could never be completely imitated by the West since it was rooted in Japanese culture. But the underlying principles, he thought, might "point the way to solutions for some of our most pressing problems."\textsuperscript{46}

After top management had established corporate strategy and made general operational objectives clear, subordinate managers and knowledge workers were to negotiate with their superiors and
draw up very specific work assignments, performance goals, expected contributions, production targets, timetables, and resource allocations. In negotiating with his superior, each subordinate was to set personal objectives that would substitute for narrow, systematic work rules and job descriptions imposed from above. The negotiation was to go beyond a human relations counselling interview that merely intended to give the worker a “sense of participation.” Real participation, defining jobs and goals “actively and responsibly,” would cause each to “commit himself” with “a positive act of assent” to “the ultimate business goals” and assume “genuine responsibility.” His manager could then hold him to “exacting demands.” This would be “upward responsibility,” which would be formalized in what Smiddy had called the “manager’s letter.”

In this [biannual] letter to his superior, each manager [or knowledge worker] first defines the objectives of his superior’s job and of his own job as he sees them. He then sets down the performance standards which he believes are being applied to him. Next, he lists the things he must do to attain these goals—and the things within his own unit he considers the major obstacles. He lists the things his superior and the company do that help him and . . . that hamper him. Finally, he outlines what he proposes to do during the next year to reach his goals. If the superior accepts this statement, the “manager’s letter” becomes the charter under which the manager [or knowledge worker] operates.

Such goal setting was in many ways reminiscent of the nineteenth century “inside contracting” system for managing skilled workers in manufacturing firms. Under this system skilled craftsmen had acted as subcontractors who bid on specific projects and organized the work themselves. Managers had found the workers hard to control and had converted the subentrepreneurs into employees. But management by objectives could combine the advantages of subcontracting with those of bureaucracy. The negotiation process would atomize workers and get each to contract to individual goals, possibly encouraging Schmidt-like effort and Stakhanovite competition. Moreover, because the negotiations assumed that managerial power was legitimate, conflict
would be transformed from quarrels over control to disagreements over goals. And since managers could better control their new skilled workers without directly controlling their work, they could benefit from contract and control, entrepreneurship and employeeship.

The transparency of negotiations and written contracts would help managers bridge the "communications gap." "Downward" communication, Drucker said, did not work because superiors did not understand the problems and goals of subordinates, and effective communication depended on some "prior agreement on meaning." Only after subordinates had communicated "upward" their "values, beliefs, and aspirations," could superiors reconcile corporate and individual goals. The manager and subordinate would understand one another and could better cooperate. A "common language" would help each person "see" what the other "sees." Superior and subordinate could concentrate on their shared "objectives of performance" and unify their efforts in genuine team work.50

The third part of management by objectives was some system for measuring performance of employees relative to self-determined objectives. Drucker emphasized that measurements of "results against goals" must be beneficial to both the individual and the corporation. "Feedback" would give the individual worker information that could be used to exercise "self-control" over the work. And while measurements should not become merely tools of "control from above," they should encourage rationality. With proper feedback, each employee could make independent decisions that would produce market results.51

Finally, management by objectives would set up rewards and punishments based on clear standards of performance. Appraising performance, Drucker concluded, was one of the most important tasks of the manager, and doing it fairly required "integrity," "the one absolute requirement of a manager." The system should develop "managerial vision," foster "internal, self-motivation," and encourage employees to "drive themselves." Employees should not be judged on potential or personality. Superiors should hold them "strictly accountable" for results and periodically review their contributions. And all rewards and punishments, including salaries, perks, promotions, demotions, and terminations, were to be based on performance relative to the objectives of the
company. Performance was not to be judged purely on the "bottom line," however, as that measured only business results, not individual ones.\textsuperscript{52}

According to Drucker, the combination of business goals, personal objectives, feedback on performance, and appropriate rewards would "harmonize the goals of the individual with the commonweal." It would substitute "management by self-control for management by domination," making management by objectives as much a "constitutional principle" as a managerial technique. Each worker would become a "manager" and assume responsibility not only for his job and work group, but for the economic and social welfare of the organization. "Control from the inside" would be stricter, more exacting, and more effective than "control from the outside." As a "manager," each worker would take action not because he was ordered to, but because "the objective needs of his task" demanded it. Hence, "by converting objective needs into personal goals," management by objectives could guarantee performance and "genuine freedom, freedom under the law."\textsuperscript{53}

Since corporate law was determined by managers, freedom for Drucker was, as one commentator has suggested, a Hegelian "rationale for subordination."\textsuperscript{54} Given his presumption that the managerial will should override individual wills, his ideal of corporatist virtue amounted to Max Weber's concept of bureaucratic rationality and Taylor's notion of a "mental revolution." All three assumed that functionaries would suppress goals in conflict with the corporation, accept managerial ends as givens, and methodically select means to attain them. Still Drucker realized, as Weber had, that rationality and harmony depended on the legitimacy of managers and their goals.

In later years Drucker expanded his ideas by insisting that managers select socially responsible goals. He rejected the notion that a "hidden-hand" in the marketplace naturally converted "private vices" into "public virtues." He had never believed that competition automatically solved social problems or absolved managers of moral obligations.\textsuperscript{55} Nor had he accepted Milton Friedman's argument that businessmen should stick to "business" and should refrain from appointing themselves guardians of the common good. They were running social organizations that could help society and realize "social values." Like anyone else, they also had "a self-interest in a healthy society," and so they
should follow normal ethical imperatives. Moreover, for Drucker, managers were the only true "leadership group" in modern society. If they did not "take responsibility for the common good," then no one else could or would.

Managers, then, had to find ways of achieving economic goals and meeting social responsibilities. But they should transcend Andrew Carnegie's notions of business philanthropy. The idea of doing well in business in order to do good outside business, Drucker said, could justify using immoral methods to accumulate wealth. Managers should strive to do the opposite—do good in order to do well. They should choose profitable strategies that also solved social problems. He admired Japanese managers who "put national interest first" and pursued their private interests in ways that promoted the public interest.

For American examples, Drucker cited Henry Ford, who raised wages to sell more cars, and Julius Rosenwald of Sears, Roebuck, who promoted county agents and 4-H programs. Similarly, he argued that business managers should forego strategies that might help their firms but hurt the commonweal. They should adopt the fundamental principle of the Hippocratic oath, "Above all, not knowingly to do harm," and find out whether a prospective strategy would be dangerous. Chemical companies should have tested the health and environmental impacts of DDT and then kept the product off the market.

Later Drucker endorsed what he called the "Confucian approach" to ethics. In an interdependent "society of organizations," he said, everyone, from the highest manager to the lowest worker, should accept that they had responsibilities to everyone else. They should establish networks of "mutual obligation," help others achieve their goals, and nurture "harmony and trust." This "ethics of interdependence," he acknowledged, had no conception of "rights" with which members could claim "entitlements" and exemption from mutual obligations. For instance, he thought "whistle-blowers," rather than being heroic champions of the public good, were virtueless "informers" who violated their responsibilities. All organizational members should be good citizens, obey "Confucian" imperatives, and accept "the fundamental relationships" of society.

By acts of "statesmanship," by selecting goals that tried to solve social problems and avoid creating new ones, responsible business
managers could help to harmonize private and public interests in ways that the market alone could not. Of course all this assumed that corporate leaders could, in Drucker’s words, attain the “private virtue” that alone could define genuine social problems, achieve consensus, and mediate private and public interests.62

For and against MBO

In the quarter century after 1954, Drucker’s management by objectives stimulated great interest among managers and academics much as Taylor’s scientific management had before. Interest was measured in a fifty-five page survey of American, British, and Canadian publications on MBO, which listed over 700 books, articles, monographs, dissertations, and theses.63 Also like Taylor, Drucker had to defend his ideas from managerial critics. Empirical studies of MBO in practice and political discussions of Drucker’s principles showed the essentially bureaucratic form of his corporatism.

Several reasons account for the popularity of MBO. The formation of more multidivision and conglomerate firms isolated top managers, produced more middle managers, and made governing difficult.64 Structural changes affected the labor market; independent workers increased from 27.8 percent of the work force in 1950 to 32.8 percent in 1970, and that percentage grew even larger during the 1970s.65 Managers complained that knowledge workers and middle managers were hard to evaluate and discipline; professional people were creative resources and resented being treated as factors of production.66 And given a demand for alternatives to Taylorism, academics and consultants in addition to Drucker were supplying corporative solutions.67 Douglas McGregor, for instance, advised managers to abandon the oppressive tactics of a Taylorist “Theory X” and adopt a “Theory Y” that organized work to satisfy workers’ needs and meet organizational goals. McGregor recommended management by objectives because it evaluated workers based on performance and encouraged them to assume responsibility for improving their work. He had learned about the technique from managers at General Mills, who had been among the first to adopt Drucker’s management by objectives when their company had reorganized into divisions.68
Even though the system was popular, empirical studies of its practice did not emerge until the late 1960s. It was adopted more because of logical appeal than because of proven usefulness. In 1974 two business educators surveyed the Fortune 500 largest industrial firms to determine how many used the system. They found that nearly one-half claimed to use the technique but considerably fewer used it throughout the company and fewer still regarded it as a success. Additional study found that many companies that thought they were using Drucker's brand of management by objectives really were not. Many were simply setting corporate objectives and implementing them using traditional centralized authority. Subordinates were not being granted autonomy, either on the job or in setting performance goals. Goals and work rules were imposed from above. In some cases a laissez-faire method was used; managers told subordinates that results mattered but did not engage in any systematic negotiations. All things considered, the authors concluded that only about ten percent of the Fortune 500 used a management by objectives system like Drucker's, a proportion that compared favorably with the early application of Taylorism. And while these companies generally regarded it as having been successful, it was not clear in what sense it had been successful, whether in terms of consensus, productivity, or control.

Although bureaucratic criticisms of Drucker have been few (which shows how bureaucratic his ideas have been), managers and business academics have often denied that participatory management was rational. Interpreting participatory management as a dangerous form of anarchism, they believed corporative techniques such as MBO coddled workers rather than controlled them. As the sociologist Richard Edwards has argued, managers saw advantages in written directives, narrow job descriptions, and close supervision even if it came at the cost of lower performance and less commitment. They preferred predictable performance to peak performance because it was more easily controlled and less risky; or they believed conformity to company rules was more realistic than commitment to the corporate community.

Drucker recognized the continued popularity of bureaucratic thinking and scientific management and in 1976 he sought to deflect criticism by praising Frederick W. Taylor for first express-
ing corporative management principles. Revising his previous interpretation of scientific management in his typical cranky and polemical style, Drucker said that Taylor had wanted to reorganize unhealthy and burdensome tasks, to replace the "boss" with "servants" of labor, and to develop workers' potentiality and personality. Taylor had believed "above all" that managers should select, train, and develop the individual for the job he was "best fitted for" and help him become a "first rate man" by scientifically designing his task and providing him with the necessary information and tools.\textsuperscript{73} By emphasizing Taylor's corporatist rhetoric and by ignoring how his technical principles had called for simplified jobs and separate planners and performers, Drucker tried to camouflage the iron cage with a corporatist curtain. In the process, he acknowledged that his corporatism was only superficially different from scientific management.

Numerous observers concurred, concluding that MBO did not go beyond Taylorism. These observations were verified by the most thorough case study, which was carried out by Stephen J. Carroll and Henry L. Tosi at Black and Decker in the late 1960s and early 1970s. Their opinion surveys showed that management by objectives did not work quite the way Drucker had expected. Managers at all levels believed that the system improved communication and planning. But they complained about MBO's red tape, the excessive attention given to quantifiable goals, the slighting of self-improvement goals, and the anxiety that resulted when they were held responsible for failures that were beyond their control. Upper-level managers felt their authority was threatened by the negotiations and lower-level managers complained that they had little discretion.\textsuperscript{74}

Carroll and Tosi doubted that corporatism was either more harmonious or more productive than bureaucracy. After the introduction of management by objectives, managerial employees "were no more satisfied with pay or their jobs than before," and they did not experience "any more control over their work, any changes in their jobs, or any more job interest . . . than before." Management by objectives best created harmony and improved performance, Carroll and Tosi concluded, when superiors relinquished power to subordinates. But redistributing power itself required a change in "both the philosophy and practice of management." And managers had little incentive to make such changes
given that clear goals and feedback improved performance much more than participation in setting goals.\textsuperscript{75}

In the late 1960s several psychologists accused Drucker of trying to achieve corporatist harmony through cooptation and control rather than cooperation and consensus. They charged that Drucker’s MBO was too bureaucratic to achieve corporatist virtue. Most prominently, Harry Levinson contended that Drucker’s system could not satisfy employee needs. The system, Levinson said, put corporate goals first and gave the individual no power to pursue ends that conflicted with job assignments. It insured that the individual would feel like “an object,” an “instrument for reaching a goal.” To make matters worse, the employee was forced to set personal goals within the confines of corporate strategy so that if he failed to reach them, he would be “hoisted on his own petard.” Workers under these conditions felt “like rats in a maze” who only got to choose their own “bait.” The underlying reward-punishment psychology only made things worse. Carrots and sticks caused employees to act less out of virtue and more out of selfishness; they were being bribed and bullied, not self-motivated. By treating people as “patsies to be driven, urged, and manipulated,” management by objectives often intensified “the hostility, resentment and distrust” between manager and managed that it was supposed to eliminate and encouraged the withdrawal of efficiency that it was designed to overcome. Because of its contradictions, it was “self-defeating,” “really just industrial engineering with a new name, applied to higher managerial levels.” It could achieve self-motivation, Levinson concluded, only if it began with the needs of the individual, then proceeded to corporate goals and work assignments.\textsuperscript{76}

Another psychologist, Abraham Maslow, revealed the utopian qualities of Drucker’s corporatism by exposing its assumptions. The system, Maslow argued, assumed a sound market standing so that “eupsychian growth and self-actualization” would be compatible with corporate performance. (In this regard Maslow proved prophetic, the firm in which he had observed MBO in operation dropped the system when it went through hard times in the early 1970s.)\textsuperscript{77} It also assumed that people wanted challenging, responsible jobs; that all work would be “self-actualizing,” that subordinates could respect, even love, their superiors; that bosses would surrender power; that managerial “wolves” would not prey on
corporate "lambs." And more generally it assumed that employees and managers were healthy and homogeneous, not "psychopaths, schizophrenics, paranoids, brain injured, feeble-minded, perverts," or "addicts," among other things.\textsuperscript{78}

Finally Maslow contended that management by objectives assumed that corporations could become "synergic" institutions in which persons pursuing selfish ends "automatically" helped others and persons acting altruistically "automatically" helped themselves. In synergy, all choices were good, all acts rebounded to personal and public advantage, and "virtue" paid. Not surprisingly, the only examples he could find of this were from a nonindustrial culture, the Blackfeet Indians.\textsuperscript{79} Although Maslow believed these prerequisites for management by objectives could be met, others might be doubtful.

Drucker conceded that Maslow's observations were cutting and made a "real impression."\textsuperscript{80} He also admitted that his system had become a "fad" in the 1960s and had been "oversold and over-promoted." But he thought that when applied properly, it had worked. In 1974 in \textit{Management}, his 839-page magnum opus, he restated his old arguments. His version of management by objectives, he acknowledged in addressing Maslow, was "a stern taskmaster" and was not "permissive." The "responsibility and self-discipline" that it demanded required "strong and healthy" people. But he denied that there were realistic alternatives. Taylorism, with its carrot-and-stick approach, no longer worked in "developed countries." Knowledge workers must be "self-directed"; they needed negotiation and some autonomy.

Nor did Drucker think that basing management by objectives on individual rather than corporate goals could ever be as rational as Levinson claimed. Corporate survival had to take precedence over individual goals. To think otherwise, to want "organization without alienation," was the illusion of "romantics," for in a real sense, "organization is alienation." Finally, Drucker argued, the survival of the firm required "clear, unambiguous, designated command authority vested in one person." Production collapsed when managers were removed, as "proven" when industries were nationalized.\textsuperscript{81} Management, he later emphasized, "will not 'wither away.'"\textsuperscript{82} Such a defense of management helped make Drucker a best-selling author. In 1974 the sales of \textit{Management} temporarily surpassed those of another technical book, \textit{The Joy of Sex}.\textsuperscript{83}
Nevertheless, in recent years Drucker has downplayed the formal technique of "MBO" as a means of making business bureaucracy more corporative. This was less a change in philosophy than in public relations. While distancing himself from MBO, he continued to argue for task synthesis and integrated planning and doing. He has also asserted that in the last forty years managers have listened to him and learned to treat "professionals" as "colleagues."

In the 1980s, he tried to teach bureaucrats how entrepreneurship could make them into more rational capitalists. One commentator claimed that Drucker's lesson on the creation of customers has been central to marketing theory from the 1950s on. But by the 1980s, after a decade of penetration of American markets by foreign firms, many were denying that American managers had attained Drucker's ideal of the entrepreneur who combined private profits and social service. Rather, managers had become ivory-tower number-crunchers and bureaucratic parasites who preyed on producers and the public and feasted on short-term profits.

Drucker, of course, had always held that profit was the ultimate test of business performance, a lesson that was still followed. But if the critics were right, managers had ignored his simultaneous insistence that corporate survival, indeed the survival of capitalism itself, required long-term planning and intelligent risk taking, constant technical innovation with accompanying elimination of obsolete products and processes, effective protection of market standing, and strategies that served workers and the public.

Drucker himself denied that any national decline in entrepreneurship had occurred during the 1970s. Indeed he contended that entrepreneurial pressures and computer technology were hastening the evolution of a "new" form of business organization that was reuniting planning and doing. The new environment was creating "information-based organizations" with self-directing employees such as hospitals, universities, and symphony orchestras. Each would employ, Drucker predicted, more knowledge workers and two-thirds fewer middle managers than Taylorist "command-and-control organizations."

Such messages helped Drucker's reputation grow ever larger in the 1980s. Admirers hailed him as the "father of the new manage-
The Corporatist Critique of Scientific Management

ment,” who first combined entrepreneurial and corporative management principles. Tom Peters, the decade’s leading entrepreneurial prophet, expressed his “amazement” and “perhaps dismay” that Drucker had written “everything” on managing for innovation in 1954 in *The Practice of Management*. Born-again Druckerites, however, ignored history and the way that Drucker’s corporatism duplicated Taylor’s bureaucratism. Particularly Druckerism replicated the centralized power of Taylorism. Even as Drucker described the “low hierarchy” of the “new” organization, he emphasized that “central management” was needed; even orchestras needed conductors and hospitals administrators. Top managers still had to impose control through something like management by objectives.

Drucker’s insistence on the importance of top management revealed that he never called for a full fusion of planning and doing. His persistent advocacy of decentralized operations and centralized coordination still depended on professional managers. And if such managers were isolated from production, the objectives they helped to set could be as confined to quantitative standards and short-term profits as they had been in the old bureaucracies. These same managers could remain primarily concerned with controlling subordinates and minimizing risk, not with allowing freedom to innovate. Transcending bureaucracy would seem problematic since Drucker has admitted that at best only three to five percent of American firms have been well managed.

To conclude, management by objectives did not go beyond the principles of scientific management. Managers who applied it were typically unwilling to reverse Taylorism, surrender power, and synthesize planning and performing. To do so would have deprived them of their reason to exist. Nor did Drucker’s criticism of Taylorism ever call for managers to abdicate from power. Such a revolutionary call would have cut him off from his managerial audience. Indeed, he was never revolutionary; he simply called for managers to be responsible and rational, especially in governing professional workers. Drucker’s theory always made managerial will superior to all other wills, and this made him very popular among managers.

Accepting the prevailing Taylorist conception of the manager also helps explain why Drucker’s avowedly corporatist prescriptions actually led to bureaucratic management practice. The
sociologist Rosabeth Moss Kanter, echoing Maslow, has called Drucker a "management utopian" who had an excessive faith in managers' ability to apply his ideas. His vision of "the world-as-it-ought-to-be" obscured sight of "the world-as-it-is." Faith prevented his understanding the "human limitations," managers' lust for power and money, and the "organizational limitations," those bureaucratic imperatives for centralization and specialization, that so often prevented significant restructuring.

Accordingly, Drucker's management by objectives mainly perpetuated a Taylorist separation of planning and performing. His advice that managers establish harmony in a hierarchy was little different from Taylor's advice that they get control over a hierarchy. Corporatist advice was only one part of a shift from the "authoritarian" management of the first half of the twentieth century to the "hegemonic" kind of the last half. But Taylor and Drucker had essentially the same theory of good business government. Both believed that the best government was that ruled by scientific managers. Drucker and other corporatists transcended Taylor's techniques but not his management principles. Thus Taylorism, reborn and transformed, was alive and well after the Second World War.

NOTES
4. Hindy Lauer Schacter, Frederick Taylor and the Public Administration Community: A Reevaluation (Albany, NY, 1989), pp. 17, 121. Schachter cited only Drucker's "Coming Rediscovery" article. For my interpretation of this article, see discussion in "For and Against MBO" herein.

10. Two studies have mentioned Drucker's corporatism, one by a political scientist, M. Morton Auerbach, *The Conservative Illusion* (New York, 1959), pp. 211-12, and another by a journalist, John J. Tarrant, *Drucker: The Man Who Invented the Corporate Society* (Boston, 1976), pp. 53-59. Neither traced corporatism to Europe or showed how management by objectives was a technique designed to synthesize corporatism and capitalism.


36. See J. S. DeMott, “Here Come the Intrapreneurs,” *Time* 125 (February 4, 1985), pp. 36-37. Drucker also doubted that the theories and techniques of
Elton Mayo and the "human relations school" helped in managing knowledge workers; see Drucker, *Practice*, pp. 274-80.


53. Drucker, Management, pp. 284, 441–42; Drucker, People and Performance, p. 78; Drucker, Practice, pp. 131, 135–56.


67. See Waring, Taylorism Transformed, chaps. 6–9.


69. McConkey, “MBO,” p. 27.


90. O’Toole, “Father of the New Management,” pp. 4-32, especially pp. 4-5.


95. For comments on the gap between Drucker’s theory and management practice, see O’Toole, “Father of New Management,” pp. 4-32.
