

Transformation of Social Structure and Peter Drucker's Unflagging Insight into the Times

By Kojima Akira

Legendary management theorist Dr. Peter Drucker, 91, is still an active scholar, business consultant and author. He has so far written some 30 books beginning with *The End of Economic Man: The Origins of Totalitarianism*, which he authored in 1939 at the age of 29. Most of them are regarded as masterpieces and still widely read throughout the world. Some are already listed among the classics.

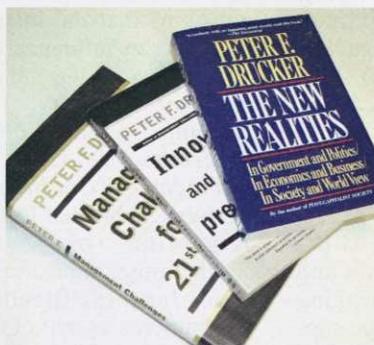
Drucker has continued to greatly influence business people and savants in Japan. Rereading his works now, we find them to be as fresh as if they had just been written. Among his major works are *The Practice of Management* (1954), *The Age of Discontinuity: Guidelines to Our Changing Society* (1969), *Management: Tasks, Responsibilities, Practices* (1974), *The Unseen Revolution (The Pension Fund Revolution)* (1976), and *Innovation and Entrepreneurship: Practice and Principles* (1985).

Drucker is not merely a business economist. He shaped the concept of "management" in a relevant form, but did not simply dispense practical expertise on the management of individual companies. On the contrary, Drucker is a historian and sociologist who firmly grasped the social and economic trends of the times. He called himself a social ecologist and social observer.

With his life spanning most of the 20th century, he is a witness of the times. His observations over more than half a century, appearing in most of his books, provide extremely valuable food for thought when we talk of the 21st century society.

I met him for the first time in 1979, three years after he wrote *The Unseen Revolution*, which deals outright with

Photo: NECO / SIPA PRESS / ORION PRESS



Management theorist Peter Drucker's works are still widely read throughout the world

population aging, an issue Japan and other industrialized countries are encountering.

That year, the *Nihon Keizai Shimbun* took up population aging as an editorial theme of the year. Members of the editorial team organized for that purpose were impressed by Drucker's deep insights on the subject and decided to send a reporter to interview him. As a New York correspondent for the paper then, I was chosen to do the interview.

I never forget the first time I met him. Drucker warmly welcomed me to his home in a quiet residential area in Claremont, California. His talk covered not only population aging but also topics in Japanese history such as the Meiji Restoration, Japanese art and social changes in Western countries. His knowledge was limitless.

Taking advantage of this encounter, I plunged myself into his writing and ended up forcing myself on him, unilaterally declaring myself his pupil. Since then, I have never failed to meet him and be impressed by his insights whenever he visited Japan. As a result, I must be excused for making this essay a panegyric on Drucker.

In late October 1999, some 100 people composed mostly of his pupils and friends got together in Tokyo to cele-

brate his 90th birthday (November 19). Drucker was unable to attend but sent a specially videotaped message of about 30 minutes that was very impressive.

In the introduction, he said, "We are in the midst of what is clearly a profound structural transition and, in such cases, one only understands what has happened after it has happened. We are in the midst of transition. It is quite clear that what is going on is unprecedented.

It is equally clear that there are already five important developments that will have a profound impact, and in fact will dominate, maybe the next 20 years and in no country more than Japan. In fact, the first thing to say probably is that the role of Japan in the world is changing drastically. In the past, Japan, by and large, has been able to grow by doing a little better what the Western countries did quite well already. It had the great benefit of 10 or 15 years of watching the West making mistakes and then doing a better job. Those days are over. The basic changes of the next 20 years will have to be answered in Japan first. You will be the pathfinder. We will have to learn from you."

Then he elaborated on the following five developments:

"The first development: the emergence of social issues as central issues. In the last 40 years the economy dominated; in the next 25 years society and social issues will dominate, and in no place more in Japan. All of you know that the reason for this is population; it's demographics. It is not only that within a few years Japan will be the oldest society among developed countries, you will also be the society in which the birthrate is going down the

fastest and which the number of young people joining the work force is going down the fastest.”

Japan is entering an era that will see its young working population plummet. Yet, under the current employment system, the mandatory retirement age is 60, the lowest in the industrialized world. In this connection, Drucker noted that Japan will be forced to overhaul its employment system, including raising the mandatory retirement age.

“The second factor to recognize is that there will be a profound divergence between the English-speaking developed countries (the U.S., the U.K., Australia and Canada) and Japan and Europe. For in the English-speaking countries we will still have a large supply of young people for the next 25 years, whereas in both Japan and continental Europe the supply of young people is already going down. We have this not because we have a higher birthrate for the native-born population; we don't. But in the U.S., in the U.K., and in Australia we already have accepted very large immigration of young people. These newcomers also still have a few years of the high birthrates in the countries they come from. Japan has totally unprecedented pressure for immigrants. These pressures you will not see in the U.S., in the U.K. and in Australia. The English-speaking countries will enjoy a distinct advantage – not economic necessarily, but the social problems will be much less severe for the next 30 years.”

“The third development is the basic restructuring of international and domestic business. The merger boom is paralleled and probably exceeded by what I call the demerger boom: a boom in divestitures and in going out of business. Businesses are spinning off companies, a basic fundamental change in structure. The real boom is in alliances, partnerships, joint ventures, know-how agreements, and all kinds of very unconventional and very untraditional relationships, in which there is no ownership basis and no control basis. ... At the same time the executive will have to be a team member, and not just a team leader, and very often a

junior team member.”

Until recently, Drucker avoided discussing the impact of the IT revolution, such as the Internet and e-commerce on the economy and society. But in a long article carried in the October 1999 issue of *The Atlantic*, he concluded in clear-cut terms that the Internet would have as grave an influence on the economy and society as the industrial revolution of the 19th century. In the article, he recounted a telling episode about the Internet: the first order for his *Management Challenges for the 21st Century*, published in 1999, came from Argentina over the Internet. Furthermore, in his videotaped message to his Japanese friends, he positioned e-commerce as one of the five developments.

“The fourth major development is the emergence of e-commerce perhaps not as the major, but a major distribution channel. For many important commodities this is the major distribution channel. Most of this, again, was totally unexpected. Nobody predicted this 10 years ago. ... Nobody expected that e-commerce would also become the main distribution channel for new automobiles, and yet probably more than half, maybe 60%, of all new automobiles bought in the U.S. in a record year for automobiles were actually bought over the Internet from e-commerce distributors. ... Manufacturers are ceasing to be manufacturers, as they are increasingly becoming suppliers. The full impact of e-commerce is yet to come, but it is clear that e-commerce is the really full impact of the information revolution, very much the way that the railroad was 170 years ago, when it was the greatest single impact of the Industrial Revolution.”

Drucker cited comparative declines in the prices of manufactured goods as the last of the five developments. During the 1990s, the market economy prevailed throughout the world in a domino effect. Consequently, the number of countries producing multi-use products and standardized mass-produced industrial goods drastically increased throughout the world. Global supply and production capacity of these

products expanded explosively. The supply-demand picture for commodities in the global economy underwent sweeping changes. For companies' management, this meant the advent of an era of severe price competition known as mega-competition, which is cited by Drucker as the fifth development, that is, the reversal of relative prices of industrial products and natural resources.

“The last development may be the most important one. It is at the same time the least concrete and the one for which evidence is still very hard to find, although every day there is more and more of it. The relative purchasing power of manufactured goods is going down steadily. During the entire 20th century the relative purchasing power of the products of what the economists call Land – agriculture products, forest products, metals, and minerals – has declined. That is now coming to an end. The relative purchasing power, *the terms of trade of the products of the land*, has steadily been going down, by 1% a year compound. For any manufacturing company, this poses fundamental problems on how to reposition itself in the national economy and the world economy when the center of gravity increasingly moves: first towards distribution and secondly from the production of goods – the products of capital and labor – to the products of knowledge. This is, above all, to the product of management.”

Resource-poor Japan has achieved economic development by importing materials and resources from abroad, processing them into industrial goods and exporting them. In this process, relative rises in the prices of industrial products created a favorable environment for Japan. But this favorable condition has begun to change. This is what Drucker cited as the fifth development.

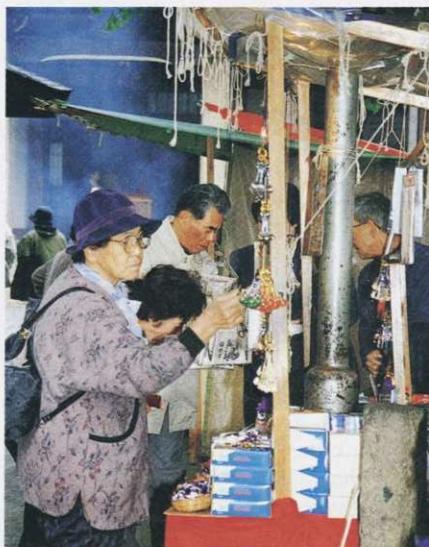
He anticipated that the five new factors would seriously affect Japan in particular. Japan would be exposed to the developments earlier than any other countries or in the severest form. There will be no way out of Japan's predicament. Even so, Drucker pointed out

that Japan should not be pessimistic. If the country adequately responds to the challenge, it will be able to offer a new model, new system, new technology, new products and new services for other industrialized countries which would run into similar problems later, he emphasized.

The New Realities in Government and Politics / in Economics and Business / in Society and World View (1989), which Drucker wrote at the age of 80, predicted the 1991 demise of the Soviet Union at a time when nobody considered such a development. When he came to Tokyo right after the book was published, I asked him a rather rude question: "At such an advanced age that normally the vitality, judgment and the analytical power of even a man doing an intellectual job are taxed, what enables you to write such a stimulating and insightful book?" Drucker seemed embarrassed but made an impressive confession.

Born in Vienna, Drucker dreamed of becoming a musician, especially a composer, when he was young. Even now, he says he would like to be a musician in his next life. As an 18-year-old working in Frankfurt, he saw Giuseppe Verdi's *Falstaff* at an opera theater one evening after work. *Falstaff*, which was Verdi's last opera composed at the age of 80, impressed Drucker so much as to influence his life.

The average life expectancy in Europe at that time was only 50 years. There was hardly anybody aged 80 around Drucker. Verdi, who had already established a world-class reputation as a great composer rivaling Richard Wagner, could have afforded to live a quiet retired life given his fame and age. But he dared to take up a new challenge and produced a monumental work in praise of human life. When asked how a man as old as 80 could have such a passion for challenge, Verdi replied, "Man is not perfect but can continue efforts to be perfect. Since I have committed many mistakes, I am continuing efforts to be perfect." Drucker was so inspired by Verdi's remark that it became his life-long motto. When I



Japan is facing the coming of the aged society which will inevitably lead to changes in the current employment system

asked him which was his best work, he said, "The next one," – the same reply as Verdi's.

Drucker's first work, *The End of Economic Man*, explored the mechanism of Nazi Germany, under which totalitarianism was spreading throughout Europe after the Nazis took power, and hinted at the self-destruction of Nazism. He interviewed Adolf Hitler a number of times. He had difficulties getting the book published, since it was detrimental to Nazi Germany. The first review of the book was done by none other than Winston Churchill, who praised it and recommended it as required reading for students of the military academy. The book is still used as a side reader in British universities and is widely read by students.

The End of Economic Man is a book of history, sociology and social ecology. Having emigrated to the United States, Drucker was exposed to the dynamism of emerging American capitalism. Not surprisingly, he took an interest in General Motors, then the symbol of American capitalism. The auto giant General Motors, a pillar of American society, must have been an ideal subject of study for Drucker considering his sociological and social ecological viewpoints. I assume he built his concept of "management" as his interests expanded from government and social structures to the

microeconomics of companies.

He has always turned an affectionate eye toward people and society. Several years ago, I was scolded by him when I asked for his comment on a certain issue as an "economist." He took objection to my reference to him as an "economist," emphasizing that he was not an "economist" but an "observer." In his view, an economist merely looks at numbers, while an observer like him looks at the people behind the numbers and the society behind the people.

Drucker firmly grasps the movements of population all the time. In *The New Realities* he analyzed the changing population structure of the Soviet Union. He pointed out that while the white Russian population was becoming a one-child society, the population of non-white Russians was fast expanding, which in turn was drastically upsetting the population balance of society and rapidly disturbing the power and economic balance between the races.

A collection of his theses chosen by topic from among his books was published in three volumes last year as a guide for understanding his philosophy. It was translated into ten languages. A Drucker revival is upon us in Japan. As the country has been mired in stagnation economically and socially for as long as ten years and remains disoriented at the dawn of a new era, people are trying to get a new guiding principle from Drucker's books. Every time we read his works we make new discoveries. In these days of great transformation, his books give us a new insight and sharpen our eyes for making economic and social observations. As a would-be pupil of Drucker, I am moved by the depth of his thought. **JTI**

Kojima Akira is a Managing Director and Chief Editor of Nihon Keizai Shimbun (NIKKEI). He is a Chairship Professor at the Graduate School of Business & Commerce, Keio University, and is also a member of the Trilateral Commission, and the Council for Gender Equality Cabinet Office.