

# WHAT DRUCKER TAUGHT US ABOUT SOCIAL RESPONSIBILITY

*William A. Cohen*

Peter Drucker, “The Father of Modern Management,” was a genius whose interests and contributions extended into many areas of economics and social endeavor as well as both business and nonprofit management. His many contributions and amazingly effective advice and accurate predictions became legendary. Forty years ago Drucker predicted nearly every major change in management that has occurred since. He saw the need for a new name for workers and so he coined one himself that is in common use today: “knowledge worker.” He predicted that this new class of worker would dominate the workplace of the future. He invented management by objectives (MBO) and showed executives how to approach problems with their ignorance and questions rather than relying on their knowledge and experience. He predicted the tremendous rise in the health care market, and he taught us that while we may not be able to predict the future, we can create it.

## Society and Its Institutions

All of Drucker’s predictions, theories, and exhortations to managers had one important fact at their root. Drucker really cared about people and the society in which they work and live. He spent considerable effort exploring, analyzing, writing, and teaching not only how to make workers more effective in the workplace but also how businesses and other organizations can improve the lot of workers as individuals and of society as a whole. Moreover, Drucker recognized that accomplishing this depended on competent, maybe even extraordinary, leadership by managers.

Peter Drucker recognized and preached that people are not a cost; they are a resource. He was one of the first to do so as an aspect of management. He concluded that considerations for workers in and out of the workplace were the responsibility of the corporate leader just as much as the profits, survival, and growth of the business or organization. Therefore, it should come as no

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surprise that Drucker wrote and taught us about the social responsibilities of business and how these responsibilities could best be satisfied.

In his first book, *The End of Economic Man* (written over several years in the 1930s and published in 1939), Drucker had already documented and begun to develop his theories of social responsibility. As Drucker saw it, the Age of Mercantilism in which economics was the only force that needed be considered was dead. Although *The End of Economic Man* was primarily an attack on fascism and Nazism, its very title predicted the end of a society based solely on the economic objective. This early theme of the fading of economics as the sole consideration was continued in 1942 with his second book, *The Future of Industrial Man*. “We have already abandoned the belief that economic progress is always and by necessity the highest goal,” he wrote. While these early writings on the subject seemed to favor the universal importance of social issues over economic ones, Drucker made clear that the first responsibility of management was to produce satisfactory economic results, as without that the organization could not fulfill its social responsibilities.

### **The Responsibilities of Business and Organizational Leaders**

In *Concept of the Corporation*, written after World War II, Drucker continued to develop his ideas about management’s social responsibilities. An entire chapter of this book was devoted to the corporation as a social institution. Since the corporation had power and authority, and as Drucker noted throughout his writing, there can be no authority without responsibility or vice versa,

it was clearly implied that a corporation as a social institution must also have social responsibilities. Were that not sufficient to show the importance that Drucker attached to this issue, an entire section was devoted to social wants and needs. From then on, as he began to view practicing managers as his intended audience, he was increasingly specific about what needed to be done about social challenges by business and those who led business organizations. Eventually he expanded his ideas on business social responsibility to include all organizations. In his first book that focused on managers in business, *The Practice of Management*, his views were absolutely explicit: “This, however, imposes upon the business and its managers a responsibility which not only goes far beyond any traditional responsibility of private property but is altogether different. It can no longer be based on the assumption that the self-interest of the owner of property will lead to the public good or that the self-interest and the public good can be kept apart and considered to have nothing to do with each other. On the contrary, it requires of the manager that he assume responsibility for the public good.”

This and others of Drucker’s writings regarding the responsibilities of the organizational manager for social issues were not written at a time when the idea that business had a social responsibility was merely unpopular. For the most part, this concept was simply unheard-of and not discussed even unfavorably. Few could conceive of why social issues should have any connection with business. To the extent social issues were considered at all, they were thought to be the responsibility

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of government, if anyone; certainly no one else. Drucker thought differently, and was one of the few who said so in public.

In his autobiography, *Adventures of a Bystander*, Drucker wrote: "In the complex society of organizations in which we live, the organizations—and that means the 'professionals' who manage them—must surely take responsibility for the common weal. There is no one else around who can do it." Almost twenty years after *Bystander* was published, he wrote: "Every organization must assume full responsibility for its impact on employees, the environment, customers, and whomever and whatever it touches. That is social responsibility. But we also know that society will increasingly look to major organizations, for profit and nonprofit alike, to tackle major social ills." Drucker saw that a healthy organization, be it business or nonprofit, could not exist in a sick society. Therefore the management of all organizations, both business and nonprofit, had a self-interest in operating in a healthy society, even though the cause of the sickness had nothing to do with the management or its organization.

## Distinguishing Social Responsibility Approaches

Drucker drew a perceptive distinction between two differing categories of social responsibility. This was represented by two American businessmen, both of whom Drucker considered revolutionary in their concern with the public welfare. One was Andrew Carnegie, a poor Scottish immigrant to the United States who made millions in the steel industry and had become the richest

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man in America by the late 19th century. He was the Bill Gates of his day. Carnegie believed that the sole purpose of being rich was to be a philanthropist, to give the money away to worthwhile causes. He was retired at the time he started his major philanthropy and began a crusade of his philosophy to the American public. The money he gave to public causes was from his personal fortune. It had nothing to do with his company. No one can deny that his acts of philanthropy were socially responsible.

The other man was Julius Rosenwald. In the late 19th century (as Carnegie was beginning to give away his money), Rosenwald took over a failing business, Sears Roebuck and Company, and built it into one of the largest retailers in the world. Before these two individuals entered the public stage, wealthy men had basically spent money building monuments to their achievements. Both differed from their predecessors in spending their money for the public interest and practicing social responsibility. However, the two differed from each other in many ways. Whereas Carnegie responsibly gave money away from his private fortune for social good, Rosenwald practiced social responsibility as a part of his business, Sears Roebuck and Company. No one else had ever done this previously. The largest part of Sears Roebuck's market in those days was in agriculture, and Rosenwald spent millions to bring scientific knowledge of this field to his customers, most of whom were farmers. This also benefited the business, as Rosenwald knew that his business depended on the welfare of his customers. One famous example was the 4-H Club movement in the United States, which taught competency and promoted the prosperity of various aspects

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of agriculture. Sears Roebuck founded the movement and funded it totally and independently for ten years.

Both Carnegie and Rosenwald were good men and both practiced social responsibility. However, Drucker made this distinction: Carnegie believed in the social responsibility of wealth. Rosenwald believed in the social responsibility of *business*. The social responsibility of business was something truly something different, a notion that was totally new and separate even from philanthropy. Drucker firmly embraced it. Drucker's concept of business social responsibility incorporated that of Rosenwald, and it was indeed revolutionary. Drucker credits Rosenwald with being the first to put business social responsibility into practice in the United States, but the basic concept had corollaries that Drucker developed and promoted, corollaries that remain revolutionary—some would consider radical—even today. These are his lessons.

### The Drucker Difference

Peter Drucker differed with most of those who thought and wrote about the social responsibility of organizations. His approach to social responsibility included four key themes:

- The inability of government to solve many social problems
- The need for social responsibility to be subordinate to the organization's mission
- The opportunities for competitive advantage in social responsibility
- The critical importance of leadership

### Government Can't Do It All

Drucker analyzed the issue and found increasing disenchantment with government's ability to initiate or implement social programs successfully. Although government coordinates 4-H activities today, it was business, Rosenwald at Sears Roebuck, that initiated and developed this concept. In 1984 Drucker noted: "There is now no developed country—whether free enterprise or communist—in which people still expect government programs to succeed."

Possibly the overriding reason for Drucker's belief that government did not have the ability to take on social problems was that government, by necessity, served too many constituencies. This made it extremely difficult, if not impossible, to set specific goals and objectives, since powerful constituencies had different goals and different values. Frequently their goals and objectives are mutually exclusive. Without specific goals and objectives that are agreed upon, any social program was hopeless from the start. It is a truism that you can't get "there" until you know where "there" is. Drucker saw that when seeking to solve social problems, government is frequently confronted with conflicting "theres" that cannot be easily resolved.

### Assuming Responsibility Without Jeopardizing the Mission

Drucker recognized that while nongovernmental organizations need to assume responsibilities for solving social problems, this has to be accomplished with an important caveat: they must above all do nothing that would impede their own capacity to perform their obligations, whether in mission or in profits. If the effort to achieve a positive benefit results in harm to the organization initiating it, it is not socially responsible, regardless of its good intent. According to Drucker, the organization's first responsibility is always to its own mission regardless of other factors. On the business side, the first "social responsibility" of business is to make a profit sufficient to cover operational costs in the future. The logic in this is that if the organization fails in its own goals because of misallocation of time, resources, or personnel in attempting to fulfill a particular social re-

sponsibility, not only would it be prevented from solving that problem or future social problems, it will fail society in the organization's main mission as well. Once the organization fails in its primary mission, there is no need for it and it will cease to exist. So if this basic social responsibility of fulfilling the organization's purpose is not met, no other social responsibility can be met either.

### **The Opportunities for Competitive Advantage in Social Responsibility**

Today social responsibility is the "in thing." Many corporations have entire departments to encourage social responsibility, look at company actions causing negative reactions that need to be attended to, uncover opportunities, and develop and run social responsibility programs. It is easy to forget that this was not always so, and that once even Alfred P. Sloan, legendary CEO of General Motors, claimed that the public good was not the responsibility of business and that the two should remain completely and forever separate. In one of his very rare disagreements with Sloan's management precepts, Drucker proclaimed that fulfilling social responsibility was not only a duty but a potential source of competitive advantage for a company far beyond mere public relations with the general public or customers.

As Drucker saw it, even a company's negative impacts could and should be examined to see if they could be turned into something positive. He saw that in the early

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1920s DuPont, a major chemical company, set out to eliminate some of the poisonous and unwanted side products of its manufacturing. In the process it invented a new system of toxin control that was so successful that the company developed it as a separate business. DuPont was not alone. The Dow Chemical Company, another leading U.S. chemical firm, identified air and water pollution as problems that the company was causing. This was long before environmentalists began to protest the harmful impacts that U.S. industrialists were inflicting on the environment. On its own and without coercion, Dow decided to do something. It not only adopted a zero pollution policy for its manufacturing facilities, it focused its considerable research muscle on turning pollutants, including smokestack gasses, into products it could then sell profitably.

I noted Julius Rosenwald's pioneering approach to social responsibility earlier. Under his leadership, sales at Sears Roebuck climbed from \$750,000 a year to over \$50 million. Yet Rosenwald invested a lot of money over the course of his life for society. This included \$70 million for schools, colleges, and universities—among many others, he endowed the famous African American Tuskegee Institute in 1912, a year when prejudice was more in vogue than equal opportunity for minorities in this country. Although he implemented the many policies of social responsibility because it was the right thing to do, he also saw that the welfare of the company was primarily based on the knowledge, skill, and well-being of the company's primary customer, the American farmer. Accordingly, Rosenwald's social responsibility had a dual purpose. It not only helped people, it built Sears Roebuck's customer base and developed its market. Within ten years the company went from near bankruptcy to being the largest merchant in the world and one of America's most profitable and fastest-growing companies. Social responsibility was a major competitive advantage!

Not only U.S. companies have secured significant competitive advantages through social responsibility initiatives. Toyota introduced the Prius, a hybrid electric/gasoline automobile, after experiments to control harmful emissions. The vehicle it developed reduced emis-

sions to 10 percent of what was formerly acceptable. At the same time, gasoline consumption decreased by as much as 50 percent. This put Toyota so far ahead of its competitors that other automobile companies licensed Toyota's technology. At Toyota itself, the system is a feature on more than one million vehicles sold. Through social responsibility as a competitive advantage, Toyota surpassed General Motors as the world's largest automaker.

### The Critical Importance of Leadership

Drucker knew that nothing could be done effectively about social responsibility without good leadership at the top of the organization. Without Rosenwald's leadership, there would have been no example to follow of social responsibility at Sears Roebuck. More than 50 years ago Drucker wrote, in his first book devoted entirely to management: "Leadership is of utmost importance. Indeed there is no substitute for it." He believed that organizational leaders were responsible for everything their organizations did or did not do. Although he wrote no book specifically on leadership, this subject ran through all of his writings and teachings. In an article in the *Wall Street Journal* in 1988 Drucker outlined several requirements for effective leadership. These included thinking through the mission, goals, and objectives of the organization and developing the plan for reaching them, accepting responsibility above personal privilege or well-being, and above all integrity. These concepts were repeated in a book in 1992.

### A Tremendous Impact

Professor Drucker is no longer with us. Fortunately, his spirit lives on in the tremendous impact he has had and

what he taught us about management and how we practice it. He thought, taught, and exhorted managers of all types regarding social responsibility for more than 70 years. These lessons have stood the test of time. They require us to think and to mobilize the courage and effort to take action.



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