

Managers sans Owners and not Owners sans Managers

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Abstract

Drucker's search for an alternative to both capitalism and socialism was not undertaken in isolation from others also searching for such an alternative (Mosse, 1987). Regarding those others, the proponents of a totalitarian alternative admired the industrialist, Henry Ford. Their admiration was partially because of the belief that an entrepreneur such as Ford could innovate and prosper without management. Drucker, however, advocated the necessity of autonomous management in a society of organisations. What thus becomes essential to the organization for Drucker is management, even if for Drucker marketing is the essential function of the business. Furthermore, Drucker's advocacy for the necessity of autonomous management in a society of organizations explains his concerns regarding business ethics.

Keywords

Drucker, capitalism, Ford, Management, Marketing

Introduction

No less an authority than Theodore Levitt (1925-2006), who was both a professor of marketing at the Harvard Business School and the editor of the Harvard Business Review, claims that "Peter Drucker created and publicized the marketing concept" (Levitt, 1970, p. 9) on which all of contemporary marketing rests. Such a claim is of considerable interest given that Drucker is internationally recognised for his contribution to management, and not to marketing. Flaherty describes Drucker as being "most widely known as the father of modern management" (199, p. ix). Levitt is, however, correct in making such a claim.

After all, in 1954 in his first purely managerial book, *The Practice of Management*, Drucker was to insist that "there is only one valid definition of business purpose: to create a customer" (Drucker's italics, 1979, p. 52). And because the purpose of the business is to create a customer the business only has two "basic functions: marketing and innovation. They are the entrepreneurial functions" (Drucker, 1979, p. 53). Furthermore, Drucker argued, that as "it is the customer who determines what a business is" (1979, p. 52), it is "marketing (which) is the distinguishing, the unique function of the business" (Drucker, 1979, p. 53).

Such arguments make it obvious that what is integral to the theme of Drucker's *The Practice of Management* is marketing, despite Drucker's international recognition for his contribution to management. Drucker did claim that it was "The Practice of Management, which first established management as a discipline in 1954" (Drucker, 1994, footnote to p. 43). Whilst that is correct management was established by Drucker as a discipline with a distinct marketing orientation. Furthermore, as that orientation highlights customer sovereignty, it places the ultimate control of the business outside the business much in accordance with accepted economic theory.

Benton has argued that such an emphasis was important given that business sought a "symbolic congruity between the marketing concept and the doctrine of consumer sovereignty" (1987, p. 426) as

it would justify "the absence of government regulation and control" (1987, p. 426). However, Benton claims that any such thinking was flawed as "the rub is, of course, that those same sophisticated marketing techniques can be used to manage demand as well as to seek out and satisfy existing demand" (1987, p. 426). Benton supports this by quoting Drucker in his book *The Age of Discontinuity* asserting that marketing "creates markets" (1971(a), p. 73). Thus for Benton "the marketing philosophy becomes revealed not as an end in itself, as is the case with consumer sovereignty" (1987, p. 428). However, in the preceding paragraph to that quote Drucker did write that "it is axiomatic that the customer is only interested in the satisfaction he seeks" (1971(a), p. 73) and that marketing "looks upon the entire business . . . from the point of view of the customer" (1971(a), p. 73). It is thus not apparent from Drucker that there is any lack of congruity between the marketing concept and consumer sovereignty.

However, what is of interest to any Drucker scholar is that whilst marketing was central to Drucker's 1954 book, it ceases to be a subject that Drucker contributes much additional knowledge to in his subsequent books and articles. That is not to say that marketing is not mentioned. It is. But while it is Drucker does not repeat the insight he revealed in stating that the purpose of a business is to create a customer which helped create the marketing concept. Flaherty writes that "in his treatment of the marketing concept, Drucker analysed . . . consumer sovereignty, consumer rationality, the utility function, the distinction between sales and marketing, the systems approach, and the demand factor" (Flaherty, 1999, p. 131). One cannot dispute any of that. But Drucker had made most of that contribution by the time his 1964 book, *Managing for Results*, appeared.

I am thus intrigued as to the paucity of Drucker's contribution to marketing after the 1960s. A reason for this might have been Drucker's explanation that, "despite the emphasis on marketing and the marketing approach, marketing is still rhetoric rather than reality in far too many businesses" (1985(b), p. 64). Given

such a reality Drucker might have believed that he would be far more effective in explaining management practices rather than exploring marketing. Nonetheless, one can speculate that there could have been other reasons. Furthermore, an understanding of those other reasons could provide us with insight into not merely why Drucker concentrated on management rather than marketing, but furthermore what that concentration reveals regarding his hostility to business ethics (Drucker, 1985(c)).

These other reasons might have been related to a conflict for Drucker between marketing and management. In such a conflict management would be seen as the preserve of professional managers, while marketing would be associated with those concerned with the entrepreneurial function as that was how Drucker initially described marketing. It is this conflict I wish to explore in this paper; and why even if Drucker only sub-consciously acknowledged such a conflict it would have retarded his interest in contributing to marketing. Such a conflict could also explain Drucker's disdain for business ethics which I have explored in earlier papers (Schwartz, 1998, 2002). The research in this paper is thus an extension of that earlier research (Schwartz, 1998, 2002); yet, while it does return again to Drucker's concerns at the outset of his career, and the situation at that time, it is interested in them from an entirely different perspective.

In this paper I am primarily concerned with how Drucker might have perceived the dichotomy between management and marketing; and why faced with such an apparent dichotomy between these two fields he chose to focus on making a contribution to management and not to marketing, despite his earlier major contribution to marketing. Furthermore, I argue that Drucker's preference for contributing to management rather than marketing, explains why he is critical of business ethics as an academic discipline.

Entrepreneurship

Undeniably, many credit entrepreneurship with creating employment opportunities and fostering productivity. Drucker, who in 1985 wrote *Innovation and Entrepreneurship*, sought to define its practice theoretically. Curiously, in doing so, Drucker places marketing at the very core of entrepreneurship. For Drucker merely starting a new business is not entrepreneurial, and neither does it represent entrepreneurship. But the situation is different if a particular business "created a new market and a new customer. This is entrepreneurship" (Drucker, 1985, p. 19). Such entrepreneurship, Drucker readily acknowledges, has social impacts. According to Drucker, "Marks & Spencer, the very large British retailer, has probably been more entrepreneurial and innovative than any other company in western Europe these last fifty years, and may have had greater impact on the British economy and even on British society, than any other change agent in Britain, and arguably more than government or laws" (Drucker, 1985, p. 21). Here, ultimately, Marks & Spencer business was "not retailing. It was social revolution" (Drucker, 1985(b), p. 96) because Marks & Spencer actively sought through its business activities to change British society.

Such an admission is revealing. Drucker has since the appearance of his first book in 1939, *The End of Economic Man: A Study of the New Totalitarianism*, insisted that he is "conservative' in a very old sense" (Drucker, 1995 p. 9). What essentially distinguishes such old conservatives from the neo-conservatives, is the commitment of the former to the existing community (Drucker, 1995). Entrepreneurship, as evidenced by Marks & Spencer, affects the existing community in ways that cannot be foreseen. Drucker could therefore have been cautioned by his

understanding of the past to be wary of the possible impacts of entrepreneurs and entrepreneurship upon the existing community. Yet, that does not seem plausible. Drucker in all of his writings urges the necessity of constantly embracing change. Indeed Drucker, in his 1985 book, advances a theory of entrepreneurship which builds upon the efforts of past entrepreneurs to make the marginal central and identifies the "sources for innovative opportunity" (Drucker, 1985, p. 27). Such sources include "the unexpected, the incongruity, changes in perception, mood, and meaning, population changes, changes in industry structure or market structure, and new knowledge, both scientific and nonscientific" (Drucker, 1985, p. 32).

Regarding such possible changes in industry structure Drucker described how "the one fundamental socialist dogma without which belief in the order of Marxism is impossible, is that capitalism in its trend toward larger and larger producing units must by necessity develop a social structure in which all are equal as proletarians except a few expropriators" (Drucker, 1939, p. 24). However, Drucker argued that the reality was that "the larger the unit becomes, the larger is the number of intermediate privileged positions, the holders of which are not independent entrepreneurs but even less unequal members of the proletariat. ... all have a vested interest in the maintenance of unequal society" (Drucker, 1939, p. 25). It is not insignificant that Drucker highlighted that these individuals are neither entrepreneurs nor proletariats. It is also not insignificant that Drucker in stating this is consciously, or unconsciously, echoing Max Weber (1864 – 1920) who over thirty years earlier "saw the increase in white-collar workers as falsifying Marx's contention that capitalist society would become polarised between the bourgeoisie and an ever larger and impoverished proletarian mass" (Bellamy, 1992, p. 191).

Indeed, given Drucker's reiteration of Weber's claim one might be forgiven for expecting Drucker to be partial to Weber. However, this does not seem to be so. Drucker writes that Weber's assertions as to the "Protestant Ethic" have "been largely discredited" (Drucker, 1994, p. 26). Also, that Weber was "quite oblivious to organization as a new phenomenon" (Drucker, 1994, p. 51). Rather, Weber saw "entrepreneurs" (Bellamy, 1992, p. 190) as part of the answer to the growing dangers of bureaucracy which might explain Drucker's antipathy to Weber. Drucker then, too had misgivings about the future. But beyond such misgivings he did not believe that the entrepreneur could offer society salvation. Many of his contemporaries in Europe though, during that period prior to the outbreak of hostilities in 1939, did look to the entrepreneur for salvation.

Drucker's 1939 book, *The End of Economic Man: A Study of the New Totalitarianism*, attempted to explain the appeal of fascism. According to Drucker much of this appeal was due to a growing disillusionment in Europe with both capitalism and socialism. Indubitably, Drucker portrayed the appeal of socialism as reliant upon the acceptance of capitalism. However, following Drucker, by the 1930's a general belief in capitalism was no longer possible. Conversely, given that, neither could that same society accept socialism. Drucker argued that the 1873 European stock market crashes "marked the end of the Liberal era, the end of the one hundred years in which laissez-faire was the dominant political creed. That century had begun in 1776 with the *Wealth of Nations* by Adam Smith" (Drucker, 1989, p. 5). And yet whilst 1873 might have marked the end of that era, fifty years later no viable alternatives to capitalism and socialism had emerged, although the widespread refutation throughout Europe of these two –isms explained the growing acceptance of totalitarianism.

Paradoxically, while European society might have rejected both capitalism and socialism, they accorded heroic status to entrepreneurs. The Canadian historian, Joan Campbell, recounts how between 1923 and 1939 “a German version of Henry Ford’s autobiography, *Mein Leben und Werk* was republished over thirty times” (Campbell, 1989, p. 133). And that in Germany the only book which outsold Henry Ford’s works during that period was Hitler’s *Mein Kampf* where “many of Hitler’s ideas were also a direct reflection of Ford’s” (Pool, 1997, p. 72). Indeed Drucker in his 1939 book highlights the linkage between the rejection of capitalism and the acceptance of Ford. Drucker wrote that “to state exactly when the belief in capitalism was finally disproved is, of course, impossible. But it was reduced to absurdity on the day when Henry Ford showed the world that mass production is the cheapest and most efficient form of production” (Drucker, 1939, p. 39); and in doing so disproved the theory that “monopoly – provided the most profitable form of industrial production” (Drucker, 1971, p. 158).

Further to this, what Drucker saw as most significant about Ford with regard to the Europeans search for a totalitarian alternative was “that the essence of Nazism is the attempt to solve a universal problem of Western civilization – that of the industrial society” (Drucker, 1995, p. 23). For that very reason Nazi theorists believed that Ford represented not an appendage to capitalism, but a distinct alternative to capitalism. As early as 1924 Heinrich Himmler was describing Henry Ford to his Nazi colleagues in just those terms (Allan, 2006).

Drucker writes that “the starting point of Nazi political theory was the conviction that the modern industrial mass-production plant is the model for a totalitarian state” (Drucker, 1995, p. 103). And that “the social (Drucker’s italics) meaning of the Nazi organizations is the attempt to integrate into an industrial society the individuals living in the industrial system” (Drucker, 1995, p. 102). Drucker readily acknowledges that it is pointless attempting to refute Nazi society by claiming that it is unfree, as it was never meant to be free. Given that limitation “the attack on Nazism has therefore to start with a refutation of the Nazi claim that theirs can be a functioning society” (Drucker, 1995, p. 103). And such an attack has simultaneously to take cognisance of “the collapse of the market as a society” (Drucker, 1995, p. 52). For the Nazis, the modern industrial plant was Henry Ford’s River Rouge plant (Pool, 1997). Indeed, for these “National Socialists, Ford’s River Rouge was not so much a business as a manifestation of supreme will and the harbinger of a new world” (Allen, 2006, p. 97), with Ford too once seeing his plant as such a “utopia” (Drucker, 1971, p. 169). Drucker could therefore argue that Nazism could not be a functioning society by asserting the very same regarding Ford’s industrial plant. That he did in a 1947 article.

Ford and the Entrepreneurial Function

Introductory marketing texts often utilise the example of Henry Ford insisting that the customer could have the Model T in any colour as long as it was black in order to depict a production orientation (Zikmund and d’Amico, 2002). Drucker, however, always insisted that Henry Ford was a “most successful entrepreneur” (Drucker, 1986, p. 190) and as such primarily concerned with the entrepreneurial functions of innovation and marketing. Drucker notes that while “Ford contributed no important technological invention” (Drucker, 1970, p. 60) Ford’s “contribution was an innovation: a technical solution to the economic problem of producing the largest number ... at the lowest possible cost” (Drucker, 1970, p. 60). As such what was critical to Ford’s

contribution was a marketing insight which was Ford’s “idea of a cheap utility car for the masses” (Drucker, 1971, p. 158). Drucker thus writes that when Ford insisted that they could have any colour as long as it was black “few people realise what Ford meant: flexibility costs time and money, and the customer won’t pay for it” (Drucker, 1993, p. 310). Drucker thus credits Ford with a marketing orientation.

Drucker in July, 1947 published an article in “*Harper’s Magazine*” titled Henry Ford. That article was later reprinted in Drucker’s collection of essays *Men, Ideas & Politics*. Elsewhere, Drucker has expanded upon Henry Ford’s financial failures, writing that “he built a conglomerate, an unwieldy monster that was ... horrendously unprofitable” (Drucker, 1993, p. 313). Other writers too, have expanded upon Ford’s financial shortcomings (Halberstam, 1987). However, in his 1947 article, Drucker considered Ford not in financial terms but in political terms. If in those terms Henry Ford could be shown to have failed to create a functioning society, then as was claimed earlier, Drucker could in turn refute the Nazi claim that theirs could be a functioning society.

Drucker wrote in his 1947 article that whilst Henry Ford was “the symbol and embodiment of our new industrial mass-production civilization. ... he also perfectly represented its political failure so far – its failure to build an industrial order, an industrial society” (Drucker, 1971, p. 156). More so, Drucker argues that Ford’s success with mass-production, could not transcend his political failure, as “above all, Ford himself regarded his technical and economic achievements primarily as a means to a social end. He had a definite political and social philosophy” (Drucker, 1971, p. 158). Drucker acknowledges that Ford’s political failure “does not alter the fact that his was the first, and so far the only, systematic attempt to solve the social and political problems of an industrial civilization” (Drucker, 1971, p. 159). Likewise, as Drucker writes in his 1942 book, *The Future of Industrial Man: A Conservative Approach*, “the essence of Nazism is the attempt to solve a universal problem of Western civilization – that of the industrial society” (Drucker, 1995, p. 23).

In his 1947 article Drucker highlights the fact that “mass production is not fundamentally a mechanical principle, but a principle of social organization (Drucker’s italics). It does not co-ordinate machines or the flow of parts; it organizes men and their work” (Drucker, 1971, p. 162). Drucker argues that it is a principle of social organisation because it creates a society where individuals have to work jointly together with others to produce anything; and, where the unemployed cannot produce as they are excluded from “the productive organism” (Drucker, 1971, p. 163). Following Drucker, “in the society of the modern mass-production plant everyone derives his effectiveness from his position in an organized group effort” (Drucker, 1971, p. 163). There is thus the need for “a management responsible to no one special-interest group, to no one individual, but to the ... strengthening of the whole” (Drucker, 1971, p. 163). Thus whilst, as in the case of Henry Ford, the entrepreneurial functions of marketing and innovation can significantly contribute to a society, an autonomous management is needed to execute those functions. Indeed management for Drucker is irreplaceable as no one else can discharge those functions.

For that very reason Drucker argued that modern industry was not reliant on entrepreneurs. He did not dispute that there was no place for them. Rather, he insists that there “are the truly important innovations. They are the innovations of a Henry Ford” (Drucker, 1985 (b), p. 790). But what remains essential, and not least of all to the attainment of the entrepreneurial function, was management. For Drucker, Ford’s ultimate failure was

because he “wanted no managers” (Drucker, 1985(b), p. 388). Drucker argues that management, for “the owner-entrepreneur, is not its successor. It is, rather, its replacement” (Drucker, 1985(b), p. 387). Thus, that because for Drucker, “managerial work and entrepreneurial work were qualitatively different” (Flaherty, 1999, p. 161) one can understand that although in his 1954 book he identified the entrepreneurial functions of marketing and innovation as distinguishing management, he would not have enlarged upon the entrepreneurial function as this could be replaced by management.

Furthermore, in this society of the modern mass-production plant, Drucker asserts that because it needs management there is a “differentiation of functions” (Drucker, 1971, p. 163) which means that “there must be rank” (Drucker, 1971, p. 163). It was mentioned earlier in this paper that Drucker noted this in his 1939 book, claiming that it negated Marx’s claim. And yet, that whilst that is so, simultaneously, “no one individual is less important or more important than another. For while no one individual is irreplaceable – only the organized relationship between individuals is irreplaceable and essential” (Drucker, 1971, p. 164). This was because without these ongoing relationships the plant cannot function. Thus whilst acknowledging the necessity for an inequality due to the existence of differing functions, Drucker argued that concurrently there was the need for “a basic equality, based on membership and citizenship” (Drucker, 1971, p. 164). All of that required the managerial skill “of organising and leading the human team” (Drucker, 1971, p. 165). And none of that existed in Henry Ford’s plant where workers were “ruled through espionage and terror” (Drucker, 1985(b), p. 383) because Ford “wanted no managers” (Drucker, 1985(b), p. 388).

Such conditions Drucker wrote were the consequences of a belief that Ford would have shared with those seeking a totalitarian alternative. This is “the belief that managers and management are superfluous and that the “great man” can govern big and complex organizations and structures with his assistants and helpers – that is, his courtiers” (Drucker, 1985(b), p. 383). Indeed, Drucker described fascism in much the same terms. There “the abracadabra of fascism is the substitution of organization (Drucker’s italics) for creed and order ... (with) ... the glorification of organization as an end in itself” (Drucker, 1939, p. 22). For Drucker Ford’s political failure at solving the problems of industrial society parallel the fascist failure at solving those same problems. And both failed because they did not create societies offering membership and citizenship which would have required an autonomous management. Indeed, following Drucker, “management is a central function, not in business, but in our society, on the performance of which the very existence of the society depends” (Drucker, 1970, p. 94). Whereas whilst entrepreneurship is certainly necessary; “it is clearly a part of management and rests, indeed, on well-known and tested management principles” (Drucker, 1989, p. 227).

Drucker in his 1939 book passionately argued that Nazism and Communism were not competing ideologies but “similar ideologically and socially. That ... Soviet Russia is as fascist a state as Germany” (Drucker, 1939, p. 229). And that any such “totalitarian social and political society must also have complete economic totalitarianism” (Drucker, 1939, p. 237). Such economic totalitarianism could not allow autonomous management. Years later in 1954 in his first book on management, he wrote of how the totalitarian leaders “were such fervent admirers of Ford” (Drucker, 1979, p. 143). Pool (1997) makes the same point in his book as does Allen (2006). The major reason for this admiration was that Fordism “seemed to make possible

industrialization without management, in which the ‘owner’, represented by the political dictatorship, would control all business decisions while business itself would employ only technicians” (Drucker, 1979, p. 144). Drucker thus perceives management with its commitment to the whole as fostering community and thus facilitating industrial society. Alternatively, entrepreneurs such as Ford are destructive of both community and industrial society; as were those who looked to Ford for a political solution to modernity.

However, the innovations of an entrepreneur called Henry Ford gave us “a principle of social organization” (Drucker’s italics, Drucker, 1971, p. 162). And if here “only the organized relationship between individuals is irreplaceable and essential” (Drucker, 1971, p. 164), then it was, paradoxically, the entrepreneur who created the need for a discipline called management. Drucker, of course, never explicitly acknowledges that. Although he did describe the basic business functions as marketing and innovation. These were functions which Henry Ford succeeded at. However these functions could not create that new society which Drucker pursued in his book *The Future of Industrial Man* as an alternative to both capitalism and socialism. Only management could facilitate that through a society of organisations. For such reasons it seems likely that Drucker curtailed his contribution to marketing and invested so much in the study of management. Equally so, this situation explains Drucker’s (1985(b)) hostility to business ethics whilst simultaneously insisting upon the necessity of managers being individually morally responsible. Business ethics with its concern with the relevant stakeholders and the autonomy of corporate whistleblowers will, much like the situation in an economic totalitarianism, not allow autonomous management. An implication of both Drucker’s contribution to, and ambitions for, management must thus be a resistance to the idea of business ethics.

Christine Fletcher writes that “Drucker’s vision of the corporation as a hierarchy which values each member, whatever position within that hierarchy they occupy, is consonant with the teaching of Catholic Social Teaching that the person as the centre of social and economic life” (Fletcher, 2006, p. 6). This Fletcher argues “contrasts with the vision of the person as homo economicus of the empiricist social science which is the basis for the shareholder and the stakeholder models of the corporation” (2006, p. 1). Fletcher’s arguments return us to Drucker’s earlier assertions that in this society of the modern mass-production plant, because it needs management there is a “differentiation of functions” (Drucker, 1971, p. 163) which means that “there must be rank” (Drucker, 1971, p. 163). They also return us to his believe in the need for “a management responsible to no one special-interest group, to no one individual, but to the ... strengthening of the whole” (Drucker, 1971, p. 163). And specifically because an autonomous management is needed to execute those functions Drucker must remain wary of business ethics. Furthermore Drucker set out in 1939 with his book *The End of Economic Man: A Study of the New Totalitarianism* in search of an alternative to “the vision of the person as homo economicus” (Fletcher, 2006, p. 1). As Fletcher (2006) argues economic man is the basis for both stakeholder theory and shareowner theory, whilst Drucker was in search of something else related to the integral value of the individual as, in Kantian terms, a value-giver.

It is easy to thus understand Drucker’s concerns as to business ethics as for Drucker the centrality of the individual transcends the concerns of business ethicists with the stakeholders versus the shareholders. It is also easy to understand Drucker’s concerns as to the necessity of management as without man-

agement the individual cannot contribute as an individual to the corporate whole. It is not perhaps so easy, though, to understand the current significance of what concerned Drucker in 1939. Unless, of course, one contemplates the contemporary world with the growing economic power of states such as China, Russia and Iran and recognises that, as “Kagan argues, there is a solidarity of autocracies growing up, which is both ideological and practical” (Sheridan, 2008, p. 22). Sheridan is referring to Robert Kagan’s 2008 book, *The Return of History and the End of Dreams*. If Kagan is correct Drucker’s 1939 mes-

sage is as relevant today as it was then. And if it is we will have to take most seriously Drucker’s concerns as to business ethics and the need for autonomous management. Furthermore the current global financial crisis replicates the 1929 financial crisis which led to the destruction of the Weimar Republic, in which Drucker lived, and the rise of Nazism. For all of those reasons we would be foolish not to take Drucker’s advice very seriously as to the necessity of management and not marketing, and the implications of the necessity of autonomous management for business ethics.

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