BOOK REVIEW


Reviewed by Willis B. Howard, Jr.

Writer on management for over thirty years, Peter Drucker is held in the same esteem by students of that art that Robert J. Myers enjoys among students of Social Security. In this book he exhibits the vigor and insight that have earned him this position. One need not accept all his conclusions to profit from his analysis.

To anyone familiar with the unsettled outlook for our economic, social and political environment, this is a troubling book. It is troubling because Drucker's credibility as a management analyst is so high, and because the turbulent times that he identifies call for changes in management attitudes and practices that are difficult to make. In the introduction, Drucker tells us: "This book deals with the strategy needed to use rapid changes as opportunities, the strategies needed to convert the threat of change into opportunities for productive and profitable action and for contribution alike to society, economy, and individual."

The book is arranged into two short opening chapters and two longer, more philosophical chapters. The first two sections of Chapter 1, "Managing the Fundamentals", should be of particular interest to actuaries; these are called "Adjusting for Inflation" and "Managing for Liquidity and Financial Strength." Drucker offers no precise method by which we may adjust for inflation—indeed, he argues persuasively that precision is unnecessary—but gives compelling reasons why we should: "During inflation, however, the figures lie... Money still tends to be considered the standard of value and to be a value in itself, but in inflation this is a delusion... Until this is done, even the most knowledgeable executive will remain the victim of the illusions inflation creates. He may know that the figures he gets are grossly misleading; but as long as these are the figures he has in front of him, he will act on them rather than on his own better knowledge. And he will act foolishly, wrongly, irresponsibly."

Actuaries whose companies have experienced a policy-loan-induced cash flow problem may wish they had read his comments on liquidity a year ago: "The stock market increasingly values companies according to their liquidity rather than by earnings... The stock market is right. In turbulent times, liquidity is more important than earnings."

Treatment of the remaining topics in this chapter is no less dramatic. In "The Costs of Staying in Business vs. the Delusion of Profit", Drucker makes a strong case for valuing the cost of capital at current market rates in determining earnings, and, in passing, censures executive compensation plans that do not do this: "There is also an urgent need to adjust executive compensation to economic reality. As long as executives get extra compensation based on reported 'profits', they will resist changing the way they report their earnings. Extra compensation based on profits should never be paid until the costs of staying in business have been covered by current earnings. Not to disclose that the genuine costs, the costs of staying in business, have not been earned is fraud. To pay oneself 'bonuses' based on a nonexistent profit is embezzlement."

The theme of Chapter 2, "Managing for Tomorrow", is: "In turbulent times, managers cannot assume that tomorrow will be an extension of today. On the contrary, they must manage for change; change alike as an opportunity and a threat." Drucker summarizes in its final section, "A Scorecard for Managers": "Performance in management, therefore, means in large measure doing a good job of preparing today's business for the future."

He seizes attention at the outset of Chapter 3 thus: "None of the headlinemakers with which we are so constantly bombarded—neither OPEC nor all the promised shortages of food, metals, or minerals that are now so widely predicted, nor any other 'crises' of the moment—are nearly as important, let alone as real, as the changes taking place in population structure and population dynamics." Drucker calls this Chapter "Managing the sea-change: The New Population Structure and the New Population Dynamics", and in his positive, confident style tells us how these changes will affect a myriad of present concepts and practices including new consumer markets, managerial strategies, the labor force, and retirement age.

Regarding retirement age, he makes an actuarial observation: "In every developed country, it will have to be a central aim of economic and social policy to keep the ratio between people retired for age and people working at around three to one*. This means that in all developed countries the... age at which people can be expected to stop working is likely to be closer to seventy-two by the year 1995 than it is to the sixty-five of traditional western retirement, let alone to the fifty-five of the Japanese tradition."

In Chapter 4, "Managing in Turbulent Environments", Drucker continues to identify new realities, new challenges, new uncertainties, in three interrelated facets of management’s environment, i.e., in the world economy, the employee society, and the business enterprise as a political institution. That these are formidable challenges may be inferred from the absence here of the pithy directives found in prior chapters. Perhaps it's too much to ask, even of a thinker of Drucker's stature, for more than a classification of the hazards that face us; this is, after all, a book on management strategy, not on short-term tactics.

In his concluding comments, "The Challenge to Management", Peter Drucker reiterates his main points, and ends on this surely sobering note:

"Rarely has a new social institution, a new social function, emerged as fast as management in this century. Rarely, if ever, has it become indispensable so fast. But rarely also has a new institution, a new leadership group, faced as demanding, as challenging, as exciting a test as the one that managing in turbulent times now poses to the managements of businesses and nonbusiness public service institutions alike."

*The author has his ratio upside down here. He means one to three, approximately today's ratio of OASDI beneficiaries to covered workers.