Drucker’s ‘Theory of the Business’ and Organisations: Challenging Business Assumptions

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One of Peter Drucker’s Big Ideas - that Businesses are Theories!

…“These are the assumptions that shape any organisation’s behaviour, dictate its decisions about what to do and what not to do, and define what the organisation considers meaningful results.

These assumptions are about markets. They are about identifying customers and competitors, their values and behaviour. They are about technology and its dynamics, about a company’s strengths and weaknesses. These assumptions are about what a company gets paid for.

They are what I call a company’s theory of the business”…
“Every organisation, whether a business or not, has a theory of the business.

Indeed, a valid theory that is clear, consistent, and focused is extraordinarily powerful”.

AHA! - The Big Power of Small Assumptions! [sorry, Peter!]


i.e. - can we map the thinking processes of entrepreneurs at early stage – i.e. ‘the TOB in utero’ – in the early stage, immature firm…

Conventional 3-step Methodology for assessing growth prospects of new business includes:

1. Idea – Feasibility
2. Proof of Concept
3. Business Plan…
BUT – conventional linear business development approaches miss WHY the idea has potential, by focusing exclusively on WHAT the idea is!

We, like Peter, want to understand what theory [the explanation; the ‘if, then’ thinking] underpins the founding idea - but before the idea ‘grows up’ and becomes a business! [and the foundational assumptions get buried under custom and practice]...

What is it the entrepreneur has ‘taken-for-granted’ – what is their TFG?

We want to assess the nascent TOB as an ‘assumptive design’ – and to reveal this ‘assumptive design’ to the founding entrepreneur – so that s/he can ‘see’ the foundations of their idea...

Because, like any building, there is only so much ‘load-carrying capacity’ in the foundations – unless these are constantly renewed...
Large sample [c. 100 high growth-oriented entrepreneurial firms] in Ireland...

Unique PhD study – leading to new workshop model & manual for entrepreneurs, funding agencies, business development advisors focused on assessing the prospects of high growth-oriented new firms...

First attempt to ‘operationalize’ Peter’s great insight about the established business in growth-oriented new firms...

Adapting his model of 3 sets of assumptions [environment, mission, capabilities] and 4 tests – [reality, complementarity, understanding, constant testing]...
The Manager as Theorist/Assumptive Designer

“I never considered myself as a ‘theorist’ – but of course I must be because I can ‘explain’ my idea now and I don’t even have a product yet!”

“You are right - I can see my assumptions for the first time – and they’re all wrong! Thanks for showing me my TFG and how to think better about my ideas!”

“Doing this work has been pretty powerful – unlike a building, I can change my assumptions about growth anytime I wish. Knowing this before I develop my business too much should help me not get stuck in doing just the one thing over and over again”.
The New Business Advisory Context

• “A very clear, powerful tool for looking forensically at the new business in terms of growth potential”.

• “A very effective means of helping the entrepreneur see what they cannot see – the tentative, almost speculative nature of business!”.

• “Looking at new firms as new theories is a unique contribution to the small firms field – well done!”.

• “As Drucker said, ‘every practice rests on theory – even if the practitioners themselves are unaware of it’ - this method is a great way of getting the serious growth-minded entrepreneur to really think about what s/he is doing – and really think about what s/he is thinking!”.
Implications

Even a small change in entrepreneurial assumptions yields powerful breakthroughs in the ways entrepreneurs and entrepreneurial managers think about the growth of their business.

Re-conceiving the new business as a new theory – as a set of assumptions about the future – is a powerful new tool in the new/small business planning and advisory contexts.

It is possible to see a ‘theory of business’ as it forms – Drucker’s insight is empirically valid.