

HARVARD BUSINESS REVIEW

*CLASSICS*

THE THEORY  
OF THE BUSINESS



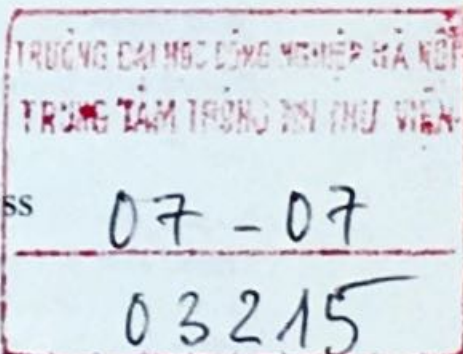
Peter F. Drucker

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# THE THEORY OF THE BUSINESS

Peter F. Drucker

Harvard Business Review Press  
Boston, Massachusetts



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Originally published in *Harvard Business Review* in September–October 1994  
Reprint #94506  
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Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

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The web addresses referenced in this book were live and correct at the time of the book's publication but may be subject to change.

Cataloging-in-Publication data is forthcoming.

ISBN: 978-1-63369-252-7

eISBN: 978-1-63369-253-4

The paper used in this publication meets the requirements of the American National Standard for Permanence of Paper for Publications and Documents in Libraries and Archives Z39.48-1992.

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THE THEORY OF THE  
BUSINESS

**N**ot in a very long time—not, perhaps, since the late 1940s or early 1950s—have there been as many new major management techniques as there are today: downsizing, outsourcing, total quality management, economic value analysis, benchmarking, reengineering. Each is a powerful tool. But, with the exceptions of outsourcing and reengineering, these tools are designed primarily to do

differently what is already being done. They are “how to do” tools.

Yet “what to do” is increasingly becoming the central challenge facing managements, especially those of big companies that have enjoyed long-term success. The story is a familiar one: a company that was a superstar only yesterday finds itself stagnating and frustrated, in trouble and, often, in a seemingly unmanageable crisis. This phenomenon is by no means confined to the United States. It has become common in Japan and Germany, the Netherlands and France, Italy and Sweden. And it occurs just as often outside business—in labor unions, government agencies, hospitals, museums, and churches. In fact, it seems even less tractable in those areas.

The root cause of nearly every one of these crises is not that things are being done poorly. It is not even that the wrong things are being done. Indeed, in most cases, the *right* things are being done—but fruitlessly. What accounts for this apparent paradox? The assumptions on which the organization has been built and is being run no longer fit reality. These are the assumptions that shape any organization's behavior, dictate its decisions about what to do and what not to do, and define what the organization considers meaningful results. These assumptions are about markets. They are about identifying customers and competitors, their values and behavior. They are about technology and its dynamics, about a company's strengths and weaknesses. These assumptions are about