

Drucker on Questioning Assumptions

Adapted from *Management: Tasks, Responsibilities, Practices* and “The Theory of the Business” [*Harvard Business Review*, 1994], both by Peter F. Drucker

When it comes to ongoing operations, the assumption is that present products and services, present technologies and processes, will continue. The first objective of a strategy for ongoing operations, then, is to optimize what already exists or is being established.

The ruling assumption of an innovative strategy, by contrast, is that whatever exists is aging. The assumption is that existing products and services, existing technologies and processes, will sooner or later—and usually sooner—go down rather than up.

The governing device of a strategy for the ongoing operation might therefore be said to be: “Better and More.” For the innovative strategy the device has to be: “New and Different.”

The organization’s key assumptions all add up into what can be called a Theory of the Business.

Every organization, whether a business or not, has a theory of the business. Government agencies, hospitals, museums, churches and so on all have such a theory.

A theory of the business has three parts. First, there are assumptions about the environment of the organization: society and its structure, the market, the customer and technology.

Second, there are assumptions about the specific mission of the organization. Third, there are assumptions about the core competencies needed to accomplish the organization’s mission.

It usually takes years of hard work, thinking, and experimenting to reach a clear, consistent and valid theory of the business. Yet to be successful, every organization must work one out.

To have a successful theory of the business, the assumptions about environment, mission and core competencies must fit reality. The assumptions in all three areas also have to fit one another.

What’s more, the theory of the business must be known and understood throughout the organization. This is easy in an organization’s early days. But as it becomes successful, an organization tends increasingly to take its theory for granted, becoming less and less conscious of it. Then the organization becomes sloppy. It stops thinking. It stops questioning. The theory of the business becomes “culture.” But culture is no substitute for discipline, and the theory of the business is a discipline.

Finally, the theory of the business has to be tested constantly. It is not graven on tablets of stone. It is a hypothesis. And it is a hypothesis about things that are in constant flux—society, markets, customers, technology.

And so, built into the theory of the business must be the ability to change itself. This is where a strategy for ongoing operations must give way to an innovative strategy.

Some theories of the business are so powerful that they last for a long time. But being human artifacts, they don't last forever, and, indeed, today they rarely last for very long at all. Eventually every theory of the business becomes obsolete and then invalid.

The first reaction of an organization whose theory is becoming obsolete is almost always a defensive one. The tendency is to put one's head in the sand and pretend that nothing is happening. The next reaction is an attempt to patch.

But patching never works. Instead, when a theory shows the first signs of becoming obsolete, it is time to start thinking again, to ask again which assumptions about the environment, mission and core competencies reflect reality most accurately—with the clear premise that our historically transmitted assumptions, those with which all of us grew up, no longer suffice.