



# Practical wisdom: reinventing organizations by rediscovering ourselves

Practical wisdom

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## Abstract

**Purpose** – The purpose of the paper is to present a provocative view of what Peter Drucker would be writing about today in his self-described role as a social ecologist.

**Design/methodology/approach** – The paper uses Drucker's qualitative framework to ask what changes that contravene conventional wisdom have already happened, whether they are relevant and meaningful and what opportunities they present.

**Findings** – The paper suggests that the concepts of ecological rationality and embodied cognition form the basis for a new framework to challenge the hegemony of the existing concepts of rationality based on frameworks drawn from neoclassical economics.

**Practical implications** – The primary implication is that an ecological framework of “both . . . and” is needed to embrace and contain the “either/or” of economics. This will sweep the liberal and fine arts back into management, render the concept and role of power in organizations discussable and place ethics, prudence and judgement at the centre of the management challenge.

**Originality/value** – The paper presents a provocative perspective that, if valid, will be extremely disruptive of the current Western management paradigm.

**Keywords** Management, Ethics, Ecology, Cognition, Practical wisdom, Phronesis, Ecological rationality, Embodied cognition, Aristotle, Bagehot, Drucker

**Paper type** Viewpoint

Peter Drucker regarded himself as a social ecologist, a bystander and an observer – a “sentry” for society. Indeed, he took his personal motto from the look-out in Goethe's *Faust*: “Born to See; Meant to Look” (Drucker, 1992). However, he was never a futurist, having learned early the futility of prediction. Instead he anticipated the future. Drucker wrote that a social ecologist has to use qualitative means to find and assess qualitative change. He or she must ask questions like:

- What changes have already happened that do not fit “what everybody knows?”
- Is there any evidence that this is a change and not a fad?
- Does it make a difference – is it relevant and meaningful?
- What opportunities does it offer? (Drucker, 1992, p. 62)

I am going to use these headings to explore what for me is the most significant societal change with implications for management, work and organizations. It is the new, emerging understanding of what it is to be human. Given Peter Drucker's consuming interest in people and human nature I have a hunch that, if he were alive today, he would be writing about this.



### **Twin enlightenments**

Ever since the European Enlightenments, the English and Scottish “sociology of virtue” has been in conflict with the French “ideology of reason” (Himmelfarb, 2004). For the British the essence of human nature was a moral sense of right and wrong and a natural empathy for others. For the French *philosophes*, however, reason was paramount, the equivalent of “what Grace is to the Christian” (Himmelfarb, 2004, p. 18). Of course this strife did not begin in the eighteenth century – it dates back through Aristotle and Plato, Heraclitus and Parmenides to much earlier times. Since then, however, the battle between what Adam Smith called “moral sentiment” and pure reason has taken many forms and has been fought by proxies in many different places. Sometimes the war has been “hot” as it was in the *Methodenstreit* between the German Historical School of economics and the neoclassical Austrian School. The former emphasized the importance of power, values and history in the development of institutions, while the latter advocated the use of methodological individualism as a guide to understanding markets. Out of this strife, through a complex series of developments, would emerge mainstream, neoclassical economics, with its use of logic to come up with universal principles of human action for self-interested actors (Khurana, 2007). It was the Austrian School’s victory in the early twentieth century and the emergence of neoclassical economics that confirmed to Drucker that he could never be an economist: he realized that he was interested in people, not in commodities.

At other times the war has been “cold” and the conflict barely acknowledged. In the field of management in the 1950s, the ideology of reason triumphed in a walkover and was installed as the foundation of the new science of management. Moral sentiment in the form of the Human Relations School and, more recently, in the guise of the leadership movement, has led the occasional rebellions against this orthodoxy but to no avail. What neoclassical economists dubbed the “rational-agent” view of human nature has been in power for over 60 years, ruling the academies, corporations and government institutions. It has become what “everybody knows”.

### **What “everybody knows”**

Back in the 1950s, when the foundations for modern management were laid, “everybody knew” that managers ought to be rational in a logical, Cartesian way. Emotion was the enemy of reason and the mind of the manager was idealized as factual and forensic, rather like that of the hyper-logical Mr Spock in the American science-fiction series *Star Trek*. The mental model that many had of the human mind was that of a general-purpose computer; a “blank slate” to be programmed by culture, training and experience (Pinker, 2002). Academics set about developing universal management principles, based upon their analysis of apparently successful firms. Thus, ideas were divorced from matter, mind from body and facts from values. More seriously, the emphasis on knowledge and reason rendered the concept and role of power in organizations virtually undiscussable.

Initially this view of human nature served the business schools and their corporate clients well. In the aftermath of Second World War, America was the only large industrial nation to survive with its infrastructure intact. The preoccupation of major corporations was managing growth and scale and producing “more of the same”. Innovation was relegated to the R&D departments. The siloed faculties of the business schools mimicked those of their customers, delivering the functional skills that every manager needed. Continuity was pursued, but at the expense of change.

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In management, however, our views of human nature are never neutral – how people are treated determines how they behave and the behavior of organizational players under the “rational-agent” view of managers has become steadily more and more dysfunctional. The application of organizational economics to what Drucker called managerial capitalism transformed it into shareholder capitalism. The result was the elimination of judgment and duty from management, the banishment of trust and loyalty from organizations and the widespread gaming of the system by managers as they pursued their own self-interest. Gradually the “what” and the “how” of means began to dominate the “who” and the “why” of ends. Profit, instead of being seen as means to higher purposes, became an end in itself. When this happens, as Drucker pointed out, no consideration of the balance between the long run and short term is possible.

### **Changes that have already happened**

Over the past decade and more it has become clear that the view of managers as rational-agents is deeply flawed. We never were and never can be rational like Mr Spock and, if we were, our colleagues would rightly regard us with suspicion. New findings about human nature from many different fields, including behavioral economics, evolutionary biology, evolutionary psychology and neuroscience are now emerging. There is growing evidence that our minds are collections of myriad special-purpose “apps”, cobbled together by evolution. They have evolved a practical wisdom based upon experience and contingent upon context.

An obvious accelerant for this new view of human nature was the financial crash of 2008 and the “Great Recession”. The crash was not supposed to happen. If markets were self-equilibrating, as most economists assumed they should be, and if investors were rational in the logical sense of that term, it should not have. Some diehards have contended that the problem was that the markets were not free enough, but few will find these arguments persuasive. There is now a profound distrust in the ability of markets for financial assets to regulate themselves. At the firm level, the shareholder value model and the stock-based incentive schemes that accompanied it have come in for severe criticism (Martin, 2011). Multiple management shenanigans to game the system have made some critics despair over ever making management a genuine profession.

### **This is a real change and not a fad**

These new perspectives on human nature have attracted the attention of scholars from many different disciplines, as they attempt to understand what their implications are. There have been two different interpretations. The first is Nobel Laureate Daniel Kahneman’s (2011) work, under the banner of “heuristics and biases”. Kahneman identified two fictional systems in the mind (fictional because they do not actually exist as separate systems). System 1 is an automatic, fast-acting, associative system that is continually searching for familiar patterns. System 2 is a slow, effortful, logical system that can make complex calculations. This is the system that we associate with the concept of managers as rational-agents. To the chagrin of many economists, however, Kahneman’s work shows clearly that System 1 dominates System 2. Unfortunately the pejorative “biases”, together with Kahneman’s failure to outline his own concept of rationality, has resulted in a “glass half-empty” view of human cognitive powers. It has left the “gold standard” with the management scientists and the economists by default.

There is, however, a second, more optimistic take on the new discoveries about human nature. This “glass half-full” view is the concept of “ecological rationality”, which was also featured in the 2002 Nobel Prize for economics, but coincidentally in the acceptance speech from its other recipient, Economist Vernon Smith (2003). Ecological rationality suggests that our minds have evolved to extract cues to action from the contexts in which we find ourselves (Gigerenzer, 2007). This is our System 1 that is geared to making fast, “good enough” decisions under pressure of time and conditions of uncertainty. Proponents of ecological rationality argue that it is this essential, practical wisdom – Aristotle called it *phronesis* – which has allowed us to survive as a species for 100,000 years or more, that should be the gold standard for rationality (Todd *et al.*, 2012).

A natural ally of the concept of ecological rationality is that of embodied cognition and the embodied mind (Lakoff and Johnson, 1999). The idea of embodied mind denies the validity of the Cartesian separation of body from mind. Instead it implies that we can “think” (and learn) about the world “in just as many ways as we experience it!” (Robinson, 2009) Thus, contexts matter, history matters and stories matter.

### **This change is relevant and meaningful**

The relevance and scope of such a fundamental change in our assumptions about human nature is difficult to overstate. No aspect of society will be untouched by it and one of the fields most affected will be the practice and theory of management. Currently that field is a morass of complex mental models. 50 years ago one leading academic called it a “management theory jungle” (Koontz, 1961). Today it is more like one of those exploding galaxies filmed by the Hubble telescope, bursting apart as the stars rush away from each other at the speed of light.

The concepts of ecological rationality and embodied cognition have the capacity to change all this. If we can indeed learn and think about the world in just as many different ways as we can experience it, then all of the liberal arts and even the fine arts are swept back into management. They do not come back in chaos but integrated into a new ecological understanding of how complex human systems work (Hurst, 2012). An ecological perspective allows us to understand how new enterprises are conceived in passion and born in communities of trust. They grow through the application of reason and mature in power. As reason supplants passion and trust, however, people are increasingly hired for their technical skills, rather than their belief in the “cause”. As a powerful hierarchy emerges, for the very best of reasons – to embed a recipe for success – people become instruments of that power. The resulting loss of excitement and engagement steadily drives out creativity and innovation. Thus, power tends to freeze organizations and they can easily fall into a competency trap, where they cannot abandon the habits and processes that got them to where they are. Unable to forsake what Bagehot (1872/2001) called “preservative habits”, they cannot break the “cake of custom”. They are now brittle and vulnerable to Schumpeter’s (1962) gales of creative destruction.

An ecological perspective also suggests how this destructive-creative process works. Destruction, whether by disease, flood, wind or fire opens up spaces in an ecosystem, where small-scale innovation can proceed unconstrained by lack of resources. In human ecosystems innovation and creativity flourish in communities of trust and practice with a strong sense of mission and purpose. The process is clearly visible in such disparate places as the Florence of the Medici, the Quaker and other Nonconformist communities in eighteenth century England, Vienna at the turn of the nineteenth century and today’s

Silicon Valley. An ecological framework also reminds us – as we are currently all too aware – that the pace of destruction is very fast and that innovation and the creation of growth and wealth take much longer.

**This change offers great opportunities (that may present themselves as crises!)**

Peter Drucker's constant concern, like that of Walter Bagehot before him, was with the balance between continuity and change in society and its institutions. He would have agreed with Bagehot (1872/2001, p. 65) that "The whole history of civilization is strewn with creeds and institutions which were invaluable at first, and deadly afterwards".

For progress demands the continual renewal of belief systems and their realized institutional forms at all levels of civilization. "Nothing lasts unless it is incessantly renewed (attributed to Charles de Gaulle; Judt, 2005, p. 290). Peter Drucker knew that the balance between stability and change was a complex, dynamic one. His favourite analogy was that of the balance wheel of a watch, which combines with the plasticity of the watch's spring to create the beat and tempo of time, allowing the watch to fulfill its function.

We can push this analogy harder and use it to illuminate the relationship between economics and "ecologics". Neoclassical economics, with its emphasis on equilibrium, can be thought of as the study of the stabilizing influences in market economies, the "balance wheels". "Ecologics", on the other hand, with its stress on change and development, can be thought of as a framework for the study of societies' life cycles, their movements and their disruptions – the "springs" of civilizations. The relative stability of the post-Second World War period lulled us into looking at societies through a single lens, that of economics. It was all balance wheel and no spring. Now that has to change, with the "both [...] and" of "ecologics" embracing and containing the "either/or" of neoclassical economics. This is the way it should be – we want market economies, not market societies.

The ecological perspective, with its emphasis on the importance of context, helps us understand the multiple levels at which the tension between stability and change plays out. Drucker knew that this tension was fundamentally a polarity, like that of a magnet. It was not a dialectic that was susceptible to resolution at a higher level: the polarity exists at all levels. From an ecological perspective we call such a self-similar, multi-level process fractal (Mandelbrot, 1983). Families and nascent institutions begin their lives as ecological entities, members of an ecosystem. As they grow and develop they become economic entities and components of an economical system. One level above, however, these economic entities are, in their turn, members of a larger political ecology that, at least ideally, also contains both creative ecologies and stable polities. And so it goes, layer upon layer, with the dynamics at each level alternating between stability and change. Relatively long periods of innovation and growth produce periods of stability that are punctuated by sharp descents into destruction, exactly like the one we are currently experiencing. The ecological perspective reminds us that in these crises there will be many opportunities.

*Eastern logic – Western wisdom*

In China, India and the BRICS community of nations the challenge is to manage growth and scale, just as it was for the West in the post-Second World War period. They will

use the current, economics-based, Cartesian logic of management, employing tools and techniques similar to those prevalent in the West over the past six decades. Although their technology is more modern, the nature of work and the roles of the worker will resemble those found in our industrial sectors in the 1950s and 1960s. Many factories will still employ “hands” and not expect their employees to bring either their “heads” or “hearts” to work.

Thus, firms and institutions in those countries can be expected to look like the West’s, at least superficially. Their cultural and political contexts will, however, create distinctive differences. For, at the same time as they are managing their economies, several nations in this group confront the challenge of creating sustainable social and political ecologies. China, in particular, faces the daunting transition from a monolithic political system to something more flexible that can accommodate social and political change. The difficulty of accomplishing this without severe disruption cannot be overestimated.

In the West, which is facing the task of reinventing its societies, we can anticipate that a more ecological approach will be needed. Firms and institutions will be increasingly viewed as ecologies, as sustainable complex systems. As societies we have to find new meaning in “enough” rather than searching fruitlessly for it in “more”. Our new understanding of what it is to be human will yield a new appreciation of community and the joys that it can bring. Contexts will be critical, with the emphasis on nurturing the communities of trust and practice that encourage innovation and creativity.

A reform of education systems will be needed at all levels along ecological lines. Creative, analogical thinking will be seen to be just as important as the ability to analyze problems. The monolithic concept of general intelligence will become more complex, as we tease out the contribution of context-dependent and context-independent skills. Practical wisdom – learning through doing – based on context and experience, history and narrative, however, will trump cleverness (Flyvbjerg, 2001). At last the role of power will be discussable. Ethics – moral sentiment – judgment and prudence will be seen as the essence of management.

*Implications for managers – true objectivity as “the view from everywhere”*

Cartesian management, with its stress on objectivity and logic, locates the manager firmly at a distance from the organization being managed. The emphasis is on analysis and calculation, conducted from a high vantage point. If contexts matter, however, then reality is complex and multi-faceted. Thus, from an ecological perspective, the view of an outside observer is only one of many and can never be truly “objective”. “Instead of the silly and empty claim that an observation is objective if it resides in the brain of an unbiased observer”, wrote Churchman (1968, p. 86), “one should say that an observation is objective if it is the creation of many inquirers with many different points of view.”. True objectivity, then, is not a position; it is an achievement. It is the view from everywhere.

From an ecological perspective organizations are fundamentally processes rather than structures. The manager is embedded in a field of flux, where he or she is continually moving in space and time. The manager’s role swings continually between one of spectator/observer and that of participant/co-inquirer. In one moment the issues are broad and strategic; in the next they are fine-grained and operational. Such a person must be able to flex easily from using a managerial lens and the logic of “things” to a leadership perspective and the eco-logic of “people”. Analysis and

calculation are still needed, but their use is confined to the appropriate contexts and is embraced and contained by synthesis and judgment. Logic emerges more readily in hindsight than it does in prospect, and we are usually better rationalizers than we are reasoners.

Effectively an ecological perspective places every manager in a more compact version of the same field of tension where Drucker dwelt throughout his career. It is the tension between the twin poles of continuity and change, structure and movement. It is a place of paradox, where a manager is continually challenged to integrate apparently irreconcilable opposites. Maverick management thinker, Jaques (1982), suggested that the dimensions of this space are the twin dimensions of time – succession and intention. Succession is the familiar clock time, when past-present-future run in a sequence; intention is the time of “Now”, when memory, attention and expectation come together in a single moment of opportunity.

The relationship between these two forms of time is best described as one of figure and ground. We oscillate between succession and intention, time flowing by and then us flowing with it, in the moment. One instant we are lone spectators; in the next we are collaborative participants. Both succession and intention are always present and while we cannot “see” them at the same time, their integration is critical. We call the result “meaning” and the making of meaning is the primary concern of leadership. That is what Drucker did; he made meaning. And his tools of history and narrative are available to every leader. The prime purpose, as he always contended, is to grow people, to open them up to new experience. In this way we can realize our potential and become what, in some sense, we already are.

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