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Defining the Duties Of the American CEO

By Peter F. Drucker

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CEOs have ultimate responsibility for the work of everybody else in their institution. But they also have work of their own -- and the study of management has so far paid little attention to it. It is the same work, whether the organization is a business enterprise, a nonprofit, a church, a school or university, a government agency; and whether it is large or small, world-wide or purely local. And it is work only CEOs can do, but also work which CEOs *must* do.

In any organization, regardless of its mission, the CEO is the link between the Inside, i.e., "the organization," and the Outside -- society, the economy, technology, markets, customers, the media, public opinion. Inside, there are only costs. Results are only on the outside. Indeed the modern organization (beginning with the Jesuit Order in 1536) was expressly created to have results on the outside, that is, to make a difference in its society or its economy.

The CEO's Tasks

To define the meaningful Outside of the organization is the CEO's first task. The definition is anything but easy, let alone obvious. For a particular bank, for instance, is the meaningful Outside the local market for commercial loans? Is it the national market for mutual funds? Or is it major industrial companies and their short-term credit needs? All three of these "outsides" deal with money and credit. And one cannot tell from the bank's published accounts, e.g., its balance sheet, on which of these "outsides" it concentrates. Each of them is a different business and requires a different organization, different people, different competencies and different definitions of results. Even the very biggest bank is unlikely to be a leader in all these "outsides." For which of these to concentrate on is a highly risky decision and one very hard to change or reverse. Only the CEO can make it. But also the CEO must make it. It is the first task of the CEO.

The second specific task of the CEO is to think through what information regarding the Outside is meaningful and needed for the organization, and then to work on getting it in usable form. Organized information has grown tremendously in the last hundred years. But the growth has been mainly in Inside information, e.g., in accounting. The computer has further accentuated this inside focus. As regards the Outside there has been an enormous growth in data -- beginning with Herbert Hoover in the 1920s (to whose work as secretary of commerce we largely owe the data on GNP, on productivity, and on standard of living). But few CEOs, whether in business, in nonprofits, or in government agencies have yet organized these data into systematic information for their own work.

One example: Every major maker of branded consumer goods knows that few things are as important as the values and the behavior of that great majority of consumers who are not buyers of the company's products, and especially information on major changes in the non-customers' values and habits. The data are largely available. But few consumer-goods manufacturers have so far converted them into organized information on which to base their decisions (one well-publicized exception is the Shell Petroleum group of companies). Again it is primarily the CEO who needs this information and whose work it is to organize getting it.

The definition of the institution's meaningful Outside, and of the information it needs, makes it possible to answer the key questions: "What is our business? What should it be? What should it not be?" The answers to these questions establish the boundaries within which an institution operates. And they are the foundation for the specific work of the CEO. Particularly:

- *They enable the CEO to decide what results are meaningful for the institution.*

This is particularly important, particularly critical, and particularly risky for institutions that lack the discipline of the "bottom line," that is, for non-businesses. And non-businesses constitute the great majority of organizations in every developed society. But even for businesses, the bottom line is not by itself adequate as a definition of results -- the same bottom line may have very differing meanings according to how an institution defines "meaningful results." To decide what results a given bottom line represents is a major job of the executive. It is not based on "facts" -- there are no facts about the future. It is not made well by intuition. It is a judgment. Again, only the CEO can make this judgment, but also the CEO must make it.

This judgment is so risky that all pre-modern economies tried to avoid making it. In fact, the Modern Enterprise -- the one major institutional innovation of the Modern Economy -- was in large part created as the systematic risk-taker and risk-sharer, thereby enabling the individual strictly to limit the personal risk of investing in future expectations.

By thus making possible these time decisions in very large numbers and on an enormous scale, the Enterprise can be said to be the one invention that created the Modern Economy -- far more so than any other invention, whether material or conceptual. With the invention of the Enterprise the Executive came into being as a distinct role and function, with one of his or her major tasks being the making of the decision between short-term yields and deferred expectations. Making this decision requires a good deal of very hard work on the part of the CEO. (Both Machiavelli's "Prince" and Shakespeare's "The Merchant of Venice," two Renaissance masterpieces the background of which is the emergence of the modern economy, are built around the challenge of this decision).

- *The answers to the question "What is our business? And what should it be?" enable CEOs to decide what is meaningful information for the business and for themselves.*

This too is a high-risk decision. That U.S. business executives, for instance in the '50s and '60s, decided (in many cases quite deliberately) that what was going on in Japan was not particularly meaningful information for them and their companies, explains in large part why the Japanese export push caught them so unawares and unprepared.

It is information about the Outside that needs the most work. For far too many institutions -- and not only businesses -- define Outside in large part as their direct competitors. Toy makers tend to define the Outside as their toy-maker competitors; a hospital as the two competing hospitals in the same suburb, and so on. But the most meaningful competitors for the toy maker are not other toy makers but other claimants on potential customers' disposable dollars. The most meaningful information about the toy maker's Outside is therefore what value the toy presents to the potential buyer. (Customer Research, in other words, may be more important than market research -- but also far more difficult).

- *The CEO has to decide the priorities.*

In any but a dying organization there are always far more tasks than there are available resources. But results are obtained only by concentration of resources, especially by concentration of the scarcest and most valuable resource, people with proven performance capacity.

There is constant pressure on every CEO to do a little bit of everything. That makes everybody happy but guarantees that there are no results. The CEO's most critical job -- also the CEO's most difficult job -- is to say "No." To do so is not just a matter of will power. It requires an inordinate amount of study and work -- work which only the CEO can do but again work which the CEO must do.

- *The CEO places people into key positions. This, in the last analysis, determines the performance capacity of the institution.*

Every organization says, "We have better people." But this is, of course, impossible. Once an organization grows beyond a handful of people, it is subject to statistics' most ruthless law: the law of the great number, which dictates that there is only "normal distribution." What differentiates organizations is whether they can make common people perform uncommon things -- and that depends primarily on whether people are being placed where their strengths can perform or whether, as is only too common, they are being placed for the absence of weakness. And nothing requires as much hard work as "people decisions." The only thing that requires even more time (and even more work) than putting people into a job is unmaking a wrong people decision. And again, critical people decisions only the CEO can make.

No Real Counterpart

The CEO is an American invention -- designed first by Alexander Hamilton in the Constitution in the earliest years of the Republic, and then transferred into the private sector in the form of Hamilton's own Bank of New York and of the Second Bank of the United States in Philadelphia. There is no real counterpart to the CEO in the management and organization of any other country. The German "Sprecher des Vorstands," the French "Administrateur Delegue," the British "Chairman," or the Japanese "President" are all quite different in their powers and in the limitations thereon.

The American CEO is, however, fast becoming a major U.S. export. Tony Blair and Gerhard Schroeder are trying to make over their countries' top political job in the image of the U.S. president. In business the CEO model is being adopted even faster all over the world, e.g., in the recent restructuring of Europe's largest industrial complex, the German Siemens Group. And what makes the American CEO unique is that he or she has distinct and specific work.

-- Mr. Drucker is the author, most recently, of "The Daily Drucker ," just out from HarperBusiness.

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