

## NEO-FORDISM

—Drucker's Thought on Business Enterprise—

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What we here characterize as neo-Fordism is the thought of Professor Peter F. Drucker of New York University on business enterprise or on the basic principle of business management derived therefrom. In my opinion, what Drucker describes can be understood as a new development of Fordism, and in this sense it can be characterized as neo-Fordism. To clarify the reasons is the purpose of this article.

In order to accomplish this purpose, we must begin by describing the characteristics of what we understand as Fordism.

### I. *Fordism*

It is generally understood that Fordism means the thought of Henry Ford (1863–1947) on business enterprise or on the basic principle of business management derived therefrom. Ford proposes that a business should exist as an “instrument of service”, a “service instrument” or a “service organization”,<sup>1</sup> and that the purpose of a business should, therefore, be “service”. This is the first characteristic of Fordism and it is often called the “service motive”.<sup>2</sup> Ford declares this service to be raising the standard of living of the public, meaning 90–95% of the population; that is, the worker.<sup>3</sup> Then, the service proposed by Ford can be said to be the raising of the worker’s standard of living. This means increasing the purchasing power of the worker, and can be realized by lowering prices of goods which the worker purchases, or “low prices”, on the one hand, and by increasing the income of the worker, or “high wages”, on the other hand. Thus, the purpose of a business, as an instrument of service, should be the realization of low prices and high wages. That is the reason Fordism or the “service motive” is usually understood as the “principle of low prices and high wages.”

Now, Ford’s insistence upon the “service motive” or Fordism denies the “profit motive”, which sees a business as an “instrument of profit” and finds the purpose

<sup>1</sup> cf. H. Ford *My Life and Work*, N. Y., 1926, p. 161, and H. Ford, *Today and Tomorrow* N.Y., 1926, p. 27, p. 28, and p. 12.

<sup>2</sup> cf. Ford, *Today*, pp. 271–272. Ford also often called the “service motive” the “wage motive”. These two concepts are used interchangeably by Ford.

<sup>3</sup> cf. Ford, *My Life*, pp. 47–48, and cf. Ford, *Today*, p. 248.

of a business in profit. Ford interpreted the "profit motive" as the "principle of high prices and low wages", which sacrifices the public or worker in two ways: by high prices on the one hand and by low wages on the other. Ford thought this to be the inevitable result of finding the purpose of a business in profit. If a business should be an instrument of service, undoubtedly such a profit motive ought to be denied and replaced by the service motive. Indeed, Ford proposed the service motive, or Fordism, in order to deny the profit motive.

The reason Ford proposed such a service motive was that he believed it, not the profit motive, to be the "law of business". In other words, he did not propose Fordism because of any subjective or ethical requirement. We should remember that Ford heartily disliked charity and altruism. According to his opinion, Fordism is not in any way altruistic. On the contrary, it is a necessary law, and only when a business obeys this law, can it maintain its existence and development. The "law of business" in the economic and industrial world is, according to Ford, as objective and necessary as the "law of gravitation" in the natural world. When we act in accordance with their requirements there are no obstacles in our way, but when we act in defiance of or against them, strong resistance and pressures arise; "...the laws of business are like the law of gravity, and the man who opposes them feels their power".<sup>4</sup> The "service motive" is proposed as such an objective law of business, and we should understand that what enables a business to exist and prosper is, according to Ford, the public or workers. "The public and only the public can make a business".<sup>5</sup>

Ford denied the profit motive or profit principle, but he did not deny the *raison d'être* of profit. He denied establishing profit as the purpose of a business, but he did not deny the occurrence of profit in a business. Moreover, he emphasized that profit itself is a true source of the "business vitality" which maintains the existence and assures the prosperity of a business. Then, to Ford, profit is essential to a business. "Without a profit, business cannot exist. There is nothing inherently wrong about making a profit."<sup>6</sup>

Now, we must examine the relation between the "service motive" and "profit". According to Ford, profit is in no way the purpose of a business, because service should be the only purpose of a business. Business acts in order to perform a service, but the necessary result of this is a profit. In other words, to deny profit as the purpose of a business is to deny the profit motive, and to recognize profit as the result of business is the meaning of profit in the service motive. Profit "cannot be the basis—it must be the result of service".<sup>7</sup>

How can the performance of a business operated on the basis of the service motive be measured or tested? Ford found a measure in the amount of profit resulting from business activities. In his opinion, the higher the degree of realization of service that a business makes its goal, the larger the profit as the result

<sup>4</sup> Ford, *My Life*, p. 158.

<sup>5</sup> Ford, *Today*, p. 16.

<sup>6</sup> Ford, *My Life*, p. 20, and p. 273.

<sup>7</sup> Ford, *My Life*, p. 20, and p. 273, and cf. Ford, *Today*, p. 229.

of its activities. Of necessity, the performance of a business is measured by the amount of its profit. "Well-conducted business enterprise cannot fail to return a profit, but profit must and inevitably will come as a reward for good service".<sup>8</sup>

## II. *Neo-Fordism*

### —Characteristics of Drucker's Thought on Business Enterprise—

According to Drucker, a business or business enterprise is essentially an industrial enterprise. It is described as the decisive, representative and constitutive institution of industrial society, the society which was established as a result of the industrialization of the society by means of the mass-production revolution; that is, as the result of the world industrial revolution. This revolution had its beginning in the production of the first "Model T" by Henry Ford.<sup>9</sup>

Drucker finds the purpose of such a business or industrial enterprise in the "creation of a customer". He says: "There is only one valid definition of business purpose: *to create a customer*."<sup>10</sup> Although Drucker's view of the purpose of a business is different from that of Ford, there is an essential similarity. Both find the purpose of a business in the creation of a market. Ford found it in the enlargement of the purchasing power of the public, which can be understood to be the creation of a market. Drucker finds it in the creation of a customer, which also can be understood to be the creation of a market. However, the market which Ford intended to create by service was a general market not specific to any definite business, while the market which Drucker intends to create is a special market peculiar to some definite business, namely the customer of the business. Therefore, while the purpose of a business which Ford defined can be understood to be more social, what Drucker defines should be understood to be more closely related to the business itself.

Now, when Drucker insists upon defining the purpose of a business as the creation of a customer, he also denies the "profit motive" or "profit principle". However, Drucker is more elaborate in his denial of the profit motive than Ford. We can find three kinds of denial of the profit motive in Drucker's views.

The first kind of profit motive denial is found in Drucker's opinion that the profit motive is always personal or individual, and such a personal or individual motive can never be relevant to the principle of business enterprise. He says: "The root of the confusion is the mistaken belief that the motive of a person—the so-called 'profit motive' of the businessman—is an explanation of his behavior or his guide to right action". "The profit motive and its offspring, maximization of profits, are just as irrelevant to the function of a business, the purpose of

<sup>8</sup> Ford, *My Life*, p. 20, and p. 273.

<sup>9</sup> cf. P. F. Drucker, *The New Society, the Anatomy of Industrial Order*, N. Y., 1949, p. 1 and pp. 27-37.

<sup>10</sup> P. F. Drucker, *The Practice of Management*, N. Y., 1954, p. 37.

a business and the job of managing a business".<sup>11</sup>

The second kind of profit motive negation is the denial of profit as a business purpose, because, according to Drucker, the latter should be found only in the creation of a customer, not in profit making. This is theoretically the most important denial of the profit motive in Drucker's view, because, in this assertion, the profit motive is discussed not as a personal or individual motive but as a motive related to the business itself; that is, as a business motive. He says: "The average businessman when asked what a business is, is likely to answer: 'An organization to make a profit'. And the average economist is likely to give the same answer. But this answer is not only false; it is irrelevant." "This does not mean that profit and profitability are unimportant. It does mean that profitability is not the purpose of business enterprise and business activity, but a limiting factor on it".<sup>12</sup> Here we should note that this denial of the profit motive is identical with that found in Fordism.

The third kind of profit motive negation is found in the opinion that a business does not aim at maximization of profit, but only at realization of an "adequate profit" in the meaning of a "required minimum profit".<sup>13</sup> We should be aware that this assertion necessarily acknowledges profit as the purpose of a business, insofar as it is within the limit of "required minimum profit" or "adequate profit". Thus, strictly speaking, it is not actually a denial of the profit motive or profit principle.

Examining the reason Drucker insists upon his view of the purpose of a business, we find that it is because he believed that such a view represents the objective needs of a business enterprise as an institution of an industrial society. According to him, an industrial enterprise should be managed in accordance with its own objective needs. Fundamentally, these are to realize the "survival and prosperity of the enterprise", the "very survival of the enterprise" or the "self-preservation of the enterprise".<sup>14</sup> Drucker says: "The customer is the foundation of a business and keeps it in existence. He alone gives employment".<sup>15</sup> Then, "to create a customer" is, by objective necessity, required for a business to realize its "survival and prosperity".

Thus, as the purpose of a business, Drucker neither proposes the creation of a customer nor denies the making of a profit because of any subjective or ethical requirement, but because of the objective requirements of the business itself. This is the same as Ford's proposal of service, not profit, as the purpose of a business because of the "law of business". For Ford's "law of business" Drucker substitutes the "objective needs of the enterprise," which should equally be understood as the necessary law. Here, we should note that Drucker strictly disting-

<sup>11</sup> Drucker, *Practice*, p. 36.

<sup>12</sup> Drucker, *Practice*, p. 35.

<sup>13</sup> "required minimum profit" is also called "needed minimum profit", "minimum profit needed" or "minimum necessary profit". cf. Drucker, *Practice*, p. 47, p. 60, and p. 91.

<sup>14</sup> cf. Drucker, *New Society*, p. 47, p. 50, p. 61, p. 204, p. 314, and Drucker, *Practice*, p. 62, p. 63, p. 120, p. 127, p. 204, p. 383, etc.

<sup>15</sup> Drucker, *Practice*, p. 37.

ishes between personal preference and the objective needs of the business.<sup>16</sup>

As mentioned above, Drucker denies the profit motive or profit principle, but he does not deny the *raison d'être* of profit. He denies the establishment of profit as the purpose of a business, but he does not deny the occurrence of profit in a business. Moreover, he greatly emphasizes the importance of profit. He says: "The enterprise must operate at an adequate profit—this is its first social responsibility as well as its first duty toward itself and its workers".<sup>17</sup> Further, "...profitability must be the sovereign criterion and rationale of the enterprise. It is the expression of both its responsibility to itself and its responsibility to society".<sup>18</sup>

Concerning the relation between the "creation of a customer" as the purpose of a business and profit, Drucker says "... profit is not a cause. It is the result—the result of the performance of the business in marketing, innovation and productivity. It is at the same time the test of this performance—the only possible test..."<sup>19</sup> That is, profit is not understood as the purpose of a business but only as the result of business activities intended to perform its purpose. This opinion is the same as that of Ford. Drucker describes two kinds of functions needed to achieve the purpose of a business, that is the creation of a customer. The first is the entrepreneurial and creative function, which includes the two basic functions of marketing and innovation. The second is the administrative and bureaucratic function, which means the productive utilization of wealth-producing resources, the economic aspect of which is called productivity.<sup>20</sup> Then, according to Drucker, business activities intended to fulfil the purpose of creating a customer, occur in relation to marketing, innovation and productivity, and profit results only from these activities.

Moreover, profit is understood as the test of business performance. This opinion is also just the same as that of Ford. According to Drucker, profit "measures the net effectiveness and soundness of a business's efforts. It is indeed the ultimate test of business performance",<sup>21</sup> and the only possible test.

### III. *Contradictions in the Denials of the Profit Motive*

We have made it clear that both Fordism and neo-Fordism deny the profit motive or profit principle. While in Fordism the denial of the profit motive is the denial of profit as the purpose of a business, in neo-Fordism, it is more than this. However, there is no doubt that even in neo-Fordism the essential aspect of the denial of the profit motive is found in the denial of profit as the purpose

<sup>16</sup> cf. Drucker, *Practice*, p. 197, and Drucker, *New Society*, p. 72.

<sup>17</sup> Drucker, *Practice*, p. 271.

<sup>18</sup> Drucker, *New Society*, p. 73.

<sup>19</sup> Drucker, *Practice*, p. 46.

<sup>20</sup> cf. Drucker, *Practice*, pp. 38-41, and pp. 68-69.

<sup>21</sup> Drucker, *Practice*, p. 76.

of a business. Thus, we shall examine this aspect first.

Both Ford and Drucker eliminate profit making as the purpose of a business, while insisting that profit is the only test or measure of the performance of business activities. This is one of the most characteristic features of Fordism and neo-Fordism. However, as explained below, we cannot theoretically recognize such a view.

Business activities are activities which are intended to fulfil the purpose of a business. The performance of business activities can be judged only by a criterion which clearly indicates to what extent the purpose of a business is fulfilled. Because the test or measure used to judge the performance of business activities should be such a criterion, it can no longer be irrelevant to the purpose of a business. On the contrary, it can only be found in relation to the business purpose itself. The fact that both Ford and Drucker recognize profit as the only or ultimate test of business performance, implies logically that, in spite of their different persistence, they recognize profit as the only, or ultimate, purpose of a business. Thus, we must emphasize that, if we should recognize profit as the test or measure of business performance, the denial of the profit motive, which eliminates profit as the purpose of a business, can not be logically justified.

This can be demonstrated in another way. Both Ford and Drucker exclude profit as the purpose of a business, but recognize it as the essential result of business activities. However, this also cannot be admitted theoretically. There is no doubt about the fact that profit is the result of business activities. In other words, the problem is not whether profit is the result of business activities; the problem is whether profit is the intended result, that is, whether profit is what is intended to be realized as the purpose of a business. Now, business activities are conscious and planned activities to fulfil the purpose of a business. If profit were a mere result irrelevant to the purpose of a business, it might be the incidental or inevitable result of business activities which could be either desirable or undesirable. Planned activities should endeavour consciously to increase desirable results on the one hand, and to eliminate or, at least, decrease undesirable results on the other hand. In other words, so long as profit is desirable, conscious and planned business activities should intend to increase profit as the conscious purpose of a business. Profit is recognized by both Ford and Drucker as a result essential to the existence or the survival and prosperity of the enterprise. Therefore, there is no doubt about the fact that both Ford and Drucker alike think profit a desirable result. In so far as profit is the essential or desirable result of business, it cannot be excluded from the purpose of a business. Thus, denial of the profit motive, as the denial of profit as the purpose of a business, should be rejected.

Here, we should direct our attention to the fact that Drucker declares that there are two kinds of basic law in carrying on a business: the first is the "law of avoiding loss" and the second is the "law of higher output" or the "law of increased productivity." The former concerns profit-making.<sup>22</sup> Furthermore, it

<sup>22</sup> cf. Drucker, *New Society*, chap. 4, pp. 52-63, and chap. 5, pp. 64-67.

must be interpreted as a law which acknowledges profit as the purpose of a business, which is distinctly contradictory to the first denial of the profit motive. However, the profit to be obtained in the "law of avoiding loss" is not "maximum profit", but merely "adequate profit" or, in the same meaning, "required minimum profit."

By such a process of thinking, Drucker arrives at another denial of the profit motive. In this case, profit is recognized as the purpose of a business, but the profit motive, as the intention to maximize profit, is denied. Let us examine the denial of the profit motive in this meaning.

The first law of business is to avoid loss through acquisition of a required minimum profit or adequate profit, not to maximize profit, Drucker insists. In this regard, we must ask whether a business should reject profit beyond a required minimum, and if so, why. However, Drucker does not provide clear answers to these questions.

If the law of avoiding loss merely states the minimum requirement of a business in the acquisition of profit, it does not deny the principle of profit maximization. It merely sets a lower limit, not the upper limit, of profit a business should obtain. As we have seen above, business activities are conscious, planned activities. Thus, if they are rational, they should always be planned for a profit. Drucker says: "Management, in order to manage, needs a profit objective at least equal to the required minimum profit, and yardsticks to measure its profit performance against this requirement."<sup>23</sup> This profit planning reveals the profit objective, which should be understood as a lower limit of profit to be acquired, not as the upper limit rejecting the acquisition of profit beyond it. Therefore, profit planning, which establishes a required minimum profit as the profit objective of a business does not imply the denial of profit maximization.

Next, we must examine what Drucker means by required minimum profit. He declares:

"The guiding principle of business economics...is not the maximization of profits; *it is the avoidance of loss*. Business enterprise must produce the premium to cover the risks inevitably involved in its operation... Indeed business enterprise must provide not only for its own risks... The enterprise must also make a contribution to the social cost...of a society; that is, it must earn enough to pay taxes. Finally it must produce capital for future expansion. But first and foremost it must have enough profit to cover its own risks."<sup>24</sup>

Further, according to Drucker, the future risks of the enterprise itself, which should be covered by so-called "risk premium," contain four risks: replacement, obsolescence, risk proper or market risk and uncertainty.<sup>25</sup> It is apparent that what Drucker calls "required minimum profit" or "adequate profit" is not the moderate profit it is often understood to be, but is as large a profit as the greatest

<sup>23</sup> Drucker, *Practice*, p. 47.

<sup>24</sup> Drucker, *Practice*, pp. 46-47.

<sup>25</sup> cf. Drucker, *New Society*, pp. 55-59, and Drucker, *Practice*, pp. 76-77.

business effort to seek profit can realize. Drucker says: "This 'survival minimum' will, incidentally, be found to exceed present 'maxima' in many cases. This, at least, has been my experience in most companies where a conscious attempt to think through the risks of the business has been attempted."<sup>26</sup>

In my opinion, this means that the denial of profit maximization as the purpose of a business enterprise and the denial of the profit motive in such a meaning cannot logically be acknowledged. When profit is recognized as the purpose of a business, the business is required to maximize profit, and the so-called "law of avoiding loss" should be understood as a guide to more rational realization of the profit motive or profit maximization.

Drucker further denies the profit motive as a personal or individual motive. Of course, it is obvious that the profit motive had its origin in what Drucker calls pre-industrial society as a personal or individual motive. Nevertheless, it cannot be said that the profit motive has always been and still is personal or individual. We should recognize that the profit motive is capitalistic, but its nature changes as capitalist society develops from a pre-industrial to an industrial society and the industrial enterprise comes into existence. That is, the profit motive has developed from a personal or individual profit motive to a corporate or organizational profit motive. My opinion is that what Drucker insists on can be interpreted as merely denying the validity of a "personal profit motive" and proposing, contrary to his own expression, a "corporate profit motive" or "organizational profit motive" which is the result of institutionalization of the profit motive. In this sense we can agree with his denial of a "personal profit motive." However, we must note that this is only a partial, not a complete, denial of the profit motive.

In summary, the essential denial of the profit motive in both Ford and Drucker is found in the denial of profit as the purpose of an industrial or business enterprise. Such a denial cannot logically be accepted. This means that other denials of the profit motive developed relative to the essential denial described above must also be logically rejected.

#### IV. *What the Denials of the Profit Motive Mean*

Is there any validity in the proposals of the service motive, or Fordism, and the creation of a customer, or neo-Fordism? Yes, we can find much that is valid if we release them from denials of the profit motive and interpret them as proposing a new profit motive. Such an understanding finds its moment in the fact that Ford proposes the service motive as the "law of business" and Drucker proposes the creation of a customer as the "objective needs of business enter-

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<sup>26</sup> P. F. Drucker, "Business Objectives and Survival Needs: Notes on a Discipline of Business Enterprise," *The Journal of Business* of the School of Business of the University of Chicago, Vol. XXXI, No. 2 (April 1958).

prise." In other words, the business motive generally might always have been generated from the so-called "law of business" or "objective needs of business enterprise." Even the former profit motive could not have been an exception. Nevertheless, if the former profit motive should be denied, it is because of the fact that the law of business or the objective needs of business enterprise have substantially changed. The proposals of both Fordism and neo-Fordism can be interpreted to indicate such a substantial change due to the industrialization of business enterprise, which inevitably causes a substantial change in the profit motive as a business motive, that is, the institutionalization of the profit motive.

In the society of our time, which can be characterized as an industrial society, a business enterprise has become fixed in its resources, human as well as physical. Naturally, it must endure and survive permanently according to its own objective needs. Such a going concern can not be motivated by a desire to maximize short-run, temporary profit. On the contrary, it must try to maximize long-run profit. When a business is operated on the basis of short-run, temporary profit maximization, there are many possibilities that business activities will develop which sacrifice the "public" or the "customer" and neglect the social interest. However, when a business is operated on the basis of long-run profit maximization, business activities will, of necessity, contribute to the "public" or the "customer" and to the social interest. Here, profits are maximized through service to the public or creating a customer, and this is, in my opinion, just what both Fordism and neo-Fordism propose. In other words, Fordism and neo-Fordism do not deny the profit motive as a whole, but only the short-run, temporary profit motive.<sup>27</sup> Also, what is proposed as a substitute for the profit motive by both Fordism and neo-Fordism can not replace the profit motive completely, but only its short-run, temporary aspect. Thus, we can characterize both Fordism and neo-Fordism as being concerned with the long-run profit motive which has arisen from a substantial change in the profit motive through its institutionalization. Such a change in the profit motive may be characterized, in accordance with F. v. Gottl-Ottlilienfeld, as the change from "Erwerb bei Hochpreishaltung" to "Erwerb bei Tiefpreishaltung."<sup>28</sup> At the same time, this implies a substantial change in the purpose of a business, because long-run profit maximization can only be achieved when a business survives forever in an economic society. Substantially, then, a business intends to endure and survive, and the "survival and prosperity of the enterprise", or "Unternehmungserhaltung" in the same meaning, becomes the substantial purpose of a business. In other words, the business activities designed to maximize profit become substantially those which maintain a business or enable it to survive and prosper in an economic society. Here, we should again be reminded that the service motive of Ford

<sup>27</sup> Here, we should remember that the profit motive denied by Ford is merely the "principle of high prices and low wages." Such a profit motive is undoubtedly the short-run, temporary profit motive.

<sup>28</sup> cf. F. v. Gottl-Ottlilienfeld, *Fordismus, ueber Industrie und technische Vernunft*, 3 Aufl., Jena, 1926, S. 68.

was proposed as the "law of business," being an objective law which should be obeyed in order to realize the existence and development of a business, and that the creation of a customer was proposed by Drucker as the "objective needs of the enterprise" which must be satisfied in order to realize the survival and prosperity of the business.

At any rate, it cannot be denied that the so-called industrial enterprise is also included in the category of capitalistic enterprise, and that a capitalistic business enterprise should generally be operated to maximize profit, the profit motive or profit principle being its leading principle. The problem is whether the profit to be maximized is short-run, temporary profit or long-run profit. Both Fordism and neo-Fordism find their essential meaning in proposing that, for the institutionalized business enterprise of our time, which is forced to employ highly fixed human and physical resources, the main problem is not maximization of short-run, temporary profit but maximization of long-run profit.<sup>29</sup>

Short-run profit may mean the amount of profit realized from each transaction, or more usually, the amount of profit realized during each business period, say each month, half year or year; and the aim of short-run profit maximization is to maximize such an amount of profit. Then, it is the maximization of an amount of profit. However, long-run profit maximization cannot have such a maximization of profit as its objective. What it attempts to maximize should symbolize the "survival and prosperity of the enterprise" or "Unternehmenserhaltung." Such an objective cannot be an amount of profit, but the rate of the periodical result of business activities to the amount of total capital invested. Such a rate may be found, at first, in the profit rate, or the rate of the periodical amount of profit (including interest) to the amount of total capital invested. Then, long-run profit maximization may be understood, at first, as the maximization of the profit rate. However, maximization of the profit rate is not sufficient to express modern, long-run profit maximization. Thus, another rate must be sought. As such a rate, we propose the value-added rate, or the rate of the periodical amount of value-added to the amount of total capital invested.<sup>30</sup> Thus, the long-run profit maximization of the modern industrial enterprise can be understood as maximization of the value-added rate, which symbolizes the purpose of a business, that is survival and prosperity.

We have discussed the similarity between the propositions of Drucker and Ford. We should, however, distinguish between them. Indeed, it is in the dif-

<sup>29</sup> Drucker consciously denies even long-run profit maximization. He writes: "Finally, 'profit maximization' is the wrong concept, whether it be interpreted to mean short-range or long-range profits or a balance of the two. The relevant question is, 'What minimum does the business need?' not 'What maximum can it make?'" (Drucker, "Business Objectives and Survival Needs," *op. cit.*).

However, we cannot understand why he denies maximization, especially the maximization of long-range profit.

<sup>30</sup> "Value-added" consists mainly of profit, interest and wages.

ferences between them that we should find the real meaning of neo-Fordism as the new development of Fordism.

Briefly, both Ford and Drucker make an institutional approach to the business enterprise of our time, but while Drucker is deeply conscious of such an institutional approach, Ford is not. In my opinion, differences between the two propositions arise from this very fact.

Both Fordism and neo-Fordism have some traces of ethical or subjective considerations, despite their assertions to the contrary, but the degree is higher in the case of Fordism. This is apparent in their definitions of the purpose of a business. As indicated above, "service" is more social, the "creation of a customer" is more concerned with the business itself. Such a difference can be understood as arising from the difference in soundness of their institutional approaches. While Ford grasps the business institution only intuitively, Drucker does so through his excellent structural analysis of business in its structural relation to an industrial society.

Differences resulting from the different institutional approaches of Ford and Drucker are most apparent in the policies or principles of business management derived therefrom. For example, while a high-wage policy in Fordism can be understood only as the "secret of high wages" to the business, not as the business's "need of high wages," neo-Fordism requires a "predictable income and employment plan" in order to increase business vitality. Fordism proposes anti-unionism; neo-Fordism acknowledges unionism and, further, proposes the need of "self-government of the plant-community." In addition, we should note that Fordism proposes centralized management; neo-Fordism persists in decentralized management or "management by objectives and self-control." What Drucker says concerning the latter closely resembles what Mary Parker Follett describes as management by "law of the situation".<sup>31</sup>

However, a discussion of such problems must be reserved for a later occasion. Our present purpose has been merely to explain that what Drucker describes and proposes can best be understood as a new development of Fordism or neo-Fordism.<sup>32</sup>

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<sup>31</sup> Concerning the propositions of M. P. Follett, see the following: H. C. Metcalf and L. Urwick, ed., *Dynamic Administration, the Collected Papers of Mary Parker Follett*, N. Y. and London, 1941. L. Urwick, ed., *Freedom and Co-ordination, Lectures in Business Organization by Mary Parker Follett*, London, 1949.

<sup>32</sup> For a discussion of the problems indicated, see my book *A Study of Drucker's Theory of Business Enterprise*, Tokyo, 1959, in Japanese. The present article is taken largely from the first chapter of this book.