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# Peter Drucker and the Denial of Business Ethics

Michael Schwartz

**ABSTRACT.** This paper speculates upon the reasons for Peter Drucker's ongoing and vigorous denial of the relevance of business ethics. It contemplates whether Drucker consciously, or even perhaps sub-consciously, associates the aims of business ethics with the aims of those associated with the *Arbeitsfreude* movement in Germany prior to the outbreak of the second world war. If this is the case the paper questions whether Drucker's distaste for some of the more notorious outcomes of that movement in Germany are reflected in his hostility to business ethics. Drucker's reflections regarding the social responsibilities of business are discussed, as are the limitations which he imposes upon such corporate social responsibility. Drucker's distinction between societal ethics and individual ethics are also discussed.

## Introduction

Amongst both business faculty and practising managers, Peter F. Drucker has literally become a legend in his own time as a major shaper of today's management thought. This is due to the series of books which Drucker has written on the practise of management. Indeed Drucker has claimed that it was these books which established management as a discipline (Drucker, 1986).

However, Drucker has also written a series of books on the structure of our society, and in the process, has established himself as a leading social

writer. All of Drucker's books display his deep preoccupation with morality. Throughout, we witness a Kantian Bias which overrides any possible utilitarian calculus. This, for instance, manifests itself in Drucker's denial of profit maximisation as a goal for business (Drucker, 1973) and paradoxically his simultaneous denial of business ethics making any sense (Drucker, 1973).

Such a paradox perhaps might be resolved by contemplating Drucker's political philosophy. If this was one which sought for society strong intermediary institutions between the individual and the state, then his managerial work might be seen as only the means to that end, and thus that paradox might be explained. In other words, the managerial theories he professed, would serve to juxtapose the business corporation as that intermediary institution which would eventually dominate a society of organisations. This particular end, then might entail certain costs such as the denial of the relevance of business ethics.

## Initial speculation

Initially this end seemed quite plausible. My reason for thinking this was Drucker's first book entitled, *Friedrich J. Stahl; Conservative Philosophy and Historical Continuity* (Mohr, 1933), which Drucker discussed in his autobiography, *The Adventures of a Bystander* (Harper, 1979). Stahl, he wrote, sought to build a new political structure by making the existing intermediary institutions in Prussia subrogate their powers, to their responsibility to the state, whilst maintaining their own basic values. He presumes that society was thus able to synthesise the freedom of those

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institutions with their responsibilities to the larger community (Freyberg, 1970).

This to me seemed remarkably similar to Drucker's enterprise. Drucker was clearly attempting to do what Stahl attempted, except that the intermediary institution he would utilise to create such a political structure, would be the business corporation. Here, the corporation would need to assume responsibilities to the state which would override any profit objectives and in turn the fulfilment of such responsibilities would negate the relevance of business ethics as "the public responsibilities of management . . . (would) . . . furnish the ethic of management" (1955, p. 455).

Drucker has over the years consistently described himself as a political conservative and as such, suspicious of capitalism (1955, 1986, 1996). This would explain his aversion to business ethics given his perception that it "encourages the whistle blower" (1982, p. 252), as such a practise would weaken intermediary institutions such as the business. However, it would not explain his ongoing aversion to business ethics itself. More, I thus felt, was needed to explain his attitude than merely viewing it as an attempt to emulate Stahl.

Drucker has been accused of "self contradiction" (*The Economist*, October 1, 1994; p. 81) but has been most consistent in his opposition to business ethics. He insisted years ago that business ethics was not needed (1973), later that it was mere hostility to business (1982), and more recently that business ethics was irrelevant (1993). And indeed years earlier, speculated that "ethical formulae . . . failed to provide a basis for human existence in modernity" (1949, p. 54), and that "the ethical position . . . becomes pure sentimentalism – the position of those who believe that evil can be abolished and harmony established by good intentions" (1949, p. 55)

Drucker's objection to "sentiment" is of interest since whilst Drucker might have opposed business ethics, he does not and never has opposed the idea that business has a social responsibility. Drucker is sympathetic to Friedman's profit maximisation position believing, "that business should stick to its business, that is, to the economic sphere, is not a denial of responsibility.

It is indeed the only consistent position in a free society" (1973, p. 348). He concludes that ultimately such an argument is "futile" (1993, p. 101) because the business has social power which is going to translate into social responsibility. Drucker does however, highlight the limits to such social responsibility. These limits, in the spirit of Friedman, are economic as "to do something out of social responsibility which is economically irrational and untenable is therefore never responsible. It is sentimental" (1973, p. 345). Good intentions don't count.

Furthermore, there are additional limitations to such corporate social responsibility, namely that "to assume social responsibility . . . always means to claim authority" (1973, p. 347). Yet this must be restricted "to areas in which management can legitimately claim authority" (1955, p. 462) so that business activity continues to exist in an autonomous sphere. Drucker after all, once witnessed the alternate, where businessmen sought to use their "business positions to dominate government and politics . . . (doing) immeasurable damage . . . and (being) largely responsible for Hitler's eventual triumph" (1993, p. 103).

Given this background, one can understand Drucker's objection to business ethics which he believes has "become politicised (by) considering social responsibility an ethical absolute" (1982, p. 241). Business, Drucker, has always insisted is "not entitled to put itself in the place of government. And . . . to use its economic power to impose its values on the community" (1973, p. 350).

Drucker with his desire for "economic activity (which) constitutes a discrete and separate sphere (and is) autonomous" (1981, p. 6), is thus going to be offended by business ethics which he believes has a political agenda dictating its ethical preferences. One might ask whether if business ethics had not in his view become "politicised", would this remove his objections. The evidence available renders the possibility of this highly unlikely.

## Early influences

Apart from the claim that business ethics is a fundamentally American product, unacceptable to the European (Vogel, 1993), which Drucker is despite his years in America, Drucker's own comments on the subject frustrate any such aspirations.

Drucker claims that business ethics is to ethics "what soft porn is to the Platonic Eros . . . (and is only) . . . a fig leaf for the shameless" (1982, p. 255). Ethics itself fails, according to Drucker, to answer Kierkegaard's question as to "how human existence is possible?" (1949, p. 45), as in answering this, one cannot "find a way out by escaping into the purely ethical by basing virtue on man's reason" (1949, p. 53) as Kant sought to do.

Drucker, in that article written now nearly half-a-century ago, explicitly rejected that the opposite of "sin" was "virtue". "Virtue", he insisted, would merely be something "to be found in man (and thus) everything that is accepted by man must be a virtue" (1949, p. 54). Kant's attempt, Drucker thus argues "to establish manmade ethical absolutes must end in the complete denial of absolutes and, with it, in the complete denial of the possibility of a truly ethical position" (1949, p. 55). Rather, Drucker believes, that the opposite of "sin" is "faith". This, according to him, is the ability to believe in an existence beyond man "in eternity" (1949, p. 48) and there is nothing that he has written in the intervening years which revokes it.

Ethics, Drucker would have us believe as I recounted above, fails to "provide a basis for human existence in modernity" (1949, p. 54). Further, he maintains that "we have neither political nor social theory for the society of institutions . . . it is, indeed, incompatible with the political and social theories which still dominate our view of society and our approach to political and social issues" (1973, p. 5). According to him, we still use models codified over two hundred years ago and which "reality has long outgrown" (1973, p. 5). However, "with the industrial revolution . . . the economic and social theories of the last two hundred years centre on work. Concern with work, writes Drucker, "stands at

the very beginning of what we call the Western tradition . . . however (the) organised study of work did not begin until the closing decades of the nineteenth century" (1973, p. 181).

Nowhere would this be more true than in Germany, according to the Canadian historian, Joan Campbell (1978, 1989) and yet somehow Drucker with both "his encyclopedia learning and his sense of history" (*The Economist*, October 1, 1994, p. 81) fails to even refer to this. This perplexed me. I wondered whether somehow in that history of work there had been debates analogous to those currently occurring in the field of business ethics and whether the outcome of that had been so discouraging as to persuade Drucker either consciously or subconsciously, to banish the topic from his mind and to invoke his fierce hostility to business ethics.

For such an inquiry, it is essential to understand Drucker's background. Upon leaving school, Drucker left Vienna for Hamburg. He later moved to Frankfurt. He lived, worked and studied in Germany and left because Hitler came to power. He received his entire tertiary education in Germany. He decided upon and embarked upon his academic career in Germany. All of this occurred in a country which glorified work (Campbell, 1989) and in a perhaps Maslowian sense, where one could indeed seek to virtually self-actualise through one's work. To thus postulate a discipline which purports to study the inherent immorality associated with work, as business ethics does, would not present merely "sophistry" (Drucker, 1982, p. 251), but in addition must present an internal contradiction totally irreconcilable with the very basis for Drucker's view of society.

This view of society has its basis in the German quest to solve modern societal problems by returning joy to work. For my understanding of this, I am indebted to Professor Campbell and her two books that deal with this topic at length (Campbell, 1978, 1989)

Drucker, in his autobiography (1978), wrote about the warmth and friendship bestowed upon him by the British intellectual, Noel Brailsford. Drucker had just fled from Germany to England and Brailsford must have been the first non-German intellectual to make his acquaintance.

Yet when reading this, it intrigued me that Drucker, who normally seemed to take pleasure in listing his acquaintance's major accomplishments, never referred to Brailsford's major work, "*Shelley, Godwin and Their Circle*" (London, 1913), a history of the English anarchists.

Why, I speculated, was this so? In attempting to answer my query, I first contemplated the works of the major anarchist writers, Godwin, Proudhon, Bakunin and Kropotkin and in doing so began to realise that whilst England, France, Italy, Spain and Russia might have had a history of anarchism, Germany did not. European anarchism was in the main, the expression of rebellion of the traditional artisan and craftsman towards the destruction of their independence and livelihood by the advent of modern industry. In Germany, things were different. Here, various individuals sought to come to terms with modernity by restoring *Arbeitsfreude*, or "joy in work" (Campbell, 1989) to modern work. Furthermore, the Germans came to believe in *Deutsche Arbeit*, or "German Work" (Campbell, 1989), holding, that the Germans had a superior capacity to work and to work well.

Despite a plethora of contemporary contrary evidence (McKinsey Global Institute Report quoted in *The Economist*, February 26, 1994, p. 63) such a belief in *Deutsche Arbeit* is still evident amongst both Germans and non-Germans. Drucker himself, when reflecting on the so called Japanese economic miracle, stated that the German "economic performance is every bit as impressive . . . and more solid" (1986, p. 81), and that outsiders should ask, "is there anything we might conceivably learn from the Germans" (1986, p. 85). Given such sentiments, it makes eminent sense to reflect upon the theories of those who sought such *Arbeitsfreude*. It also seems most timely, given the current debate in Germany itself, over the future of the nature of work in Germany. See for example, Richard Evans report on Siemens Nixdorf in *Fortune* (August 19, 1996, p. 47).

Campbell in discussing this ideology of work, postulates the German belief that work alone "is capable of giving meaning to human existence" (1989, p. 4), and portrays German writers such as Hegel, Herder, Fichte, Schiller and Goethe as

having fashioned the very context in which the Germans defined the utility of work. Drucker remains very much the product of this tradition when he maintains that "man needs work to satisfy his need for community" (1973, p. 187).

### The Riehl Revival

Germany according to Campbell (1989) experienced a "Riehl revival" in the period between the two world wars. It is this that I would like to explore, given that at this very time, Drucker lived, worked and studied in Germany.

Wilhelm Heinrich Riehl (1823–1897) claimed that "a nation's character is best revealed in its attitude to work, and that Germany was the nation of work (where) work (was) done for its own sake and for the good of the work rather than for profit" (Campbell, 1989, p. 35). A sentiment echoed by Drucker, when he insists that business should not seek profit "as an objective" (1973, p. 98).

Riehl, Campbell insists, was "to influence all who favoured a characteristically German approach" (1989, p. 33). To understand the "Riehl revival" one has to consider these others, to ascertain the manner in which they might possibly have influenced Drucker. One such intellectual would be the economist, Heinrich Herkner (1863–1932) whose "approach to the problem of work was remarkably similar to that of Riehl, to whom he paid tribute in the opening pages of his book" (Campbell, 1989, p. 53). If Riehl influenced Herkner, can Herkner in turn have influenced Drucker?

Drucker claims to have influenced a number of very influential management theorists. He writes of Douglas McGregor of Theory X and Theory Y fame, that McGregor "developed no new ideas but had formulated the ideas I had put forth" (1973, p. 231). He further claims that Frederick Herzberg's incentive and hygiene factor were "first noted in my book, *The New Society*" (1973, p. 196). Also, that T. J. Peters and R. H. Waterman Jr., in their bestseller "*In Search of Excellence*" (Harper and Row, 1982), merely expressed ideas which he had already written about (Drucker, 1986).

However, Herkner in his book, *"The Importance of Joy in Work for the Theory and Practice of Political Economy"* (Zahn and Jaersch, 1905) predicts many of the theories outlined by all of these writers and additionally proposed specific remedies to overcome these problems. Indeed, given the German preoccupation with this topic, a number of German academics explored this problem.

Of particular note, would be the economic historian Karl Bucher (1847–1930), the Heidelberg professor Emil Kraepelin (1865–1926) (who in addition is said to have stimulated the researches of his colleagues at Heidelberg, Max Weber (1864–1920)) and the industrialist Walther Rathenau (1867–1922).

Campbell explores the contribution of all these people. Drucker mentions none of them except for Rathenau but even here not with regard to *Arbeitsfreude* itself. Rather he claims that most of the "present questions of the social responsibilities of business were first raised and thought through by Rathenau" (1973, p. 24). He does acknowledge the contribution of the Harvard academic, Hugo Muensterberg (1863–1916), who was Kraepelin's star pupil. Nonetheless, it is not fair for Drucker to claim that the American engineer, Frederick Taylor (1856–1915), "was the first man in . . . known history . . . who studied work" (1973, p. 24). Germans, prior to Taylor, studied work intensively, as they did later when Drucker lived in Germany. What is intriguing is that Drucker with his renowned "encyclopedic learning and . . . sense of history" (*The Economist*, October 1, 1994; p. 81) should seem oblivious of all of this.

Allied to this "Riehl revival" in the inter-war years in Germany there was interest not only in work itself, but also in the workplace. Campbell describes reformers as viewing the existing situation "based on authority and submission, as an anachronism (and) suggested that the enterprise should be reorganised as a work community" (1989, p. 64). A strong supporter of this concept was the politician Friedrich Nauman (1860–1919) who "building on the ideas of Riehl and Herkner . . . rejected both the military model of industrial management with its emphasis on command and obedience and the patriarchal

approach" (Campbell, 1989, p. 69) and looked forward to a genuine work community.

He was supported in this, by the religious philosopher, Ernst Horneffer (1871–1954), who whilst designating Germans as "the genius race of work . . . argued that a new approach to management was required (and) because the state was too remote from the workplace . . . social philosophy henceforth must be based on the company or the plant" (Campbell, 1989, p. 248). In addition, the University of Frankfurt academic, Ernst Michel (1889–1964), in 1932 when Drucker was working at that university, published a text explaining how the modern work community could "spiritually enrich individuals" (Campbell, 1989, p. 277).

Thus, it seems somewhat odd that Drucker in his autobiography writes how "of all my work on management . . . I consider my ideas for the self-governing plant community . . . to be the most important and the most original" (1978, p. 273).

There were other individuals in Frankfurt who could have served as a role-model for the young Drucker. One such individual, according to Campbell (1989) under the influence of Riehl, was the business economist, Philipp Stein (1870–1953) who regarded himself as a conduit between the university and business – much as Drucker did years later in America. Stein saw many positive features in modern industrialisation as does Drucker (1973). Richard Ehrenberg (1857–1921), the professor of economics at the University of Rostock, wrote detailed histories of both Siemens and Krupp. Drucker in his books on management refers extensively to these two corporations.

When Drucker writes that "business ethics is plain old fashioned hostility to business" (1982, p. 254), he is wittingly or unwittingly, remaining very much in the tradition of Ehrenberg, who cautioned against "anticapitalist judgements based solely on moral indignation" (Campbell, 1989, p. 101). Also, when Ehrenberg insists that what emerges in modern industry is a "genuine community of interest between entrepreneur and worker", (Campbell, 1989, p. 101) how different is this to Drucker's insistence that organisations and workers "are interdependent" (1993, p. 66).

## German desires

All such discussions in the inter-war years in Germany, both as to the nature of work and the community where this took place, were stimulated by the German desire to return Germany to the status which the Germans felt they had enjoyed prior to their defeat in 1918. This according to Fukuyama (1995) explained the German translation in 1918 of Taylor's *The Principles of Scientific Management* and in 1923 of Henry Ford's autobiography. Ford, a notorious anti-Semite, in the following years, was to be a constant annual bestseller in Germany, along with Hitler's *Mein Kampf*.

The internal pressures to restore Germany to her former glory, and for Germany to escape the confines of her allied conqueror, led ironically to the importation of "American mass production ideology . . . (eventually) . . . leading to minor cults of Taylorisms and Fordism (Fukuyama, 1995, p. 231). Although such work methods existed in Germany long before this, Ernst Abbe, who took over the management of the Zeiss Optical Works in 1888, according to Drucker, "independently of Taylor . . . applied what can only be called scientific management" (1973, p. 259). The Germany in which Drucker lived exhibited an intense interest in the ideas of Taylor where "rationalisation became virtually synonymous with the ideas of scientific management" (Campbell, 1989, p. 133).

As both Campbell and Fukuyama note, such rationalisation "threatened the . . . belief in the importance of *Arbeitsfreude* . . . (and) . . . as such was ill adopted to German conditions. Theorists argued that the paternalistic side of Fordism would serve as a useful model for rationalisation" (Fukuyama, 1995, p. 232). In addition to such conflicts, some segments in Germany responded to rationalisation "with changes aimed at 'humanising' industrial life . . . (and) . . . the search for creative solutions to the problem of modern work became a major concern of German reformers at this time . . . anticipating the American "Human Relations" movement associated with the name of Elton Mayo" (Campbell, 1989, p. 134). Drucker incidentally

describes Mayo as having "developed . . . human relations" (1973, p. 26).

This was the Germany in which Drucker lived. The debates which took place there as to the nature of work must have influenced him, even if only at a subconscious level. Drucker has always underlined the debt which society owes to scientific management and yet has acknowledged its weaknesses, the "dubious and dangerous philosophical concept of an elite which has a monopoly on esoteric knowledge entitling it to manipulate the unwashed peasantry and also scientific management's assumption "that the human being is a machine tool" (1955, p. 341). In both instances, he would have discovered similar sentiments in Germany when he lived there.

Georg Schlesinger (1874–1949) a leading German "expositor and proponent of Taylorism . . . recommended that the experts make a practice of consulting with those affected by their decisions" (Campbell, 1989, p. 136). Adolf Friedrich (1892–1963), the business consultant, advocated a "Taylorism that would combine the quest for technical efficiency with respect for the human factor . . . (within) . . . an ethical approach" (Campbell, 1989, p. 147).

That Friedrich highlights "an ethical approach" is not without significance. Germans, in that period between the first and the second world war, the so called Riehl revival, sought to create for German workers through *Arbeitsfreude*, an ethic of work upon which Germany could "build a viable society from the ground up" (Campbell, 1989, p. 129).

Today's business ethicists optimistically seek similar goals when they seek "to reconnect . . . human society and . . . business" (Donaldson and Freeman, 1994, p. viii). Such similarities between the aims of today's business ethicists and those Germans who sought a "positive relationship between human beings and their work" (Campbell, 1989, p. 3) cannot be lost on Drucker. Thus, it is worth reflecting on what this all led to in Germany, events of which Drucker must be aware.

## German realities

Drucker, himself, sought for business to be “reconnected” with human society. In his very first book on management he concluded that it was imperative that business “succeed in harmonising public and private interest by making what is the common good coincide with its own self interest” (1955, p. 464). “The hostility to capitalism”, he wrote in his concluding paragraphs, “is moral and ethical. Capitalism is being attacked . . . because it is cynical. And indeed a society based on the assertion that private vices become public benefits cannot endure, no matter how impressive its logic, no matter how great its benefits . . . for in a good, a moral, a lasting society, the public good must always rest on private virtue” (1955, p. 465).

Such sentiments one might imagine would align Drucker firmly with most business ethicists, whilst in reality he has actively sought to distance himself from this field. The reasons for this must be his association between the outcome of the German attempt at the humanisation of work and the attempt by business ethicists to see “business as a humanity” (Donaldson and Freeman, 1994, p. vi).

Drucker would be well aware that the German attempt at the humanisation of work in the Third Reich under Adolf Hitler, was to joyfully embrace the ideal of *Arbeitsfreude*. Adolf Friedrich, whom I quoted as advocating a Taylorism with an “ethical” approach, went on to offer his services to the SS Race and Settlement Office (Campbell, 1989, p. 349). The religious philosopher, Ernst Hornneffer, who sought a new approach to management and was active “as a religious speaker” and furthermore “had given the funeral oration at Nietzsches’s grave . . . and was editor of the *Nietzsche Papers*” (Campbell, 1989, p. 246) made “an early declaration of faith in the Furher” (Campbell, 1989, p. 333). Ernst Michel, a colleague of Drucker at the University of Frankfurt, who emphasised the responsibilities of employers to “humanise work” (Campbell, 1989, p. 278) praised the Nazi’s for “developing a unique organisation of labour” (Campbell, 1989, p. 327).

Relative to Martin Heidegger, such individuals are rather obscure academics. Nonetheless, they worked in a field which Drucker was to make his own, and one can understand his desire to forget them and certainly to banish from his mind any attempts at the humanisation of work or of business.

Drucker had full knowledge of the reality of *Arbeitsfreude* in Nazi Germany. After all in the opening words of his book “*The Future of Industrial Man*” published in 1942, he assures us that the global conflict then occurring, was “being fought for the structure of industrial society”. He would not have been surprised that Rudolph Hoss, the commandant of Auschwitz, while “accomplishing the job of mass murder assigned to him . . . attempted . . . to run Auschwitz . . . according to enlightened principles of scientific management” (Campbell, 1989, p. 347). Nor would he have been surprised at the idea that the German elimination of the Jews was aided immensely, especially on the campuses, by the “Riehl revival”. Riehl had written of his desire to “get rid of . . . above all, the Jews” (Johnson, 1987, p. 393).

## Conclusion

Drucker has been accused of being “cold, lacking in humanity (with) no awareness of the victims of the marketplace, no anger, no compassion” (Tarrant, 1976, p. xvii). However, Drucker in his autobiography, writes how he will settle for a society which “would maintain freedom by paying a price: the disruption, the divisiveness, and alienation of the market (and where) we would pay the price of conflict, of risk taking choice, of diversity, for the sake of maintaining the person” (1978, p. 140). Such sentiments are easily explained by the past he left behind in Germany.

Nonetheless, although Drucker might deny the relevance of business ethics, all of his managerial writings promote an ethical stance for those employed in business. This stance stems from Drucker’s belief, discussed earlier, that the opposite of sin is not virtue but faith and clearly



reflects the influence of the philosophy of personalism.

Robert Lauder has described Martin Buber as “probably the most famous of all the personalists” (1995, p. 200). When referring to this philosopher, Drucker illustrates the difference between the impersonalism of business ethics and the personalist ethic. Buber, Drucker writes, tells us never “to learn from other people’s mistakes . . . (only) . . . what other people do right” (1978, p. 75). And yet should we thus succeed we stand to “exemplify the paradox of the prophet . . . (whose) . . . very success is failure” (1978, p. 255). Drucker, thus, warns us of his misgivings regarding “salvation by society” (1978, p. 179), be this *Arbeitsfreude*, business ethics or whatever. Drucker’s denial of business ethics is therefore not a denial of ethics in business, but rather the assertion that any ethical inquiry can only proceed with reference to the individual.

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