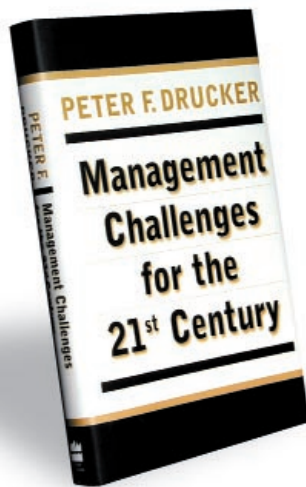




Executive Book Summaries®



By Peter F. Drucker

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The Latest from Peter Drucker

MANAGEMENT CHALLENGES FOR THE 21ST CENTURY

THE SUMMARY IN BRIEF

We are at the brink of the new millennium. And much of what we have come to accept as true of business management is about to be challenged. The world is changing at a rapid pace, and only those who understand what those changes mean will be poised to prosper under the new rules. Old paradigms will be replaced by new ones.

In this summary you will learn which old assumptions are out. You will learn that management is not just business management, and that there is no one ideal way to organize an enterprise. Nor, you will soon see, is there one way to manage people. In fact, you will see that your role will not be to manage at all. Rather, you will learn that your job is to lead. You will also come to see that national boundaries and even regional markets will no longer define your organization's boundaries.

In this summary you will also discover the trends that will radically alter life and how companies are run. The developed world is experiencing a collapse of its birthrate, and an accompanying increase in the average age of its populations. The result will be political upheaval, a new emphasis on personal investment, and a substantial increase in the length of your work life.

In the next century, you can expect to become a change leader. You will see exactly what is required of you in order to make change happen in a controlled and orderly fashion. You will see exactly why global competitiveness is here to stay and how you can measure your company against the world leader in your industry.

You will also discover what you need to do to increase the productivity of the new information workers and how to develop your own talents now and throughout your life.



MANAGEMENT CHALLENGES FOR THE 21ST CENTURY

by Peter F. Drucker

— THE COMPLETE SUMMARY

Management's New Paradigms

We live in a period of profound transition. The changes that are taking place are more radical than perhaps any changes in history. The challenges ahead are perhaps greater than those presented by the 19th century Industrial Revolution, by the Great Depression or by the Second World War. These changes require managers to examine the basic assumptions, or paradigms, of reality. For it is likely that old assumptions about reality are wrong. In the new century, you must be concerned about everything that affects the performance of your institution, whether within your control or not.

Unfortunately, the old assumptions have outlived their usefulness. You must therefore rethink the assumptions and formulate new ones more in line with the 21st century realities. First, forget the notion that management is business management. In the new century, your management skills can be applied to activities not traditionally considered business, such as government, health care, the professions and education.

Next, forget the notion that there is only one right organizational form or that hierarchies are dead. There must be a leader of every organization, and you must have organizational structure in place. But that structure depends on the nature of the enterprise; one size does not fit all. Neither the popular "team" concept nor the CEO "personality cult" so common today is the one answer. Teams sometimes lack the ability to make decisions, and "personality cult" leaders need successors. Each organization must therefore find its own form rather than grab one off the rack.

Another dying paradigm is the idea that you must manage employees. Instead, you must lead workers. One reason for the shift from managing to leading is the simple fact that a manager today likely does not know the area of expertise for which the subordinate is responsible. In addition, employees today need to be treated as if they are volunteers, not employees. They want more than a paycheck; they seek interesting and rewarding work. You inspire them by leading, not commanding.

You must also remember that innovations in your industry don't necessarily come from within that industry. They are just as likely to come from outside. For example, within the pharmaceutical industry, genetic research is now

used to develop new treatments. That research sprang out of biology, not chemistry. Today, innovations criss-cross industries. Likewise, don't just look to your present customers to determine policy and management for your enterprise. Increasingly, you must look to a larger group and base policies on what that group chooses to do with its disposable income.

Finally, you must realize that management reaches outside the organization, and is restrained but not defined by political and national boundaries. ■

Old and New Paradigms

Old: Management is business management.

New: Management principles apply to all organizations.

Old: There is, or there must be, one right organizational structure.

New: Look for, develop and test the organization that fits the task.

Old: There is, or there must be, one right way to manage people.

New: Don't manage people, lead them.

Old: Technologies, markets and end-users are given.

New: Customer disposable-income use dictates policy and strategy; technologies criss-cross.

Old: Management's scope is legally defined.

New: Management's scope is operationally defined.

Old: The economy is defined by national boundaries.

New: National boundaries restrain but don't define.

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Strategy: The New Certainties

The most important single new certainty is the collapsing birthrate in the developed world. You must understand the crucial impact this will have on economics and politics. Only then can you plan your company's business strategy into the new millennium.

The Collapsing Birthrate

In Western and Central Europe and in Japan the birthrate has already fallen below the rate needed to reproduce the population. Birthrates have already fallen as low as 0.8 children per woman in Japan, and 1.5 in Northern and Western Europe. The United States, too, is experiencing a declining birthrate, with slightly less than 2 per female. In order to maintain populations at the present level, those regions would need to have a per-woman birthrate of 2.1 live births.

Accompanying the decline in births will be a corresponding shift in the age of the population. As fewer children are born, a larger proportion of the population will be older.

Coupled with the fact that people are living longer than in decades past, there will be an explosion of older people and a dearth of younger ones. This is an unprecedented experience. In at least the last 200 years, all modern world institutions, including businesses, have assumed that population growth would continue.

Management Response

What does all this mean for you as a manager? Simply this. Your business must gear up for a totally different assumption, the assumption that there will be a shrinking population of young people. One new reality will be that retirement age will have to be raised, perhaps as high as 79. If not, there won't be enough workers to meet demand.

The most likely location of change in the employment sector will be the United States.

That's because the U.S. is the most flexible and least restrictive labor market in the world. In addition, American employers have a tradition of experimentation.

Marketing Opportunities

The silver lining of the collapsing birthrate is that companies that take advantage of the shrinking population stand to profit handsomely. If what happened in China when one child per couple became the norm is any indication, smaller families may mean an expanding market for luxury goods for infants and children. In China, today's one-child family spends as much on that child as earlier generations spent on three or four. Perhaps having fewer children makes each seem more precious to the parents. They then spend more of their disposable income on him or her.

Political Implications of a Shrinking Population

In the next three decades, demographics will dominate politics in the developed world.

- Current political labels like liberal and conservative won't fit the issues.
- Immigration will be the hottest political issue.
- Government instability will be the norm.
- Retirement will be spent working.

You and your company must start looking for innovative ways to stretch the aging labor pool now. You will need to forge new work relationships with older workers, especially those who qualify as knowledge workers. Knowledge workers are those whose value is in what they know and what they can do with that knowledge. Companies that first succeed in attracting and holding knowledge workers past traditional retirement age and make them fully productive will have a tremendous competitive advantage. Productivity will have to continue to grow at a rapid rate or the country will lose position and become steadily poorer.

Income Distribution

Any shift in shares of disposable income in the decades to come will impact you and your company. To take advantage of income shifts, you need to know one crucial figure: the share of your customer's disposable income that is spent on your products. The figure is important because trends in disposable spending tend to persist for long periods of time.

Identifying a shift early on will let you take advantage of the trend for a long time to come. The major disposable income growth sectors have been government, health care, education and leisure.

Leisure spending has been growing as a share of disposable income. But the trend may be on the decline since it is unlikely, given the declining population, that more time off will become the norm. Government has had a major impact on disposable income through the redistribution of income from one segment of the population to another. That trend likely will continue rather than decline. The education sector will grow, as workers will need continual upgrading of their knowledge. And health care will grow as the population ages.

All four growth segments are largely price insensitive. That is, consumers will likely pay based on the perceived value of the product or service rather than let supply and demand be the pricing factor.

Companies must monitor trends and take advantage of the opportunities they present.

Performance and Global Competitiveness

Companies expecting to prosper in the 21st century must

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Strategy: The New Certainties

(continued from page 3)

accept that their performance will be monitored carefully by shareholders. And those shareholders are increasingly not individuals. Rather, they are the large pension funds to which the well-to-do middle classes of the developed world have entrusted their retirement funds. Increasingly, companies will have to show that they are capable of providing short-and long-term profitability for pension fund investors. It will be essential that companies extend their own life expectancies beyond the present average of about thirty years. Organizations will have to survive and prosper until their investors reach retirement age!

All companies must also make global competitiveness a strategic goal. Today, all companies are measured by the standards of the leader in the field, regardless of where in the world that leader is located. Companies can no longer rely on government protectionism to survive, because government can't deliver enough "protection" to make the protected industry competitive against the global leaders. Instead, a company must measure itself against the world leader and meet that standard.

Economic Versus Political Reality

To be successful into the next century, companies cannot define their scope in terms of either national economies or national boundaries. Yet, it is clear that national boundaries are not going to go away anytime soon. It remains doubtful that the new regional economic units like the European Economic Community (EEC) or the North American Free Trade Zone (NAFTZ) will really weaken national boundaries. Nationalism appears here to stay. In fact, companies have to learn to operate in three different economic spheres. There is a true global economy of money and information, and there are regional economies in which goods, people and services circulate relatively freely. And then there are national and local governments to consider. Balancing

Cheap Labor Won't Be An Advantage

In the 21st century, access to cheap labor won't give a company a substantial advantage over another. Nowhere is this more apparent than in the manufacturing sector. In most parts of the developed world, manual labor is becoming a smaller and smaller part of total costs. So while low labor productivity may endanger a company's survival, low labor costs don't necessarily deliver a cost advantage if productivity is low.

Investment Industry Growth

You and your company can benefit tremendously if you learn how to exploit today's growth industries. First and foremost among growth industries is the financial services industry. But this isn't your grandfather's financial service industry. The segment ready to be exploited by those who know how is the retail delivery of financial services to an affluent, aging population in developed countries. These middle-class seniors are quickly realizing that they could outlive their financial resources. They are looking for ways to safeguard future income. Companies providing individual investment services and products will thrive in the coming years.

the three is a headache, and companies will continue to struggle for the answer.

What not to do, however, is clear. You should not be willing to be bribed into subordinating economic decisions to local politics. For example, you must resist the temptation to relocate or grow your business in a particular location just to take advantage of "bribes" like tax exemptions, special tariff protections, a guaranteed monopoly position or other subsidies. Don't do anything that doesn't make economic sense for the company in the long run on the basis of incentive offers.

Do, however, consider forming alliances, partnerships and other relationships with other companies across borders. These can easily be dissolved if necessary and aren't long-term commitments. You and your company must also recognize the reality of currency instability, and will need to establish ways to manage currency fluctuations and foreign exchange difficulties. No country's currency is immune to fluctuation, and changes in the value of currency can be rapid.

Opportunity or Distraction?

You must be aware of the difference between a business opportunity and a business distraction. Identifying the former creates long-term growth and stability, but being sucked into the latter does just the opposite. A proposed expansion into a new area is an opportunity if it is consistent with your company's overall business strategy. For example, if carbonated beverages don't sell in France, Coca-Cola might do better selling fruit juice than its flagship soda product. And if vending machine coffee is big in Japan, Coca-Cola would do well to sell that there. Both new enterprises are consistent with Coca-Cola's company strategy and business plan, and both are business opportunities. But an enterprise that isn't consistent with overall company goals is just a distraction to be avoided. ■

Strategic Misstep: What GM Did Wrong

When Japanese automakers grabbed 30 percent of the U.S. passenger car market in 10 years starting in the mid-'70s, GM did little except fiddle with rebates and discounts. That didn't work. Finally, GM reacted by creating an entirely new car, the Saturn. It was a smash hit. Unfortunately, it soon became obvious that Saturn competed with other GM products, not Japanese models. Instead of allowing Saturn to expand its model selection, GM put resources into modernizing plants producing its dying models. Saturn sales are falling, and an opportunity was wasted.

The Challenge Of Change Leadership

You cannot manage change, you can only stay ahead of it. In times of upheaval, such as the times we are approaching, change is the norm rather than the exception. The manager who becomes a change leader will help ensure that his or her organization will survive or even thrive. Change leaders accept the inevitability of change, see it as opportunity and embrace it. Change leaders look for and find the right changes and know how to make change effective both inside and outside the organization.

How can you become an effective change leader? By following these guidelines:

- Institute policies to make the future.
- Systematically look for and anticipate change.
- Introduce change the right way, both inside and outside the organization. Balance change with continuity.

Change Policies

The first lesson you need to learn to become a change leader is to abandon yesterday.

Don't commit resources to maintaining products or services that are no longer producing results. If you do, inevitably your best and brightest waste their time for diminishing returns. These are the very people you need to help lead change.

As a change leader, your role is to put every product, service, process, distribution channel, customer and end-use on trial for its life. Ask if you would enter into the enterprise again if you knew what you know now. If the answer is "no," then abandon it.

The right answer is always abandonment under these three conditions:

- If the consensus is that the product, service, market or process "still has a few good years of life." In fact, such a product is either dead or dying. Give it up.
- If the product, service, market or process is being kept

around because it "is fully written off." Ask not, "what have they cost?" Instead, ask, "what do they produce?" If they only produce because they don't appear to cost anything, get rid of them.

- If an old and declining product, service, market or process is being maintained at the expense of a new and growing product, abandon it.

Acting on Abandonment

Knowing *how* to abandon an outdated product, service or process is as important as knowing it's time to let it go. You must test abandonment on a small scale. Sometimes it may be that you simply need to identify other distribution channels for a product or service. Consider what universities have done as prospective students and their parents move away from high school counselors for college application information to books and magazines rating colleges. By focusing promotional efforts on these outlets, universities are increasing the quality of their applicants while still retaining connections with placement counselors.

Organizing Improvement, Creating Change and Piloting

Next, change leaders must organize improvement. Plan to improve contiguously, at a preset annual rate of about 3 percent. But be cautious about introducing changes system-wide without a trial. Consider the case of a commercial bank that decided to add new financial products to its mix. It surveyed customers and knew to which products they were receptive. Then it introduced the products by having tellers inform customers. The result? Lost customers due to longer teller lines. When information about the new products was offered at separate tables, the program was a success. But the bank could have saved time and trouble by testing its approach at one branch.

Build innovation into your enterprise, and do it systematically. Every six to 12 months, look for changes that may be windows of opportunity. Look at your company's unexpected successes and failures, as well as your competitors'. Then, ask if your observations are opportunities for innovation.

Finally, realize that you must pilot change through the organization. When you pilot a change, you are applying the test of reality to the idea. Only if it passes should the change be implemented. ■

Innovation Traps

Be sure each innovation is consistent with your company's strategic realities. A good idea is not enough; it must fit the company. Don't confuse novelty with innovation. New and different isn't always better. Finally, do not confuse activity with action. They are not the same.

Information Challenges: From the ‘T’ to the ‘I’ in ‘IT’

Until now, the information revolution has centered on data; collecting, storing, presenting and transmitting it. In other words, the focus has been on the technology of data gathering rather than on the use of that information. The focus is about to shift from the “T” in “IT” to the “I.”

The information revolution has made possible the gathering of massive amounts of data, but until now much of it has gone unused. The information needed to make decisions is there, but the decision-makers have, until now, not had the information available for their use. The first step is to think differently. What’s needed isn’t more raw data, more computing speed or more technology. What’s needed are new concepts.

The Information Enterprises Need

Accounting will have to move from cost accounting to result control. Cost accounting concerns itself with what things cost on a component basis. But accountants have been slow to measure a very important factor: activity. Activity costing measures the cost of not doing something. Activity-based accounting, unlike traditional cost accounting, asks whether a task has to be done and, if so, where.

Activity-based accounting is expected to substantially reduce manufacturing costs, perhaps by as much as a third. Cost accounting assumes that capital can be substituted for labor. In service industries, that just isn’t true. For example, if a hospital buys a new piece of equipment — capital expenditure — it will have to hire new people who can run it. The result is more workers, not fewer.

Consider another example of activity-based account-

Continuing Education

One by-product of the information revolution is continuing education. As more and more knowledge workers work with their heads rather than their hands, education will have to be continuous. And that education will be delivered in new formats. It will be off campus, in homes, cars, commuter trains and anywhere small groups can meet. Long-distance education may make freestanding residential universities obsolete.

The education revolution will include the New Print Revolution. The world supports thousands of periodicals and newspapers. While general interest magazines like *Life* are disappearing, specialty mass magazines are growing by leaps and bounds. And books continue to be printed in record numbers. Students, for example, are consumers of huge numbers of print books and specialty magazines that inform.

Information You Need

A company needs to use the following four diagnostic tools to manage the business:

- foundation information consisting of cash flow and liquidity measurements;
- productivity information in the form of total cost, including cost of capital (benchmarking your performance against the best in the industry is crucial);
- competence information, requiring you to determine core competencies inside and outside;
- resource allocation information in the form of assessment of whether the allocation of capital is profitable and whether people are achieving goals set for them.

As a manager, you must know what information to use. You should, for example, be informed of any “unusual” event. Consider having employees make a monthly report of any unusual events in their sphere. Together, these can yield insight. Also, get out of the office and into the street. You need direct outside information as well as inside information.

ing. Pick a center of activity, like a customer or a store shelf. Measure the yield per center. For a bank customer, profitability will be measured by the volume and mix of the services he or she uses. A store shelf’s value can be measured by the yield per shelf over time. Your job as a manager will be to maximize the shelf or customer yield over time.

Costing the Entire Chain

Another tactic companies that want to succeed must adopt is costing over the entire economic chain. Knowing the true cost of operations on the inside won’t be enough in the next century. Rather, those companies that know and manage the cost across the chain will be the most successful. Legal boundaries don’t matter. You will form new entities through outsourcing, new alliances and joint ventures. Toyota demonstrates what happens when you work closely with suppliers and distributors. Toyota considers the cost of each car to include the total cost of making, distributing and servicing it.

You must also move from cost-led pricing to price-led costing. In other words, before a product is introduced, you decide whether the price customers are willing to pay can support the cost to produce the item and still be profitable. If it can’t, don’t introduce the item. Traditional cost-led pricing adds the production cost and desired profit to arrive at the price. With price-led costing, fewer products will fail because you’ll know that the price is acceptable to the consumer. ■

Knowledge Worker Productivity: The Future of Manual Labor

The traditional view was that there was little to be done to raise manual labor productivity. Differences in output were thought to depend on whether the worker in question was lazy or hard working, or whether he was weak or strong. But as workers were observed and studied, the idea that outside factors could be changed to alter productivity caught on. The result has been an annual 3.5 percent rise in productivity throughout most of the century.

The process was deceptively simple: observe work and analyze the motions that make up the work. Record the time it takes for each motion, and see which can be eliminated or changed. It became clear that skill was far less important in raising productivity than identifying the best method to do the job. Scientific management was born. And in developing countries, scientific management was applied to make low-wage workers very productive at low cost.

Knowledge Worker Productivity

The techniques developed to increase manual labor productivity are unknown among knowledge workers. When it comes to knowledge-worker productivity, we are where we were with manual laborers in 1900. That must change. To make knowledge workers more productive, you must do the following:

- Identify what it is that workers do. What are their tasks?
- Give them autonomy. The knowledge workers' productivity must be their responsibility; they must manage themselves.
- Continuing innovation must be a part of every knowledge worker's job.
- Knowledge workers must continuously learn and contiguously teach others.
- Productivity must be measured by quality of the output, not quantity.
- Knowledge workers must be treated like an asset, rather than a cost.

Unlike manual labor, the foremost measure of knowl-

The Measurement Dictates the Outcome

The measure you use to define quality dictates the outcome. Take two inner city schools in the same neighborhood. One defines the task as "helping the underprivileged," while the other defines it as "helping those who want to learn to learn." One measures success by scholastic failures (i.e. continuing to help the underprivileged who fail), while the other measures it by scholastic success. The task defines the outcome.

Nurses Double Their Productivity

When knowledge workers assess their productivity, and managers take action, the results are often dramatic. Consider what happened when a group of nurses at a major hospital identified what tasks were important and what tasks were not. After agreeing that patient care and satisfying physician demands were the most important functions they performed, the group quickly identified obstacles to productivity. These included chores like arranging patient flowers, answering phone calls and paperwork. When these functions were turned over to less skilled and lower-paid floor clerks, nurse productivity (as measured by patient satisfaction and time spent at bedside) soared.

edge-worker productivity is quality. We don't, for example, measure instructional productivity by how many students a teacher has in a class. We measure it by how those students do on tests and what they have learned.

To evaluate productivity, you must first define what tasks the knowledge worker performs. Remember that you don't program the knowledge worker. That is, while you tell a manual laborer exactly what he or she must do on the line, the same isn't true for knowledge workers. For a manual worker, what to do is always obvious.

For a knowledge worker, it's not. Consider this example. If a patient in a hospital goes into a coma, there are tasks the nurse must perform. But she chooses when and how to perform these tasks. A salesperson spends self-directed time ordering, filling out paperwork and coordinating deliveries. They are both self-directed.

Begin assessing productivity by asking workers what tasks they do, what they believe they should be contributing to the company, and what hampers them in getting the work done. Knowledge workers almost always know the answers to these questions. If you take action on the answers, you can expect productivity to climb rapidly, perhaps doubling or tripling it.

After tasks are identified, appropriate quality measures usually become obvious.

Consider the problem of measuring surgeon quality output. Quality is assessed as the survival rate for open-heart surgical patients or complete recovery for orthopedic surgery.

The Means Of Production

You must remember and accept that knowledge workers, unlike manual laborers, truly own the means of production. While a laborer uses company equipment to be productive and can't work without it, a knowledge worker is the equipment. Consider her or him a capital asset, not a cost. Increasingly, he or she must be made to feel a crucial part of the company. ■

Managing Oneself: What Knowledge Workers Can Expect

More and more people in the work force will have to learn to manage themselves. They will have to place themselves where they can make the greatest contribution to the company, and they will have to learn to develop themselves. They will also need to stay young and mentally alive during what may be a 50-year working life. They will be in charge of their own destinies.

These are powerful new demands on individuals, including

- **discovering what your strengths are, who you are and how you work;**
- **asking where you belong;**
- **defining your contribution;**
- **taking responsibility for relationships; and**
- **planning for the second half of your life.**

What Are My Strengths?

Many people think they know at what they are good. But often they are wrong. Today you must take the time and make the effort to identify your strengths. A century ago that wasn't important; you were born into a line of work, like farming or tradesman. That's not true anymore; people have choices. To discover your strengths, use the following technique. Whenever you make a key decision or take a key action, write down what you expect will happen. Nine to 12 months later, look at the result.

The results will, after two or three years, tell you where your strengths and weaknesses are. Then you must concentrate on your strengths. Place yourself where your strengths can be used. Work on improving your strengths.

This feedback analysis is also likely to identify areas where your knowledge is lacking.

Lack of knowledge in an area can be the result of the belief that information outside your area of expertise isn't valuable, or less important than that in your area. Or it can be the result of the arrogance of being "bright," and believing intelligence is a substitute for knowledge. If you discover this about yourself, get the knowledge you need to become competent. If you are going to succeed, you must overcome intellectual ignorance and work on acquiring the skills and knowledge needed to make your strengths fully productive.

You must also be aware that the way you interact with others will have an impact on your achievements. You must understand that manners are the "lubricating oil" of an organization. Too often, cooperation is hard to get

because the social groundwork hasn't been done.

How Do I Perform?

Knowing what to do is only half the battle; you must also know how to do it. Individuals have different learning styles, and the one forced on you in school isn't necessarily the right one for you. Explore your own learning style by asking yourself some fundamental questions.

First, are you a reader or a listener? Some people respond better to the written word while others respond better to live questions. Consider President Eisenhower. When he was commander-in-chief of the Allied forces in Europe, press questions were written. His responses were eloquent. At the White House, press questions were shouted at him. His responses rambled without benefit of the written word.

Some people learn by reading or listening, and others learn best by writing. Beethoven always wrote his compositions down in sketchbooks, yet he never referred to them. Why? If he didn't write them down, he would forget, but once he did he never needed to look at them again. If this describes your learning style, start writing down what happened at meetings immediately afterward.

Once you know how you learn, act on that knowledge. If you don't, you are, in effect, condemning yourself to nonperformance.

You must also analyze your values and act on them. A simple test is the "mirror" test.

Ask yourself if the action you are about to take will make it impossible to look at yourself in the mirror in the morning. If the organization you work for wants you to act against your mirror test, leave or be condemned to frustration and nonperformance. Know your values, and you will know where you belong.

You should also consider the second half of your life. Second careers are becoming more common than ever before. Some decide mid-career to return to professional school, others leave for the ministry. Others start their own businesses or do charitable work. Mid-career changes can ease disappointment and add meaning to the second half of life. ■

Ideas Don't Move Mountains

Don't make the mistake many people make. Don't mistake ideas for actions. Many brilliant people conceive wonderful ideas and then don't follow through. They believe ideas will move mountains. In reality, of course, it is bulldozers that move mountains. Don't stop when the planning is over. That's when the work should begin.