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THE PETER F. DRUCKER AND MASATOSHI ITO GRADUATE SCHOOL OF MANAGEMENT

AWARD OF EXCELLENCE IN THE PRACTICE OF MANAGEMENT

PARKER AEROSPACE GROUP

2024

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Foreword

It is with immense pride and honor that I write this foreword for the prestigious Drucker School of Management's Excellence in the Practice of Management Award, given this year to Parker Aerospace, the first recipient of the award. This accolade, established to recognize and celebrate outstanding achievements in management, is conferred upon firms who exemplify the highest standards of excellence in their practices. In 2024, it is particularly fitting that we honor a company whose management principles resonate so profoundly with the timeless philosophies of Peter F. Drucker, the father of modern management.

Drucker principles advocate for a balanced approach that harmonizes business performance with social responsibility, fosters innovation through systematic practice, and places the development of people at the heart of organizational success. Further, the Drucker philosophy emphasizes the importance of a forward-looking mindset, continuous learning, and a focus on creating value for both customers and society. Parker Aerospace has embraced these principles and integrated them into every facet of its operations, demonstrating a remarkable commitment to sustainable and ethical business practices.

In evaluating the nominees for this award, we look for organizations that embody Drucker's teachings in strategic vision, operational excellence, and corporate responsibility. Parker Aerospace stands out as an exemplar of these ideals. Their management practices highlight innovative thinking and adaptability in a rapidly changing business environment. Operationally, they achieve outstanding results while maintaining the highest standards of integrity and transparency.

Moreover, Parker Aerospace consistently prioritizes the professional growth of its employees, fostering a culture of continuous improvement and inclusivity. Their efforts in community engagement and environmental stewardship illustrate their commitment to the broader societal impact of their business activities. These efforts align with Drucker's belief that businesses must contribute positively to society, ensuring their success benefits all stakeholders, not just shareholders.

As dean of the Peter F. Drucker and Masatoshi Ito Graduate School of Management, I am deeply inspired by the achievements of Parker Aerospace. Their leadership and innovative practices serve as an example for others in the industry, demonstrating how the Drucker philosophy can be effectively applied to achieve sustained excellence.

This report, developed with the assistance of SMA, Inc., delves into the specific practices that have positioned Parker Aerospace as a leader in its industry and a standard-bearer for the Drucker principles. It serves as a testament to the company's exceptional management and a blueprint for others to follow in pursuing excellence and societal contribution.

In bestowing this award, Drucker School of Management celebrates not only Parker Aerospace's achievements but also Peter F. Drucker's enduring legacy. Drucker's principles continue to inspire and shape the future of business and broader society.

Sincerely,

David Sprott

Henry Y. Hwang Dean,
Peter F. Drucker and Masatoshi Ito Graduate School of Management

Executive Summary

Parker Aerospace, a $5 billion division of the Parker Hannifin Corporation was identified by the Drucker School of Management as a potential recipient of the first corporate award for management excellence based on the timeless principles of Peter F. Drucker. The prize is designed to be awarded to firms that embodies the philosophy of the father of modern management, Peter F. Drucker. This philosophy is not simply a mindset but also a follow-through with behaviors and resource allocation.

After conducting two interviews with Vice President, Program and Contract Management, Barry Draskovich, the award committee (comprised of both Drucker School of Management and SMA members) decided to move forward with a more quantitative assessment of Drucker-like qualities within Parker.

In Spring 2024, we sent a survey to approximately 50 employees with a specific focus on corporate, business unit, functional leaders, and support roles. The results across all four levels of the organization provided a complete picture of a Drucker-like organization. Most notably, across all dimensions we examined—purpose of the firm, talent development, balancing short- and long-term orientation, delivering results, living through Parker values—the firm received consistently high scores. To be clear, even some Drucker-like firms would find it challenging to score well on all criteria. Parker's lowest score, "everyone innovates," is still far above average.

As a result, the Drucker School of Management and SMA are proud to present Parker Aerospace with the **2024 Peter F. Drucker and Masatoshi Ito Graduate School of Management Award of Excellence in Practice of Management**.

Introduction

The Drucker School of Management, in partnership with SMA, conducted an assessment of Parker Aerospace. The Drucker School of Management has formalized and refined its assessment of Drucker-like organizations over the last decade of in-depth research on Peter F. Drucker's philosophies. A key feature of our approach is to isolate a set of core principles that truly embody a Drucker-like firm. We then conduct an assessment—both qualitative and quantitative—of a select number of firms who embrace his thinking. Given the specific expertise in aerospace, we partnered with SMA whereby they would provide the subject matter expertise and industry knowledge to enable us to customize our assessment approach.

Objective

Our approach had one objective in mind—does this organization qualify for the Drucker Principles Award?

Approach

We conducted the assessment in two phases. In Phase One we conducted two interviews with Barry Draskovich. We covered a range of topics including Parker's purpose, "to enable engineering breakthroughs that lead to a better tomorrow," and Parker's Win Strategy™. We did a deeper dive into topics such as customer centricity, innovation, abandonment, values, people development and key performance metrics. We were suitably impressed with your overall strategy and orientation—enough to move to Phase II.

During Phase Two, we sent surveys to 55 individuals representing four populations—corporate, division/business unit management, function leaders, and supporting roles. With appropriate follow-up, we were able to attain an overall response rate of 60%. A 60% response rate is considered high and provides sufficient data to conduct our analysis.
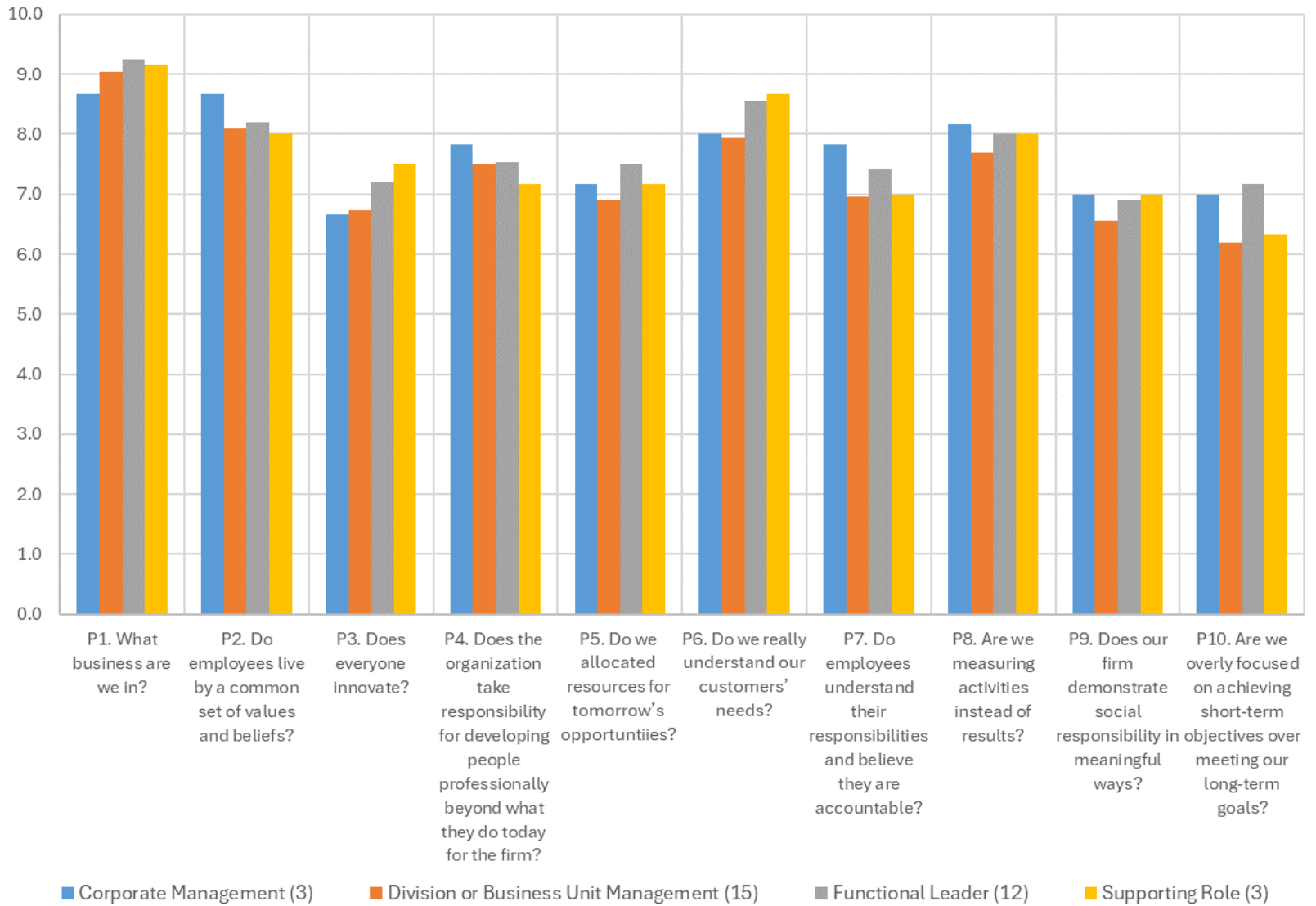
Figure 1. Average Scores by Peter F. Drucker Principle. 33 survey responses.

Summary of Key Findings

Our findings are shown in Figures 1 and 2. We summarize the results below.

Principle 1: What Business Are We in?

This principle focuses on the mission of the firm. For Drucker, a major cause of business failure was the lack of clarity on the mission. Mission statements focus on the underlying benefits that are provided to your target market—not the products or services that you provide. Products and services are constantly changing—but the underlying benefits change much more slowly.

Parker Score. Parker scores exceptionally well on this dimension. Indeed, the raw scores across all four groups (e.g., corporate management, business unit management, functional leaders, and support role) are very consistent- roughly at 9 on a 10-point scale. We assess this principle by using five questions that are designed to explore the nuances of the topic and ensure that respondents provide consistent answers.

Barry's interview reinforced a mission-driven organization. As Barry noted, "From the corporate level, we do a really great job. Our mission as stated by the corporation is that "we're enabling engineering breakthroughs that lead to a better tomorrow. The mission drives all our technologies. We support 11 major industries with five different businesses that are all driving towards the same goal regarding how we get those engineering breakthroughs that lead to a better tomorrow."

Principle 2: Do Employees Live by a Common Set of Values and Beliefs?

Drucker believed that all organizations needed to identify their values, and that all employees had a responsibility to live and nurture those values. Strong organizational cultures are fully committed to the organizational values, and they are manifest in resource allocation decisions and the daily life of the organizations. In weak organizational cultures employees often are not even aware of the values.

Parker Score. Parker consistently scores very high on being a values-led organization. There is little variance in the scores of all groups with all employees scoring Parker highly. This principle is evaluated using four questions, each to examine a particular nuance of the principle and to assess behaviors in practice versus policy.

Barry's interview reinforced these scores, noting that, "We have culture and values as part of our Win Strategy™. We have four pillars of strategy, and we have four major values that we talk about on a regular basis:
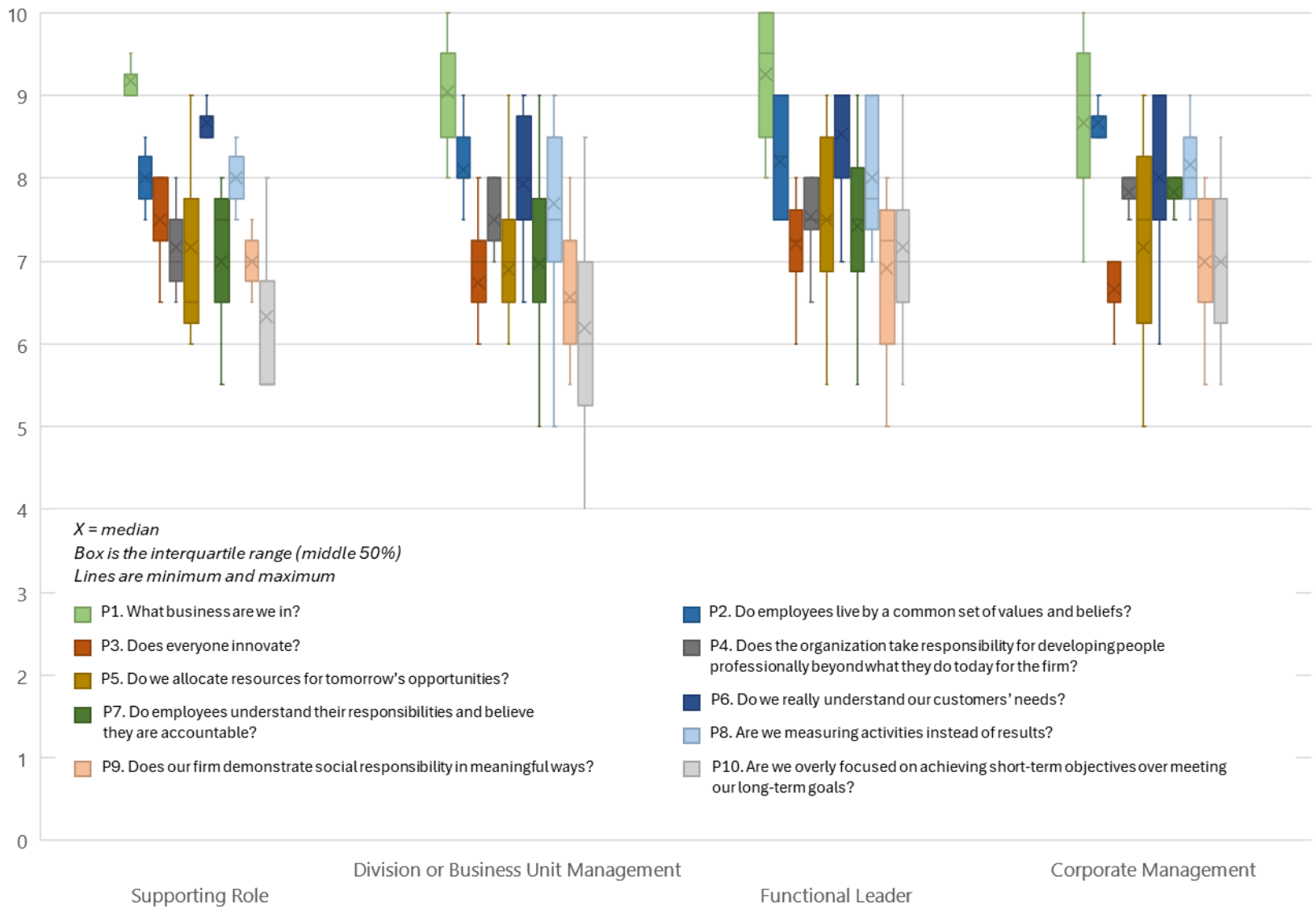
Strategy Pillars:
- Engaged people
- Customer experience
- Profitable growth
- Financial performance

Major Values:
- Winning culture
- Passionate people
- Valued customers
- Engaged leadership

Those are the four primary values that we talk about on a regular basis, and I must be honest with you, if you do not fit with those four then you're not at Parker for very long."

Figure 2. Scores by Organizational Role.

The legend:

- P1. What business are we in?
- P2. Do employees live by a common set of values and beliefs?
- P3. Does everyone innovate?
- P4. Does the organization take responsibility for developing people professionally beyond what they do today for the firm?
- P5. Do we allocate resources for tomorrow's opportunities?
- P6. Do we really understand our customers' needs?
- P7. Do employees understand their responsibilities and believe they are accountable?
- P8. Are we measuring activities instead of results?
- P9. Does our firm demonstrate social responsibility in meaningful ways?
- P10. Are we overly focused on achieving short-term objectives over meeting our long-term goals?

X = median
Box is the interquartile range (middle 50%)
Lines are minimum and maximum

Chart axis labels: Supporting Role, Division or Business Unit Management, Functional Leader, Corporate Management

Principle 3: Does Everyone Innovate?

Innovation is everyone's responsibility. While many organizations tend to leave innovation in the hands of the R&D group or individual product groups, Drucker believed every single employee had a responsibility to innovate. Hence, innovation should come from all parts of the organization and cover all aspects of the firm (e.g., business systems, people management, products, customer experiences and so on).

Parker score. While still a strong score (all groups above 7), compared to other dimensions, this is one of the lower scoring principles. We use three questions to fully explore this principle. The questions are designed to assess whether the firm prioritizes innovation and reinforces that all employees have a shared responsibility for innovation and have a broad view of innovation that includes how the firm operates and engages with customers, not just product or service features. It is important to note that this principle is perhaps one of the most challenging for firms. Though a firm may exhibit many of Drucker's principles, we also note that many firms struggle with Drucker's broader view of innovation.

Innovation is an area where Parker Aerospace can improve in two specific ways. First, everyone in the organization needs to know that innovation is their responsibility as a part of their job description to innovate. This topic should be part of the yearly performance review—what areas did you innovate in your role and why was that innovation important. Second, from a cultural perspective it is important for senior management to communicate and allocate resources in a way that "signals" to the organization that everyone must innovate. In our experience with engineering and technology driven firms many individuals see the "product" as the key source of innovation. While this is true, it should not overshadow all other forms of innovation.

Innovation goes hand-in-hand with abandonment. Barry noted "so how good are we at abandoning things? I would say that we're not very good at that [abandonment] for a couple reasons. Number one, we are in a limited industry. Contractually, with the products we make, we're required to support our customers until there are only five planes left in the world. So, we're still building parts for the B-52 which celebrated its 70th birthday a couple of years ago. It is very difficult for us to have an abandonment process on that side of things."

"From a regulatory perspective, we're also constrained about what we can abandon. We can't just tell a customer we're not going to make that part anymore. There are contract obligations that define our support."

"However, I can tell you where we've shed parts of our portfolio. When a company that we get through an acquisition process really doesn't fit our intended direction we will divest that company and sell it to somebody else who can be a much better custodian of the company. That is a form of abandonment."

Principle 4: Does the Organization Take Responsibility for Developing People?

A fundamental responsibility of a Drucker-like organization is their investment in the development of all employees. Drucker stated that organizations either help people grow or stunt them. Indeed, he went so far as to say, "the only source of competitive advantage for a firm is its people."

Parker Score. For all four groups, the scores ranged from 7 to 8 on the 10-point scale. Once again, this is a very high score. Barry elaborated on this point, "We have a very good development program that we put in place. There's a series of four different courses that are weeklong in length and that you must be nominated to attend. These courses are reserved for the best of the best people within the organization."

"One of the classes is called the Art of Parker Management. What are the tools and resources and methodologies that we have found to be most effective in managing the business. It teaches our people the skills of different management styles from being at an executive level to being at a front-line manager level. Those courses are available on an annual basis. As a matter of fact, we just finished the courses last week."

The survey uses three questions to evaluate this principle to explore the degree to which professional development is focused on advancing careers, the depth of formal training that is offered, and the perceived commitment from senior leaders. This is an important area where Drucker's thinking is highly relevant. Drucker had a point of view that each year, every employee should take it upon themselves to figure out (1) what their goals are for the coming year, and (2) what specific development or learning they will pursue. This would then start their conversation with their superior. It should not be initiated by their superior—it should be initiated by the employee. Then a debate/conversation unfolds to agree on (1) goals and (2) development plan for the year.

Principle 5: Do We Allocate Resources to Tomorrow's Opportunities?

A key concern for Drucker was his sense that most firms focus their time and attention on the short term. Drucker believed that 20% of the firm's resources needed to be allocated to the future. While short-term budgets could fluctuate, this long-term focus was essential to move the organization in the future. Importantly, Drucker constantly monitored a firm's "theory of the business"—that is, the fundamental assumptions upon which the firm was built. If these assumptions are changed, the mission strategy and goals of the firm must be adapted.

Parker Score. Parker scored high at a 7 with this principle compared to most firms. Interestingly, all four groups ranked similarly. We use four questions to evaluate this principle. The questions examine whether employees believe the firm is prepared for the future and whether management anticipates and tries to shape the future competitive environment and if leadership periodically re-examines current business models and decisions and if the organization embraces change through abandoning practices and methods to make room for the new.

Principle 6: Do We Understand Customer Needs?

Today, we take for granted the idea of being a customer centered or customer focused firm. This perspective advocates building the firm from the outside-in. Let the voice of the customer shape the types of products and services the firm should offer. Most notably, these ideas surfaced in the writings of Drucker in the 1950s back when demand outstripped supply. Now we have the reverse situation with supply far exceeding demand. Hence, the need to be deeply focused on customers' cognition, behavior, and emotions to be successful.

Parker Score. Next to the mission statement, the customer-centered score was the next highest mean score very close to the "value score" with a rating of just over 8. Again, all four groups were similar in their assessment. This principle was evaluated using four questions that examined whether the firm truly prioritizes this function and views understanding customer needs as a vital capability to succeed.

On customer centricity, Barry noted, "It's imperative that we be customer-centric in the way that we operate because if we get fired, there's no one else. If Boeing fires us as a supplier, we are not going to find another Boeing to replace them. Moreover, on a regular basis Parker is tracking LTR (Likelihood To Recommend) scores and other customer measures."

"We engage with customers at the executive level, these reviews are typically called senior executive meetings or senior executive forums, where both leadership teams get together. It's done at the president-to-president level."

"Our leadership team gets together with their leadership team, and we sit down, and we discuss things that need to be addressed at a very low tactical level within the organizations. We talk about what the performance is today, but we talk about growth opportunities. What is coming down the pipeline? How can we support those opportunities that are coming up?"

Principle 7: Are Employees Responsible and Accountable?

A key Drucker phase was "listen up and push responsibility down in the organization." Drucker-like organizations empower individuals, particularly those at the frontline to take responsibility for their work. Indeed, he advocated for the idea that individuals need to think carefully about the mission of the firm and then align their strengths and goals to the mission. In this sense, Drucker believes that individuals closest to the problem had the responsibility for figuring out the right ways to solve those problems. Indeed, he believed the most powerful form of control was self-control.

Parker Score. The score on this dimension was in the low 7s for all four groups, though a good score, this is an area for future improvement. We use four questions to explore this principle to better understand employee's beliefs, empowerment, effective communication, and personal leadership. To return to our point on Principle 4, the key here is the notion of contribution. This process should begin 'bottom up,' not 'top down.' To feel deeply responsible, employees need the personal freedom to commit to a certain set of goals given their individual strengths and the mission of the firm.

Principle 8: Are We Measuring Results, Not Activities?

It is easy to measure the results of salespeople; however, the task is much less clear for many other functions and areas of the firm. What is a marketing result, not an activity? What is a human capital result, not an activity? Understanding the difference between results and activities often requires multiple conversations between subordinates and superiors.

Parker Score. This is one principle that many organizations struggle with; however, the scores were consistently very high, near 7 within a narrow range. The survey uses four questions to examine in depth beliefs, metrics and measurement, common orientation, and generosity to achieve firm-wide objectives.

Principle 9: Does Our Firm Demonstrate Social Responsibility?

Corporate social responsibility is one lens to view social responsibility. However, Drucker took a much broader view arguing that everything and everybody that a firm touched has social responsibility implications. Indeed, he believed that all organizations had a moral and ethical responsibility to help societies function.

Parker Score. Two groups rated this principle as a high 7 and two groups rated this principle as high as 8. Three questions are used to evaluate this principle. The questions test whether social responsibility is taken seriously and as a result attracts new employees to the firm, and how pervasive social responsibility is taken as a responsibility through the organization, and how meaningful are the social responsibility actions. These scores are comparatively high, compared to other Drucker-like companies and organizations.

Barry noted, "We have what's called the Parker Foundation. And worldwide, the Parker Foundation on an annual basis donates millions and millions of dollars. Voluntarily, I've taken on the role of our community outreach person within the Orange County area. This year, through the Parker Foundation, we've given a $25,000 grant to Habitat for Humanity. We've given a $15,000 grant to an unaccompanied women's homeless shelter in Santa Ana, and we've given a $15,000 grant to First Robotics."

"Anyone within the corporation can apply to the Parker Foundation and ask for a grant. And it goes through a review process. If it's accepted because it's a good organization that the foundation feel has a noble cause, then they get the grant money."

"Additionally, on an annual basis everyone gets eight hours of volunteer time. Time off work, paid time off work to go do volunteer work. I'm on the steering committee for Habitat for Humanity Orange County. They allow us to have a Parker build day where we get a group of people together and go work on some homes."

"I think it is built into who Parker is that we give back to the community as much as we possibly can. And it also gets manifested very directly with the workforce because they are looked after in a sense. The big thing is I'm not just getting compensation, it is the development, I am learning, I am growing."

Principle 10: Do We Balance Short-Term and Long-Term Goals?

Firms tend to focus their efforts on the short-term. This is especially true for publicly held firms. Drucker coined the phrase "continuity and change" to reflect that management had a responsibility to manage the present and the future. Thus, well run firms tend to operate in two time horizons.

Parker Score. This principle is sometimes difficult for respondents to score. Managing in two time periods is challenging because of perceived conflicts in objectives. The mean score here was a high 6, similar to the innovation score. The survey uses four questions to examine this principle. The questions explore allocation of management's time, whether a formal on-going initiative is focused on this challenge, whether both time periods are explicitly considered in key decisions and if results consistently reflect this principle. The most challenging aspect of balancing short-term and long-term goals is to allocate the right attention to the future. In Drucker's terms this means "strategically abandoning" anything—products, services, processes, workflow, structures, culture, HR approaches—that represent the past not the future. One of his most famous quotes was "If you had the start the business all over again, knowing what you now know, what would you do differently?"

Conclusion

Across the board, Parker's scores are consistently high in our experience running executive education groups and conducting "diagnostics" within other organizations. What is remarkable is that the lowest scores were above 6 out of 10, and we rarely see organizations who do not score below 5 on at least one dimension.

As a result, we are confident that Parker is truly a Drucker-like organization across the full range of Drucker thinking. Congratulations and we look forward to celebrating this important achievement with you.

Dr. Bernie Jaworski
Peter F. Drucker Chair in Management and the Liberal Arts
The Peter F. Drucker and Masatoshi Ito
Graduate School of Management

Appendix 1: The Survey Questions

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree	Not Applicable
1. Do we understand what business we are in?						
Our firm's mission and vision statements are clear and precise.	○	○	○	○	○	○
Our mission and vision encompass different objectives, beyond just financial goals.	○	○	○	○	○	○
Our firm's mission and vision are different than our competitors'.	○	○	○	○	○	○
The firm's mission and vision are widely embraced by employees and guide their behaviors.	○	○	○	○	○	○
Our mission statement focuses the customer benefits we deliver—not on our products or services	○	○	○	○	○	○
2. Do employees live by a core set of common values and beliefs?						
Our values and beliefs as a firm are documented clearly and in sufficient detail to guide employees' behaviors.	○	○	○	○	○	○
Our core set of values are distinct when compared to our competitors.	○	○	○	○	○	○
The firm's values are enforced as shown by the dismissal of those who deliberately behave in contrast?	○	○	○	○	○	○
Our employees are "bought into" our values—and they drive employee behavior.	○	○	○	○	○	○

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree	Not Applicable

3. Does everyone innovate?

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree	Not Applicable
We prioritize introducing new ideas and exploring improvements to our products and services, and how we operate.	○	○	○	○	○	○
All employees believe they have shared responsibility to innovate.	○	○	○	○	○	○
We broadly define innovation beyond our products and services to also include our business model, processes and operations, customer engagement, etc.	○	○	○	○	○	○

4. Does the organization take responsibility for developing people professionally beyond what they do today for the firm?

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree	Not Applicable
We emphasize giving employees the opportunity to learn new skills and gain new job experiences.	○	○	○	○	○	○
We have formal training programs and mentorships that employees can ask to join or are invited to participate.	○	○	○	○	○	○
Employees believe that the organization cares about their professional development.	○	○	○	○	○	○

5. Do we allocate resources for tomorrow's opportunities?

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree	Not Applicable
We are prepared for a future that might be different than today's business environment.	○	○	○	○	○	○
Our management anticipates, proactively shapes, and embraces new opportunities.	○	○	○	○	○	○
We regularly evaluate current offerings, business and operating models, processes, and fundamental assumptions of the business.	○	○	○	○	○	○
We periodically stop and abandon old ways of doing business to allocate resources for the future.	○	○	○	○	○	○

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree	Not Applicable

6. Do we really understand our customers' needs?

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree	Not Applicable
We conduct ongoing market research led by a senior person.	○	○	○	○	○	○
We understand the concerns of our customers and take pride in our responsiveness.	○	○	○	○	○	○
We understand our customers' buying behaviors and preferences	○	○	○	○	○	○
Our goal is to develop products and services that "sell themselves"	○	○	○	○	○	○

7. Do employees understand their responsibilities and believe they are accountable?

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree	Not Applicable
All employees feel responsible and accountable for success of the firm	○	○	○	○	○	○
Front-line employees feel empowered to shape their own jobs	○	○	○	○	○	○
We listen down, talk up	○	○	○	○	○	○
Every individual "manages oneself" as a leader	○	○	○	○	○	○

8. Are we measuring activities instead of results?

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree	Not Applicable
Every employee measures their own performance on a regular basis with metrics.	○	○	○	○	○	○
Employees share a common orientation on results for the firm, customers, shareholders, and other stakeholders.	○	○	○	○	○	○
Employees are generous with their time and knowledge to help others solve problems.	○	○	○	○	○	○
We readily share our individual performance metrics with others on a regular basis.	○	○	○	○	○	○

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree	Not Applicable
9. Does our firm demonstrate social responsibility in meaningful ways?						
Employees join the firm because it takes social responsibility seriously	○	○	○	○	○	○
Employees believe they have responsibility for "whomever and whatever" the firm touches.	○	○	○	○	○	○
We demonstrate social responsibility with actions, beyond charitable donations and marketing slogans.	○	○	○	○	○	○
10. Are we overly focused on achieving short-term objectives over meeting our long-term goals?						
We allocate 15–20% of our attention on the future	○	○	○	○	○	○
We have separate people or organizations with their own budgets focused on getting us to the future.	○	○	○	○	○	○
We oftentimes make strategic decisions for the long-term that sometimes impairs our short-term results.	○	○	○	○	○	○
We consistently perform year-over-year without sacrificing our long-term goals.	○	○	○	○	○	○

Information about yourself

All your information is highly confidential and for internal use only. Please contact us if you have any concerns.

11. What is your role in the organization?

○ Corporate Management

○ Division or Business Unit Management

○ Functional leader (Manufacturing, Finance, Supply Chain, Program Management, IT, HR etc.)

○ Supporting Role (Strategy, Planning, etc.)

○ Other

12. How many years have you worked at your company?

13. We plan to invite some participants to join our future user research programs. If you're willing to participate, please provide your email address and we may contact you soon.

14. Is there a colleague you would like to invite to the survey? Please enter their email address and we'll contact them.

Interview Notes, March 5 and 6, 2024

Participants

Barry Draskovich, Group Vice President
Program and Contract Management
Parker Aerospace

Bernie Jaworski,
Peter F. Drucker Chair in Management and the Liberal Arts,
The Peter F. Drucker and Masatoshi Ito Graduate School of Management

Introduction

The purpose of these interviews was to gain a richer understanding of the application of Drucker's philosophy inside of Parker Aerospace. Importantly, while the 10 principles in the survey provide one lens to being Drucker-like, the intent here was to overlap with the principles and test some new areas. In this sense, the interview was much more flexible as we adapted our conversation to cover new areas (i.e., strategy, the pillars of your strategy, annual performance reviews, etc.).

The Interviews

Bernie: Drucker said stuff that we will be talking about. We're not going to do anything with data, like publish it [other than to help us understand how Parker exhibits Drucker's management principles]. Let me describe the process of Drucker principles evaluation:

- I'm probably going to need to talk to you for an hour or more. The initial questions are for us to just get a hand on how we think you're scoring in a kind of general way based upon your responses in our discussion.

- And then we do data collection. Send out the survey. There's an interesting question here whether we want to do the diagnostic data at different levels. Do we find that there's gaps between. I think data collection could look like: seven or eight people in your functional area, seven or eight people at Parker Hannifin and seven or eight people at the aerospace level. Target people you think are knowledgeable of what's going on.

- Then we collect, collate, and analyze the data.

- Then we talk again. FYI, nobody is going to score high in all ten items.

Also, there is a benefit for the organization to have a conversation about the results which we can facilitate. And if people find it interesting, we can run it through a larger sample.

Drucker's view begins in terms of one of his key questions asking, "what business are you in?"

It's not about your products and offerings. It's about the underlying benefit that's being offered. Example: Disney is about the world of storytelling. It's not about ESPN. It's not about the movie. It's not a theme park. It's about storytelling. And it just so

happens, all those products kind of tell a story—which is the benefit.

Example: What's happening just recently is that it used to be that all the automakers said they're in the business of transportation. Not in the business of automobiles. Then, in the last two, three years, most of them have said we're now in the business of mobility. But where's the added value here? Mobility gives them a big landscape around alternative vehicles, alternative things to do—big benefit.

The mission comes out of what business are you in? That's how Drucker would be thinking about a mission.

Barry: I'm going to talk about this from the corporate level and I think we do a really great job. Our mission as stated by the corporation is that "we're enabling engineering breakthroughs that lead to a better tomorrow."

The mission drives all our technologies. We are in six major industries:

1. Aerospace,
2. Engineered materials,
3. Filtration,
4. Fluid connectors,
5. Instrumentation, and
6. Motion systems.

We have these different businesses that are all driving towards the same thing as how we get those engineering breakthroughs that lead to a better tomorrow.

One of the principles that we always try to keep first is to communicate with the rank and file. When you go down onto the floor and you ask a guy, what are you doing? And he says, "I'm assembling an actuator." It's like, no. You're not assembling an actuator. At a very minimum, you're building an airplane. But you take it to that next higher level, in that you're connecting people.

So, what they have is a noble endeavor. It's not that they're building an actuator. It's that they're allowing a grandparent to go visit their grandkids. We are trying to reinforce that way of thinking and talking in our everyday conversations with people about our mission.

The Win Strategy™ is a formal structure that we've put into place that allows us to take that top level mission and put it in the application of how we're driving that mission within the organization. And I can get into some more details around what that Win Strategy™ is, and I can even show you some write ups and show you some graphics about how that comes into play.

There are four Parker major pillars associated with the Win Strategy™:

1. Engaged people, (center led but globally controlled organization),
2. Customer experience,
3. Profitable growth, and
4. Financial performance.

Also, we want to make sure that we have an entrepreneurial environment established within each of the organizations. We are a center-led, but locally controlled organization. So, everything is dispersed within the organization. Divisions own their destiny. We give them goals at the corporate level of what they need to achieve, but how they go and achieve that is up to them. They control that on an ongoing basis. We are very diffuse in how we manage the organization.

Bernie: Let's talk about customer experience. Do you allow each division then to figure out what they mean by customer experience, or do you say, "hey, this is our customer experience, there are critical principles. And I don't care what you do with them, but there's three."

Barry:

1. Quality solutions on time,
2. Digital leadership, and
3. Ease of doing business.

We try to drive around those three aspects to what customer experience means. And then from there, the divisions can determine how they apply those aspects.

We also provide measurement metrics. We have a customer centric metric called likelihood to recommend. It's a customer survey that we send out after every transaction and asks:

• How did this go?

• Would you recommend us as a supplier to continue business with?

We also have a 'zero defects' metric. We measure our quality aspects. We want to score very high on time delivery and best in class lead times, and reliability and then there are specific customer dashboards that divisions create to measure their specific interests. Also, we measure overall operating costs.

There could be a mishmash of metrics depending on what that customer is looking for. And this occurs down at the operating division level. They get to pick and choose as to what's most important for them and their customers.

Bernie: That's really good. High level guidelines on how to approach metrics with freedom within the framework.

I'm working on a marketing doctrine about what are the four or five principles that are going to guide your go to strategy or commercial strategy. And every company in my view must develop these.

Also, I'm working on another piece of research around the role of principles. How companies structure their principles. And will the

principles have wide guard rails or tight guard rails? And when do they have wide ones and when do they have narrow ones? So, all this stuff is really a fun conversation.

Barry: I'm going back to your earlier issue, which I think is a good one.

Drucker would say every single employee needs to understand the mission and understand how they contribute to the mission. If I go to the factory floor and I see people putting together airplane parts, they will say, "Here's my task, but at the end of the day, I'm building a plane and actually creating better lives. I'm connecting people better and allowing people to interface. I'm making the world a better place because families get together." Workers get together to do commercial things to drive the economics of the world.

Bernie: Obviously, as you move up the hierarchy, you get more knowledge workers, sophisticated workers, more talented executives. The question at the factory floor level, is there the notion of the contribution of the individual? Does the individual have some say or discretion around what they are able to deliver, the tasks they're performing? Can they choose how to deliver against what their boss needs, what their unit needs, what their organization needs?

If I asked people at different levels of the hierarchy, what is your overall contribution to the mission? Would everybody say, "Here's my contribution?" Or would that question be answered as we get to your level and or one or two levels below you. They would say, "That's a great question. Let me reflect on it a bit. Let me give you what I think I'm doing." But at the lowest level, do you get that type of connection? Do people talk about their contribution?

Drucker's basic argument is that the best possible alignment you can ever get in the world is when everybody knows their role and how it then relates to the mission because that means everybody is

coordinated with everybody else as they move up to the overall meta goal.

Barry: Just like with every organization, I think you're going to get a wide range of responses. One of the things that I can tell you, though, is that the ability of somebody to have a say and be empowered to impact that mission statement, is what we call high performance teaming. And these high-performance teams are natural work teams that get together and in effect control their destiny.

We have a high-performance work team that works on the program management function. And we're made up of representatives from each one of the divisions, plus a couple supporting functional areas. We are allowed to make decisions on how our function operates. We're not being told by anybody how that's done. We define what tools we are going to use, what processes we are going to use, what kind of capabilities we have in place when we're hiring somebody. Those kinds of things are all controlled by our high-performance team.

And then if we take it down lower and go down onto the factory floor, we might have a value stream. Value stream is making a product, a specific product—an actuator for a F-35. And that is where there's high performance team made up of the folks that are specifically working on that line, and they have control over the processes that they're working on. They control how much inventory they have coming into that line. Can we do this operation quicker by rearranging the equipment in a different way? The teams can make the decisions. It's not an operations manager coming down and saying, "Hey, guys, we're going to rearrange your equipment so that you're more efficient." They, the team, make the decisions of where that equipment goes and how far apart each one of these workstations should be located. On the floor, they are in control because they're doing it every day. They know better than anybody else where the inefficiencies reside. So,

from that perspective, I think it ties their contribution to this higher-level mission statement of how we work. Empowerment is driven down to the level that it needs to be.

Bernie: Drucker has the argument that you want to push responsibility and accountability as close to the potential problem as possible. He would be a massive advocate for your approach. In fact, he coined the term decentralization in his 1946 book, *Concept of the Corporation*. Drucker is a huge fan of decentralization. Push the problem down as far as possible inside the organization and let those individuals deal with the issues. From 1945, it is his idea that the best form of control is self-control. And that so it's not about process, not about procedures, it's not about targets. If you have people and you give them the information, they get to a better solution.

Barry: Decentralization is a great word and that epitomizes how Parker is run; we are very decentralized.

I'm the vice president of three functional areas, and I only have four direct reports. The program management team is probably a hundred and ten people, and only one of those is a direct report to me. The rest of them are in their business and functionally with a dotted line into me as the functional leader.

So, from that perspective, the company is really run at the division level or down where the money is being made. My role is to tell them here are tools and here's processes and here's training and everything to help you do your job more efficiently and in a standardized way across the organization. But it's their role within the division to deploy the assets.

Bernie: That's really interesting. Such a very decentralized organizational structure. Drucker would say you're able to then deploy the whole human being, you're getting their brain in addition to their hand. You're getting the whole person.

What's interesting is Drucker also argues that even when you get the whole person—good news! You're getting a whole person and they're aligned. They're all in. Bad news is that you are getting an adult person with strengths and weaknesses, and you must mitigate the weaknesses. And in fact, Drucker argues that the very first principle of organization is the ability to put people in the right role to mitigate their weaknesses.

Another topic: Drucker's view of abandonment is evident when he asked a great question to executives: "if you're going to start the company, all over again today, what would you do differently? "Executives respond that they would get rid of this, this, and this. It's not just products or systems. It's a whole set of problems. It's everything.

Example: look at the Drucker School. I'd say, well, why do we have these three or four programs in place?

- Are they the right programs?
- They're very low enrollment.

If I start over again today, would I have those? No. That's how to look at abandonment—look at a clean slate and determine what you would and would not do.

Barry: Parker is in a very limited industry. I mean, we only have a couple, a handful of customers in effect. So, there's only so much we can do with abandonment. Once the customer gets a plane, they tend to keep it for the next forty years. We're still supplying products for the B-52s that were designed in the '50s. The plane went through its 70th-year anniversary a couple of years ago, and we still support them.

Bernie: As Drucker famously said, the purpose of a business is to create a customer. What score would you give yourself to which you are customer centric, that is that you put the customer at the center of everything you do? Obviously, one of your four values is the notion of customer experience. But to what extent is that aspirational? Also, what are some things that you do that reflect an aggressive customer centered perspective?

Barry: We are in a captive industry; we don't have a whole lot of customers. It's imperative that we be customer-centric in the way that we operate because if we get fired, there's no one else. If Boeing fires us as a supplier, we are not going to find another Boeing to replace them.

From that aspect, there are probably 20 OEMs that we deal with, maybe 30 if we count helicopters and missiles. Also, there are hundreds of airlines and things like that that we deal with from an aftermarket perspective, and we consider those as being customers.

So, knowing that we can't fire a customer and how painful it would be if they were to fire us, I think it's important that we stay customer focused.

The surveys mentioned in the earlier part of our conversation, how likely would you recommend our transaction is a net promoter score. We conduct these surveys on a regular basis to make sure that the customer is happy.

In addition to surveys, we review customer scorecards on a regular basis-- might be monthly, but more typically they're quarterly. And those scorecards really summarize all the aspects of how the customer needs us to perform. It might be on time delivery. It might be quality. It might be customer service. It might be response time. It might be reliability. There is a whole slew of metrics, and every customer has a different set of metrics that they're most interested in watching. We have quarterly meetings with our customers where we review metrics and make sure that we're meeting their expectations. So, it's important that we don't get into a position where we're not supporting them as they need to be supported.

Bernie: I like the idea that the customers actually customized their scorecards for their environment. Do they take the initiative to create the scorecard or does Parker do the work to create the scorecard?

Barry: A little bit of both. It is part of their supplier management process.

We engage with customers at the executive level, these reviews are typically called senior executive meetings or senior executive forums, where both leadership teams get together. It's done at the president-to-president level.

Our leadership team gets together with their leadership team, and we sit down, and we discuss things that need to be addressed at a very low tactical level within the organizations. We talk about what the performance is today, but we talk about growth opportunities. What is coming down the pipeline? How can we support those opportunities that are coming up?

From a customer perspective, we ask, what do you really need? What are your desires? How do we best fill those? And what products and services can we provide, either existing or new, that will meet your needs?

Customer centric is wrapped up in these executive council meetings that we have with all our major customers on the executive level.

Bernie: One issue for Drucker would be what he called marketing, but that's really a bad term. He meant that everybody in the organization has a responsibility to understand and serve customers. Marketing is an organization wide activity. So, a better way to frame marketing is that customer focus is an organization wide activity.

Barry: We feel that if we had the opportunity to score up and down our hierarchy and laterally across the functions, everyone would say customers come first. Customer centricity would be highly scored. There are some pockets that may not agree since there are 17,000 people across Parker Aerospace. So, it would be foolish for me to say that everyone's got that same mindset.

Bernie: I want to go back to the Win Strategy™.

Barry: We have customer experience as one of the four pillars of the Win Strategy™. Win strategy™ is talked about on a regular basis. So, whether we're talking about specific metrics that go along with the Win Strategy™ or just customer experience, Win Strategy™ is fundamentally built in our organizational structure and culture.

We base a lot of our discussions on the Win Strategy™ when we are setting our goals. We question, why are you doing that if it does not fit in with the Win Strategy? And that flows down to personal performance goals that we do on an annual basis.

Bernie: What I like about the Win Strategy™ is that there are only four pillars and they're very clear and understandable. Drucker's big idea when he was writing about strategy back in the sixties and seventies, was that he was very much concerned about focused resources as opposed to spreading resources everywhere. And this to me is an example of getting resources aligned and focused on particular domains with the four pillars. Your approach is consistent with Drucker's thinking.

Barry: Okay, that's really helpful.

Bernie: Let me shift gears to innovation. Drucker's view is that innovation is everyone's responsibility, and that everything that a firm does is an opportunity for innovation. So, yes, products, but also systems, workflow, supply chain, sales, and any other activities of the firm. When people use the term innovation, is it going back to your mission around engineering breakthroughs and a better society? Is innovation when the R&D group comes up with

breakthroughs? Is that how you talk about innovations versus innovation is everything we do?

Barry: Parker is an engineering company and we're proud of our technological innovations.

Innovation is often about automation. How do you do things quicker than we did before to increase throughput with the same number of people?

I would say that we have an equal balance of product innovation and process innovation. Simplification is a keyword within our organization. How do we do things simpler and easier than what we did yesterday? There is a big innovation push whether it's on the manufacturing floor or in the front office. How do we automate things? How do we put tools in place that take manual labor out of the equation and free people from doing menial activities so they can spend it on higher thinking activities?

For instance, in my team, we're always looking at new tools that we can deploy that are going to take the mundane work out of program management or contract management.

Allow me to give you this example. One time, my boss who was the president of Parker Aerospace asked me a simple question. How many contracts do we have with NASA? For me to get that data I had to go to each of our seven divisions and ask them the question. And, then they had to go to each one of their sites and ask the same question. People were looking through file cabinets and SharePoint sites, and computer hard drives to try to find the answer. Then the data was all put into an Excel spreadsheet. And then those Excel spreadsheets were all aggregated.

Finally, after three and a half weeks, I got the answer for my boss.

About five years ago, we deployed this tool called Seal, which is an electronic repository for contracts. And it has AI capability for searching.

Now, if I want to find out about all the contracts that we have from NASA, it's literally a couple of mouse clicks and I can get that data myself without asking anybody else. Seal goes all the way down to the point where I can query it to say, "what are all of our limits of liability clauses that we have in those NASA contracts?" And it will generate that data in real time.

There is a level of automation with the tools and processes where we're constantly asking the question, "how do we take some of that manual legwork out of the work?" Now since I am not spending my time gathering the data, I have the time to analyze and give an informed answer.

Bernie: That is interesting. I think Elon Musk is a crazy guy, His biographer wrote a great book about him. The biographer says, "Elon does not compete on the products and offerings. He competes on the factory floor." Elon does a lot of crazy innovation on the factory floor. But if you get all that worked out about the factory floor, then suddenly, the product just spits out at the end of the line. It is an interesting issue around process and manufacturing and AI and replacing the mundane and making work more effective.

Let me ask another question. And I know we touched on this the other day, and this is typically, as I said to you, the thing that is the most problematic for companies is to put in place is a systematic abandonment process.

Barry: Parker has systematic abandonment at two levels. One is at the organization level and the second is at the individual level. For example, each year I analyze what I'm working on. And grade myself on effectiveness looking for places to abandon.

Bernie: Drucker left the concept of abandonment as broad as innovation. In other words, with all the activities that you are doing, look at what you can abandon. It is everything from a

building to a process, to a way of working, to a division, to products, to offerings, to brands, to revenue models. Anything.

Barry: So how good are we at abandoning things? I would say that answer is complicated. Number one, we are in a limited industry. Contractually, with the products we make, we're required to support our customers until there are only five planes left in the world. So, we're still building parts for the B-52 which celebrated its 70th birthday a couple of years ago. It is very difficult for us to have an abandonment process on that side of things.

From a regulatory perspective, we're also constrained about what we can abandon. We can't just tell a customer we're not going to make that part anymore. There are contract obligations that define our support.

Parker Hannifin is 106 years old. This is a long legacy. I would say that there's not much where the company has said we're not going down that direction anymore. That is not how this company operates.

However, I can tell you where we've shed parts of our portfolio. When a company that we get through an acquisition process really doesn't fit our intended direction we will divest that company and sell it to somebody else who can be a much better custodian of the company. That is a form of abandonment.

Bernie: That makes a lot of sense. I guess the other thing that makes your business a little bit more complicated is that you have complex, interrelated processes. Isolated processes are easier to abandon.

What is interesting is that you bring in new software and replace the old, continually upgrading. That is a form of abandonment.

Barry: There is a new process called Product Navigator—a guide path for how we navigate through the product development and product support and life cycle of our products.

Parker has had the legacy toll-gate process ingrained into the Parker culture from about 2006. We are going to stop that process completely and we're going to migrate everybody over to this new process that we're working on. I would say that change falls into the abandonment category. This is a fundamental change in how we do life cycle management.

Bernie: Really interesting. Yes, that is abandonment.

Drucker wrote about values and culture. He called culture esprit de corps, and he made the argument that every single employee has a responsibility to nurture and develop the culture set of values which writing back in the fifties and sixties is just remarkable.

So, let me shift into a conversation around values. Do you have a set of Parker values that are near and dear to the heart of the company in terms of what you do and how you/Parker think about people?

Barry: Absolutely. So, we do have culture and values as part of our Win Strategy™. We have four pillars of strategy, and we have four major values that we talk about on a regular basis:

- A winning culture,
- Passionate people,
- Valued customers, and
- Engaged leadership.

Those are the four primary values that we talk about on a regular basis, and I must be honest with you, if you don't fit those four then you're not at Parker for very long. We have a psychological test based on the four values that we give people upon hiring or even when they move into a significantly bigger role. The test evaluates your culture assimilation ability not your technical skills. Are you a good fit for Parker? Are you a good fit for this new role?

Bernie: What I like about the four values is that they give a lot of freedom within the framework in terms of what does it mean to be engaged. It gives people latitude to do what they want to do with respect to engagement. We all know charismatic leaders that stand in front of the room and talk forever. Yet there's others that are much quieter, much more methodical, much more organized, much more precise. This is also engagement. Your values give a lot of freedom.

When I teach values and culture, I always say to students, "I don't care about good or bad cultures, I care about strong cultures." Here's a culture that's very strong and some people look at it and say, wow, I'd love to work there. And other people would say it's a terrible place for me. If you have established a strong culture, people can come in and say, whoa, this is a great place to work. And others will say this is not for me. I think strength is the interesting and the right way to think about culture.

Drucker called it esprit de corps. He wanted some energy to be created by the culture. Some form of energy and cohesion is everybody's responsibility. Drucker didn't have a point of view as to what culture should look like, but he did have value statements.

I understand the concept of passionate people, who value customers, and engaged leadership. I'm curious about the term winning culture, what's the meaning behind it?

Barry: Winning culture goes all the way back to our founder of Parker, Arthur Parker. When he founded Parker in 1918, it was Parker Appliance Company. He believed in winning with integrity. If you could boil it down to two words, it was "fair dealings." That's what winning culture is all about. It's not winning at all costs. It's winning with integrity. We can't win by doing whatever we have to do to win. You must win and be able to walk away and say, I did the right thing.

Bernie: So, are you looking at it from a perspective of successful or unsuccessful or ethical or unethical?

Barry: We use the terms ethical and unethical; I think that is a very clear line. You should be able to put on the headlines of the paper how you won and be proud of it.

Bernie: Let me talk about a broader principle I'm playing with. Under what circumstances do we test the boundaries of values as opposed to saying, these are absolute rigid rules, and we are going to follow them. Is there some leeway in trying to understand the boundaries?

For example, at Claremont Graduate University, we have worked forever with Edward Jones. They always say, "we put our clients first." That is perfectly fine. Put your clients first when you're making a lot of money. But give me an example where you put the clients first and you lost money. So, what I'm trying to do with them is test the boundaries of how they think about putting their clients first.

What I'm trying to get at is whether there is a point where even though you're a value -like company, are there areas where you would say, I've seen some violations of these values, or I've seen instances that maybe they are not done exactly right. It is a gray zone. It is about boundaries.

Values rarely change, but they do change sometime because the broad environment at which you're competing in changes. I was at GE about ten, twelve years ago where they added a new value called courage. Energy was being transformed. Health care was being transformed. They needed people to step out and take risks, calculated risks. They needed courage.

What I'm trying to get at are boundary conditions. You have these four values. Do you ever revisit them? And are these four values so broad and so general that if you stay within the lane of these four, you are going to be in good shape?

Barry: Yes, our values are very broad in nature, and they are not so prescriptive that you need to be worried about stepping over the line. It is on a situation-by-situation basis. So let me talk about valued customers from the Win Strategy™ side. We are asked a lot of times to do things that we don't want to do or are unwilling to do and have to say no to the customer. There have been instances where we've had to walk away because we were not willing to bend to the point where the customer wanted us to go. We must make those hard decisions as we cannot always say yes. Customers are not always going to be happy, but sometimes that's the best course of solution or best course of action to take. So, our values are not rigid enough to constrain innovative thought of how you put a solution into place, but they are constrained to the point of what we don't want people to do. We ask if it was written in the newspaper, would you be proud?

Bernie: So, there's leeway. There are guardrails in place, but I'd say those guardrails have some width to them. It's interesting.

I think the interesting ones are where you've said no. When you' compete, you know customer centricity is within boundaries. It's a boundary about integrity and then everything else fit your values,

Let's talk about another topic which is people development. Drucker's notion is that you must constantly develop people. A lot of companies don't do that. The second part of Drucker's notion is that you must be compensated. If they join my organization, they must live the promise, the dream of the society that I live in. I must pay them at an adequate compensation level and look after them with benefits packages and other stuff that's market based.

Are you developing your people? Are they growing? Are they satisfied? Are they engaged? Are they loyal? What are your thoughts?

Barry: A couple things that I think are important. We have a pretty good development program that we put in place. There's a series

of four different courses that are weeklong in length and that you must be nominated to attend. These courses are reserved for the best of the best people within the organization.

The class is called the Art of Parker Management. We teach what are the tools and resources and methodologies that we have found to be most effective in managing the business. It teaches them the skills of a different management style from being at an executive level to being a front-line manager. Those courses are available on an annual basis. As a matter of fact, we just finished the courses last week.

We do cross group and cross corporation talent reviews. We use a nine-box model where we're plotting performance versus potential. And then, we talk about all team members regarding where they sit in that matrix.

We typically talk about the folks that we call in the elbow – meaning that they are in the top right corner, top middle, or right middle on the 9-block matrix (the highest potential and highest performance). Then, the discussions revolve around what's next for this person. If they're in that top right corner, it is assumed that they can move up two levels within the organization. They could take their boss's job and their boss's job.

The intent of those discussions, which lasts a couple days and goes through all the functional areas is to discuss "what is the path that we want to put this person on?" What is the best assignment? What is that training course that we want them to attend? Is there an advanced degree that we need them to go get? And so those discussions revolve around people's development.

From a broader perspective, every other year, we conduct an engagement and empowerment survey. We survey everybody in the entire worldwide corporation, 57,000 people asking "are you engaged, and do you feel empowered? And another series of forty or fifty attitude questions. The questions do not change from year

to year so we can use responses as a baseline. What was the score last year or two years ago? What is it now? And did it go up or down, and then we analyze why. We analyze each operating business and functional area. Many times, we organize a focus group and delve into the responses and ask the people "why do you not feel empowered "or, "why did you/other people give this answer? Then we develop corrective action plans to address those issues so that, year over year, we increase our scores.

Barry: During COVID, our engagement and empowerment scores declined. We are now in the process of trying to get back to where we were pre COVID. And a lot of it had to do with a loss of that feeling that you're engaged because people were working remotely. Parker used to have this attitude of if you're not in the office, you're not working. And suddenly overnight, the switch was made that you must work from home.

I think people lost that sense of connection even though people really love working from home. Me personally, I think I worked from home about five days and then I came back into the office. There was nobody there. I had the whole place to myself. I work more efficiently in the office. There were a few people who came into the office. But we lost that sense of connection and sense of empowerment and engagement during that whole COVID time. And now we're in this recovery mode and trying to figure out what do we have to do to regain a sense of connection?

Do we tell people to come back into the office? Work in the office three days a week and two days at home. Or work from home three days and two days in the office? Now as of January first, we said work four days in the office and one day from home. I wouldn't be surprised if in a year we are working all five days in the office.

It's not as if you get fired if you don't come in four or five days a week. But somebody's going to notice it. And then it might come up during talent review. For example, they're great employees, but

they're not getting the immersion of what Parker is all about because they're not in the office. This impacts the engagement and empowerment scores.

Bernie: Really interesting. You have the nine-block analysis and the engagement surveys, are there are still annual performance reviews which relate to Drucker's Management by Objectives? For Drucker, management by objectives begins with the subordinate. Everyone needs to reflect on the mission of the firm, and ask, "what can I do to support the mission?" This then gets translated into objectives. That said, the subordinate takes the first pass at objectives and then engages with his/her superior to agree on the objectives for the year.

Barry: We do have annual performance reviews. It's a pretty structured process, however, it's structured differently now than it was pre COVID. Pre-COVID, we did a lot of 360 reviews where you identified your peers and bosses, subordinates and surveys were sent out to those folks and that data was gathered and scores were tabulated and everything. Now, it's more of the manager's input. If the employee wants a 360 review, they must request one.

Also, everything is automated. All I must do is ask you to give me some input on "Sarah" and the feedback comes to me directly within the system.

I read your comments and then I formulate the review based upon structured categories. We have behavioral categories, and we have performance categories. The reviews are all standardized across the entire corporation and done on an annual basis.

Our people are important. It's important to spend time on the review. There is a deadline by which you must give people a review. And if you don't get reviews done on time, you're getting some nasty grams from HR.

Bernie: Drucker has a quote that says that's people are the only source of competitive advantage. It's kind of an interesting issue

because the people do everything. Right? They make process decisions. They make choices about which customers to target. People tend to think competitive advantage is about the assets, the history and capability but at the end of the day, it's about the people.

Bernie: Peter Drucker stated the mission challenge as follows: "Nothing may seem simpler or more obvious than to answer what a company's business is. A steel mill makes steel, a railroad runs trains to carry freight and passengers, an insurance company underwrites fire risks. Indeed, the question looks so simple that it is seldom raised, the answer seems so obvious it is seldom given. Actually, 'what is our business' is almost always a difficult question which can be answered only after hard thinking and study. The answer is usually anything but obvious." (The Practice of Management, Harper and Brothers Publishers, 1954)

Let's discuss program management, your strategy, and your mission statement, which you said is to "Provide a business level competitive advantage to Parker Aerospace in the planning and execution of our projects and programs through three areas.

Barry: Now if we go and deep dive into those three areas, it's people, structure and tools and training processes. But we must have people that know what they're doing.

The analogy I give all the time is, I do woodworking as a hobby on the side when I have the time. Somebody could have the best woodworking tools in the world, but if they don't have basic carpentry skills, they can't do anything. Conversely, if you have strong carpentry skills, you can have rudimentary tools and build some beautiful things.

So, this is the whole focus of how we do it within the program and contract management function is we have the people part first. They must have the training. They must have the competencies. They must have professional certifications. We must test them on

an annual basis to make sure that they have the necessary skills. And if you don't have the skills, how do you get the skills?

Bernie: Let me ask one last question. Half of Drucker's books were on functioning society. And in fact, from my perspective having read his work, I think functioning society was the principal motivation for Drucker. His way to get there was to get organizations to function well.

If organizations function well and society is comprised of organizations, then society is going to function well. And there is nobody left to help society function accept organizations because we're comprised of a society of organizations.

What was interesting about that is he also underscored and used the terms moral and ethical responsibility to help society function. Of course, the first responsibility of management is to hit their economic performance.

Organizations touch society every day in every possible way. They must have a moral and ethical sphere. It's interesting that your mission statement is about "creating a better society, better environment, a better tomorrow."

With Drucker's idea of functioning society and making the world a better place, how does Parker respond?

Barry: We have what's called the Parker Foundation. And worldwide, the Parker Foundation on an annual basis donates millions and millions of dollars. So, just within our local community, voluntarily, I've taken on the role of our community outreach person within the Orange County area. This year, through the Parker Foundation, we've given a $25,000 grant to Habitat for Humanity. We've given a $15,000 grant to an unaccompanied women's homeless shelter in Santa Ana. We've given a $15,000 grant to First Robotics.

Anyone within the corporation can apply to the Parker Foundation and ask for a grant. And it goes through a review process. If it's accepted because it's a good organization that the foundation feel has a noble cause, then they get the grant money.

Additionally, on an annual basis everyone gets eight hours of volunteer time. Time off work, paid time off work to go do volunteer work. I'm on the steering committee for Habitat for Humanity Orange County, they allow us to have a Parker build day where we get a group of people together and go work on some homes.

I think it is built into who Parker is that we give back to the community as much as we possibly can. And it also gets manifested very directly with the workforce because they are looked after in a sense. The big thing is I'm not just getting compensation, it is the development, I am learning, I am growing.

I left my prior employer to come to Parker because my prior company was culturally poisoned. I was like, I don't need to put up with this. And Parker was tapping me on the shoulder on a regular basis. We want you to come over. When I finally joined, it was like such a breath of fresh air because Parker provides an environment where I can flourish. My boss doesn't micromanage me. He points me in a direction, and he says go—that is why I hired you. It is fun to work here.

Give people a lot of responsibility and let them run. And if you need my help, I'm happy to coach you, but otherwise, let me get out of your way and you run it. People are much more motivated because of this approach.

That's part of that overall kind experience of living the dream. (See page 9)

Bernie: Perfect way to end. You have a very impressive organization. Drucker would be very pleased.

The Peter F. Drucker and Masatoshi Ito Graduate School of Management