BBC Learning English

The Handy Guide to the Gurus of Management

Programme 6 - Sumantra Ghoshal

"Think of Calcutta on a July afternoon", Sumantra Ghoshal tells the executives at one of his seminars. "That's where my parents live," he explains, “and that's where I go to see them every July. Imagine the heat, the humidity, the noise, the dirt. It sucks up all your energy, drains your brain, exhausts your imagination.” He goes on, “Now compare that with the Forest of Fontainebleau, near where I used to work - the smell of the trees, the crispness in the air, the flowers, the grass underfoot, how ones heart lifts up, how the energy and creativity bubble away. Where would you rather be?"

It's a vivid image which he then applies to organizations. You can smell it, when you go through the doors of any business, whether it has the atmosphere of Calcutta or that of Fontainebleau. The challenge, of course, for management, is to turn Calcutta into Fontainebleau, and that has been Sumantra's personal mission for the last ten years or so. To start the new millennium he has decided to pursue his mission in the land of his birth and has accepted an appointment as the founding Dean of the new Indian Business School at Hyderabad, whilst still keeping a foothold back in Europe where he was Professor at Insead and, later, at the London Business School.

Sumantra is a star of the lecture hall and the conference seminar.

His evocative images excite the imagination -businesses are spinning tops, he says, let the momentum slacken and the top will fall. For his popularity and influence among the leaders of business, The Economist magazine recently named him as one of the Eurogurus.

But Sumantra also more than holds his own in the academic world. He holds two doctorates, from MIT – Massachusetts Institute of Technology - and Harvard Business School, and has written a string of big books, all co-authored with Chris Bartlett, a professor at Harvard Business School. The books are serious stuff, less accessible than his lectures or popular articles. But they provide the intellectual foundation for his mission.

They're based on a long acquaintance and deep knowledge of a range of big organizations, most of them American and all of them businesses. They include familiar names like General Electric or Hewlett Packard, McKinsey, Disney or 3M. Ghoshal believes that big corporations like these have emerged as perhaps the most important social and economic institutions in our modern society. They are much more than money making machines. They are what holds society together and provides it with the means of progress.

The problem is that their managers don't understand this bigger role and, if they do, they don't always like all that it implies. Ghoshal thinks it is crucial for our societies that the managers wake up to their new role and, more than that, that these giant organizations learn how to reinvent themselves so that they can go on producing wealth and driving progress for us all. We need, he

believes, to learn from the best of them so that we can pass on the lessons to the rest.

Take, for instance, the jute industry in India, which uses a substance from the plant to make rope and cloth. It is a very old industry and going out of fashion fast. Jute mills are closing everywhere and jute businesses are failing all over India. But not Hastings Jute of Calcutta. Hastings Jute, says Ghoshal, has escaped from what he calls the logjam of owners versus employees to build a partnership with its workers and is now building new capacities in new fields. It is able to reinvent itself because it has reinvented the social contract with its workforce.

Only bad companies blame their industry for their troubles. Ghoshal says that only six to ten per cent of the difference between good and bad businesses can be explained by the industry they are in. The rest is all due to management. Good businesses escape from their industry sector or find ways to redefine it, by moving it upmarket for instance, or by keeping the more profitable bits for themselves. Too many of them, however, are trapped in their past.

Even if they see what they should be doing they don't know how to do it. Ghoshal and Bartlett came up with a graphic phrase to describe the problem. There are too many first generation managers, in second generation organizations, trying to operate third generation strategies.

What did they mean by this neat phrase? Well, by second generation structures they were talking about the multi divisional

firm, the structure that Alfred Sloan first developed in General Motors and that Peter Drucker, another of our gurus, described so well. It was, at the time, a great advance on the first generation design which was the family firm, run by one man or one group at the top. The structure was designed to allow managers to get on with their job without passing all disagreements and conflicts up to the top. It meant that the different functions could co-operate at the lower level of the business unit. Managers were still, literally, executives, as they had been in the old model, carrying out the strategies given to them from above, only now they had more control over the things they needed to get it done.

This design worked well in an age where growth meant more of the same, but it left all new initiatives to the people at the centre. At this level in a big corporation new initiatives needed to be big ones with large price tags. As Ghoshal puts it, the entrepreneurship could only be played for home runs. Or for those who prefer cricket metaphors you could say they had to go for boundaries not singles. In other words -big hits! In practice that meant that new initiatives either expanded existing operations or entered new businesses by large acquisitions. These were easy enough to buy but harder to manage or to integrate into the existing organization. Money, it seemed, didn't solve everything.

What happened was that the multi-divisional companies then got too big and sprawling. The independent units didn't co-ordinate or co-operate as well as they should have. More and more coordinating committees only made things worse, and much more expensive. These problems came to a head in America in the 1980's. The

following ten years were a time of slash and burn as companies took the axe to layers of bureaucracies and shed many of the acquisitions they had earlier bought. But, said Ghoshal, cutting costs and people changes little.

To remind any of you that have just joined us, I am Charles Handy and I am discussing the work of Sumantra Ghoshal, the fifth guru in the Handy guide to the gurus of management. Now, having explained why things got into a mess in the big traditional organizations, Ghoshal has to offer some ways out of it. He goes first to the leaders of two of the biggest corporations who have led a revolution in our way of thinking about the management of these beasts. These were Jack Welch of General Electric and Percy Barnevik of ABB, the Swedish-Swiss engineering giant made up of some 1,300 companies spread around the world. These two men created what Ghoshal calls the entrepreneurial organization, where the initiative is spread right through the organisation.

The important thing about the entrepreneurial organization is that it concentrates on process not structure. As Ghoshal describes it there are three different processes that companies need to concentrate on: the entrepreneurial process, the integration process and the renewal process. Boring words, I feel, for what are important notions - it is the stories that bring them alive when Ghoshal talks about them.

He talks, for instance, about Kao, a traditional soap company in Japan which has successfully expanded into cosmetics and even floppy discs and is now recognized as one of Japan's most creative

companies, ahead of even Sony. It operates by what its chairman calls 'biological self-control'. Lots of small units pursue aggressive targets on their own initiative but if one part of the company feels pain the rest of the body responds with help almost automatically. The company code is based on the absolute equality of all human beings, on individual initiative and the rejection of authoritarianism. The chairman talks of his paperweight organization, in which all information circulates horizontally not vertically. It is, apparently a very open-space organization in which everyone can drop in on any decisionmaking process. The Kao company is held together by a collection of coaches, called the priests, who help to integrate the ideas of the front-line entrepreneurs and to keep everyone exploring, sharing and learning.

It's all part of what Ghoshal sees as the emerging new philosophy of management, one focussed not on the management of financial [or physical] capital but on human capital. Human capital is not just the knowledge and skills that individuals bring with them, it also means what he calls 'social capital' the relationships in the organization, and the 'emotional capital', the motivations and emotions that govern so much of what we do. We have to get rid of the engineering mindset that saw organizations as machines with human parts and think of them as social institutions. This is all discussed in detail in the book he called The Individualized Organization.

But he has since moved on, with one later book and one in preparation, to try to be more specific about how this new sort of organization actually works. He and Bartlett now talk of the three

new management processes of Accumulating -that is getting the right people to start with -of Linking, building relationships that encourage individual development, and, thirdly, a process of Bonding, trying to connect individuals' activities and beliefs to the core vision of the organization. It all adds up, says Ghoshal, to a new paradigm or philosophy of management. It won't be enough, for instance, to think of employees as assets. Perhaps we should think of them as volunteer investors, choosing to invest their talents in the organizations they have joined.

It is all a brave new world, this third generation company that Ghoshal is talking about. So far we can only begin to glimpse its implications. If, for instance, we really do start to think of workers as volunteer investors it will change the whole balance of power in a business. Just think about it. Traditionally investors own the company and ultimately call the shots. If the new resource is really talent and not money then it is the workers who will increasingly hold the power and companies will be devices that help them to make the most of that talent, for everyone's benefit. It will be a very different world.

As one of the youngest of our gurus, Sumantra is more likely than most to be able to track his ideas as they get taken up by organizations. The role of the guru, as I said at the beginning of this series, is to spread ideas. Sumantra's first big book was called Managing Across Borders: The Transnational Solution. Of all our gurus he is perhaps the most international, the one best equipped to carry ideas across borders. I hope he will, because there may well be as many insights to be found in his native land of India as in

the countries of the West.

Our next guru is also international, although Japanese by birth and residence. He is Kenichi Ohmae.