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Book Summary

The Individualized Corporation

Sumantra Ghoshal and Christopher A Bartlett
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Book summarized By P Bala Bhaskaran

Introduction

The authors, based on their extensive research and consulting experience, have attempted to create a new perspective of the 21st century organisation, in this book. With Taylor's prescription of job analysis and redefinition, management emerged as a tool in motivating and controlling workmen in their well-defined jobs. Capital was the most critical and scarcest of resources in the industrial era; as a result management implied resource allocation, capital budgeting, etc. The focus was on capital productivity, not on human aspects. Taylorism led to the concept of divisionalized structures; William Whyte's book *Organization Man* represented the thinking of the time. This paradigm got entrenched, became robust and resistant to change, over a period. Towards the end of the 20 th century some dynamic managers, like Jack Welch of GE and Percy Barnevik of ABB, felt that managers spent too much time on capital productivity ignoring the human aspects. They explored and eventually succeeded: Instead of fitting people into the strategy-structure-systems paradigm can organisations be created to fit people? This is the genesis of the concept of *Individualized Corporation*.

Globalisation, far reaching technological changes and the resulting competitive environment is forcing the pace of change for the organisations. But the organisations are caught in a situation of third generation strategies, second generation organisation and first generation managers. They are not able to cope with the emerging situation. To be able to cope with this situation, the authors argue, we need a new paradigm which is based on the ability to inspire individual creativity, the ability to link and leverage the individual geniuses across the organisation and the ability to instil a new set of managerial capabilities. This book offers a blue-print in this direction.

Basis of Transformation

The challenge before most of the organisations today, says the authors, is to transform from the old paradigm represented by the Organisation man, into a new paradigm represented by the Individualized Corporation. The authors have attempted to explore this challenge primarily through their analysis of three major organisations namely 3M in USA, ABB in Europe and ISS in Scandinavia. Based on this analysis they have given a set of prescriptions which include: Institutionalise entrepreneurship, create a sense of ownership, create small performance units, decentralise resources and responsibilities, develop self-discipline, create clear standards and expectations of performance, democratise information, create a supporting environment, nurture management coaching, create an environment of openness to challenge, tolerance to challenge etc. The rest of the book is devoted to dealing with these issues.

From Individual expertise to Organisational Learning

Knowledge, entrepreneurship and initiative primarily occur at the individual level and at best they develop into pockets of excellence; how do we harness and transform these into organisation level excellence? Looking at 3M and McKinsey experiences, the authors observe the major elements of the transformation as [a] creating individual expertise, [b] facilitating horizontal transfer of the expertise and [c] nurturing a culture of sharing, collaboration, values, trust and networking. Individual expertise is created by hiring the best talents and developing the organisation into a university or a learning centre. Horizontal transfer of expertise is facilitated through developing formalised horizontal linkages, nurturing new communication channels and developing innovative metrics of performance evaluation.

Another aspect related to this transformation is how do we ensure continuous renewal? In the absence of efforts to renew there is the natural process of inertia setting in leading to degeneration. The authors argue that successful organisations, very often, in the absence of adequate challenge, get into a state of stupor and consequently drift. This they call the "failure of success" or the concept of "satisfactory underperformance". It is satisfactory because, in the early stages, the underperformance does not reflect into perceptible poor results; only a discernible analyst can spot the underperformance. The antidote to this situation is 'stretch' which according to the authors has three elements: [a] Internally generate a sense of energy/urgency to work against the disease of satisfactory underperformance; this is achieved through creating a sense of stretch, building a shared ambition, developing a collective identity, and creating personal commitment. [b] Create organisational flexibility capable of managing the conflicting demands of refinement and regeneration; this is achieved through building structural multidimensionality, creating dynamic processes and building 'Mind Matrixes'. [c] Create dynamic disequilibrium by continuously challenging the prevailing structures, systems and processes; this is achieved through strategic alignment and challenge, organisational fit and disequilibrium and willingness to commit. The authors have illustrated this concept well with the case of Kao Corporation.

Changing the 'Smell of the Place'

The authors have put forth the proposition that the ambience and context of the organization breeds the behaviour of the people and thus influence productivity. In traditional organizations the context is characterised by Compliance, Control, Contract and Constraint. In the emerging context of today this type of an organization can only be a liability; we would expect innovation, responsiveness, flexibility and learning to become the vital sources of competitive advantage. In a self-renewing organization Compliance will be replaced by Discipline, Control by Support, Contract by Trust and Constraint by Stretch. Through the case histories of AT&T, ABB, Cornig and others the authors argue that it is possible for a determined management team to transform the organizational context and thus enhance its overall performance.

Building Organizational capabilities

The authors look at the organization as a portfolio of three core processes. These are entrepreneurial processes which deals with the external orientation of the firm, integration processes which emphasises on the economy of scale and renewal processes which focuses on creating and sustaining the ability to continuously challenge the prevailing beliefs and norms. Through a number of cases the authors establish that it is possible to rejuvenate the firm by redefining the managerial roles and relationships. The challenge of transforming a firm into an individualized corporation lies in transforming the frontline, middle level and top level managers into entrepreneurs, capability developers and institutional leaders respectively. The table below captures the gist of their logic.

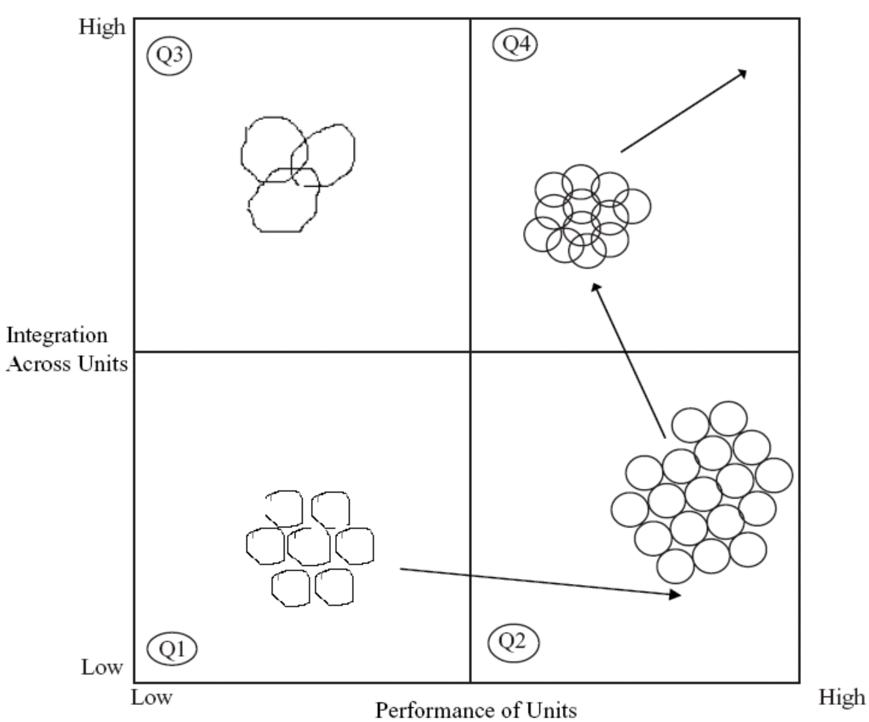
The Renewal Process		
• Managing continuous performance improvement within units	• Managing the tension between the short-term performance and the long-term ambition	• Creating an overarching corporate purpose and ambition while challenging embedded assumptions.
The Integration Process		
• Attracting & developing competencies; managing operational interdependencies	• Linking dispersed knowledge, skills and best practices across units.	• Institutionalizing a set of norms and values to support cooperation and trust.
The Entrepreneurial Process		
• Creating and pursuing new opportunities	• Developing individuals and reviewing supporting their initiatives.	• Establishing a stretching opportunity horizon and performance standards.
Frontline Managers	Middle Managers	Top level Managers

In the emerging era knowledge has emerged as the most critical strategic asset replacing capital. Strategies, systems and structures designed to allocate and manage capital need to be replaced by new models adept at managing knowledge. Frontline implementers need to change their perception as entrepreneurial managers; middle-level managers need to convert themselves from the role of controllers to developmental coaches; and top level executives need to perceive themselves as strategic architects and institution builders. The major challenge in the transformation is to redefine and understand the new roles and relationships. The authors have attempted to map this paradigm shift in extensive details.

Blueprint for Corporate renewal

Based on the study of more than 20 firms the authors have formulated a blueprint for corporate renewal. The basic problem in most of the firms, they argue, is characterised by relatively low performance level of the individual units of the firm and relatively low level of integration among the units. The renewal process, in terms of a phased sequence of change, is described in the diagram below:

The Phased Process of Corporate Renewal



Quadrant 4 is where we would like to see the firm whereas most often the firms are found in Quadrant 1. There are three paths for the firm to move up to quadrant 4: directly from Q1 to Q4; through Q3 to Q4; and through Q2 to Q4. The authors explain that the direct path is quite difficult because the firm is trying to achieve performance and integration simultaneously. The path thro Q3 is also observed to be difficult because achieving better performance after achieving integration is not always easy. They say “four drunk fat guys do not make an effective team." The optimum path to Q4 is through Q2. The path from Q1 to Q2 is the path of building discipline and support; this is called the *Process of Rationalisation.* The path from Q2 to Q3 is the path of building stretch and trust; this is called the *Process of Revitalisation.* Once the firm reaches Q3 there is an effort for further improvement; this is called the *Process of Regeneration.* These three constitute the basic three phases of corporate renewal.

The processes involved in each of these phases is summarised in the table below.

	Changing the Hardware [Business strategy, Organisational Structure and mgt systems]	**Changing the Software** [Values, motivations and commitments]	**Changing Behaviour** [attitudes, day-to-day activities]
Phase-1: **Rationalisation** [Enhance individual unit's performance]	Each Unit to become No.1 or 2 "Fix it, Sell it or Close it"	Bring about cultural change to sustain high productivity. Change the "smell of the place."	Focus on HR issues:employee development, mgt education, evaluation and reward systems. Encourage entrepreneurial behaviour.
Phase-2: **Revitalisation** [Enhance cohesion among units]	Create forums for cross-unit interactions	Develop speed, simplicity, self-confidence. Encourage big leaps, stretch. Build trust	Focus on self-reliance and collaboration. Encourage boundary-less behaviour. Develop new mgt roles and relationships.
Phase-3: **Regeneration** [Enhance continuous self-renewal capabilities]	Best practices Benchmarking with the best Increasing the quality standards	Develop and sustain norms of stretch and discipline. Create the challenge to perform while giving the comfort of support.	Embed the changes into personal values and beliefs of personnel. Develop engineers into managers and managers into leaders.

The New Moral Contract: Companies as value-Creating Institutions

The moral contract concerns about the relationships between individuals, companies and society. Companies are primarily entities with economic and market relevance; secondarily they do have a wider social context to their existence. Companies tend to grow when social relevance is enhanced and they tend to decline when they lose their social relevance. Only sensitive managers and leaders have been able to understand this subtle difference. This is the prime reason that some leaders have been able revive and rejuvenate firms that have been abandoned by others as irretrievable.

Michael Porter's theory places company in the midst of a set of competing forces. It is for the leader to manage the company amidst these forces to create competitive advantage to the company. Here the company is perceived as a value-appropriator. The authors contend that this is a static view based on a zero-sum game; they argue, with help from Herbert Simon and Joseph Schumpeter, that the situation demands a dynamic analysis where the value-pie gets bigger on a positive-sum game. Given the social context, companies can serve as society's engine of growth by constantly creating new value out of the existing endowment of resources.

The traditional moral contract begins with the view of people as resources. It accepts that people cannot be owned. The more trained and job-oriented they are, the more valuable they are to the company. In order to be able to invest in training and job-orientation, company expects long term employment contracts. People also expect long term employment contracts and job security to be able to commit themselves fully to the company. There is a downside to this long term employment contract: when people get job-oriented more and more, they are less useful to other companies and hence their market values decline; company has an opportunity for exploitation. Over the years market forces have compelled companies to down-size; hire-and-fire policy has come into vogue. While these served the short-term economic purpose, the long-term social context of the company has been compromised. Herein comes the new moral contract, propounded by the authors, to bridge the gap. In this the company attempts to provide each employee the opportunity for continuous skill enhancement so as to ensure employability within the company as also outside. Employee on his side, takes responsibility for best performance and to engage in the continuous learning process. The company need to create good ambience not only to enable performance but also to ensure that the employees remain with the company when they have options outside. Jack Welch explains it best, "The new psychological contract…….. is that jobs at GE are the best in the world for people who are willing to compete."

It is worthwhile to dispel the notions of what the new moral contract is not. Firstly it is not a hollow slogan to cover up the irresponsibility of the management in abandoning the concept of life-time employment. It is a pragmatic proposition that shares the risks equally. Secondly, it is not an altruistic agreement to educate and develop employees at the company's cost. It involves specific benchmarks, milestones and a set of deliverables from each side. Thirdly it is not a ready-made program that can be plugged in anywhere and anytime. The new moral contract can only be nurtured and evolved over time with active participation of the employees and management.

Beyond Strategy, Structure and Systems to Purpose, Process and People

Conventional management thinking had evolved the sequence of Strategy-Structure and Systems. With the emergence of the technological revolution and the knowledge era, organisations are seen to be too complex to be explained in terms of static and deterministic models. Systemic, organismic and dynamic models are replacing the conventional thinking. People, seen as a static resource earlier, began to be seen increasingly as a self-regulating, adaptive and self-renewing resource. Purpose has begun to be seen as more relevant than strategy; and process as the vital link between people and purpose. The philosophy of the individualized corporation is anchored on this sequence of thinking : Purpose, Process and People.

The authors, The style of the book

Christopher Bartlett served as the Chairman of General Management Area at Harvard School of Business Administration. Prior to that he worked as a marketing manager with Alcoa, a management Consultant at McKinsey & Co and general manager of Baxter Labs' subsidiary in France.

Sumantra Ghoshal held the Robert P Bauman Chair in Strategic Leadership at London Business School where he also directed the Strategic Leadership Program. Prior to that he was a Professor of Business Policy at INSEAD, Fountainebleau, France.

Sumantra Ghoshal had written a number of articles and award winning case studies besides co-authoring a set of landmark books. *Managing Across Borders: The Transnational Solution* is co-authored with Christopher Bartlett; *Organisational Theory and the Multinational Corporation* is co-authored with Eleanor Westney; *The Strategy Process: European Perspective* is co-authored with Henry Mintzberg and J B Quinn; The *Differentiated Network* is co-authored with Nitin Nohria. Christopher Bartlett has five books to his credit: two of them co-authored with Sumantra Ghoshal; *Managing the Global Firm* co-authored with Yves Dez and Gunnar Hedlund; *Business Policy* co-authored with Joseph Bower and Hugo Vyterhoeven.

The authors have relied heavily on case studies to reach the conclusions. Description of the case studies is interesting and the manner in which the theme is evolved is fascinating. They have exhibited rare sensitivity in nurturing the theme that dwells significantly on intangibles. They seem very close to the metaphysical domain: searching for the soul of the firm. Is that the reason, they have tried to correlate the quantum leaps in human thinking and development to the movement of Halley's comet?