Designing Organizations to Create Value From Structure to Strategy

JAMES A. BRICKLEY CLIFFORD W. SMITH, JR. JEROLD L. ZIMMERMAN with JANICE WILLETT

MCGRAW-HILL

NEW YORK CHICAGO SAN FRANCISCO LISBON LONDON MADRID MEXICO CITY MILAN NEW DELHI SAN JUAN SEOUL SINGAPORE SYDNEY TORONTO

Contents

reface		
1.	Organizational Architecture: The Three-Legged Stool	1
	Design Flaws Organizational Architecture A Question of Balance	2 7 8
	Economic Darwinism: Survival of the Fittest	11
	Benchmarking	12
	Our Approach to Organizations	16
2.	Maximizing Shareholder Value: Crafting a Strategy to Create and Capture Value	19
	Changing Organizational Architecture to Create Value	20
	Shareholder Value	22
	Why Successful Managers Care about Shareholder Value	24
	Creating and Capturing Value	25
	How to Create Value	27
	Can Firms Capture the Value They Create?	33
	Strategy	36
	Architectural Considerations	38
	Can All Firms Create and Capture Value?	40
3.	Knowledge and Incentives in Organizations	43
	Unlocking Knowledge within Organizations	43
	Converting Organizational Knowledge into Value	44
	Incentives within Organizations	50
	Alternative Models of Behavior	55
	Which Model Should Managers Use?	59
4.	The First Leg: Decision Authority, the Level of Empowerment, and Centralization versus Decentralization	65
	From Centralization to Decentralization and Back	66
	Assigning Tasks and Decision Authority	68
	Centralization versus Decentralization	70

CONTENTS

	Lateral Decision Authority	80
	Assigning Decision Authority to Teams	82
	Decision Management and Control	87
	Influence Costs	92
5.	Decision Authority II: Bundling Tasks into Jobs and Jobs into	
	Business Units	95
	Reconfiguring Jobs to Boost Productivity	96
	Specialized versus Broad Task Assignment	97
	Forming Business Units: Function versus Product or Geography	103
	Operating Environment, Strategy, and Architecture	111 113
	Matrix Organizations Recent Trends in Assignment of Decision Authority	113
	Recent Frends in Assignment of Decision Authority	11/
6.	The Second Leg: Performance Evaluation	123
	Performance Evaluation That Works	124
	The Contribution to Value	125
	Setting Performance Benchmarks	128
	Measurement Costs	130
	Relative Performance Evaluation	134
	Subjective Performance Evaluation	136
	Combining Objective and Subjective Performance Measures	143
	Team Performance	145
	Government Regulation	149
7.	Divisional Performance Measurement	151
	Performance Measures Matter	152
	Measuring Divisional Performance	153
	Transfer Pricing	163
	Internal Accounting and Performance Measurement	177
8.	The Third Leg: Compensation	183
	Compensation Structure Matters	184
	Human Capital and the Level of Pay	185
	Internal Labor Markets	192
	Career Paths and Lifetime Pay	195
	The Mix of Salary and Fringe Benefits	201
9.	Incentive Compensation	209
	Not All Incentive Plans Work	210
	Forms of Incentive Pay	211

CONTENTS

	The Benefits of Incentive Pay	213
	Reinforcing Strategic Objectives	216
	Incentives from Ownership	217
	Optimal Risk Sharing	218
	Effective Incentive Contracts	220
	Group Incentive Pay	223
	An Application: Telecommuting	226
	Do Incentives Work?	228
10.	Leadership: Initiating, Motivating, and Managing Change	231
	Leading the Vision	232
	Leadership and Decision Making	234
	Managing the Process of Change	239
	Organizational Power	244
	The Use of Symbols	248
	Ethics and Organizational Architecture	250
11.	The Process of Management Innovation	257
	Management Innovations	258
	The Risk of TQM and Other Innovations	262
	Why Management Innovations Often Fail	265
	Failure to Consider Other Legs of the Stool	271
	Managing Changes in Architecture	277
	Organizational Change Checklist	278
Sources		281
For Further Reading		295
Index		301