



PMF Book Review

Book Title: The Modern Firm: Organizational Design for Performance and Growth

Author: John D. Roberts

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Reviewer: Robert Youker, World Bank (Retired)

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Editor's note: John D. Roberts is a Professor of Economics, Strategy Management and International Business in the Graduate School of Business at Stanford University in the United States. Published in 2004, his book The Modern Firm was declared the best business book of the year by The Economist. This review provided by Robert Youker, World Bank (Retired).

Corporate Strategy and Organization Design The Modern Firm by John Roberts

A review of the book by Robert Youker

One of the key problems in writing a business book with case examples is that after publication the “good” business example may have gone downhill. This happened with the famous book, “In Search of Excellence” and also happened with the case of BP (British Petroleum) in this excellent book whose sub-title is “organizational design for performance and growth”. Never the less there are many other examples and case studies. This slim volume published by Oxford University Press was selected as business book of the year 2004 by the Economist magazine. “The Modern Firm” written by John Roberts, an economics professor at Stanford Business School, lays out in wonderfully lucid and jargon-free language a framework for thinking about corporate structure, given that any organization is multifaceted, and the range of organizational variables is mind-boggling.

With an economist’s discipline, the author introduces the reader as gently as possible to some demanding and stimulating ideas, ones that have already been tested by the likes of BP.

Nobody, it can now be said, is fully fit to run a modern firm until they have read “The Modern Firm.”” (The Economist December 18, 2004)

When I read this book I came to agree with the Economist that it would become a classic. Roberts has provided the basic economic theories that tie together organizational design, competitive strategy and the business environment. He has presented the theories that lie behind the accelerating movement toward project and program management and the use of teams and networks. The theories of complementary, tight and loose coupling, non-convexity and non-concavity, exploiting vs. exploring, motivation, and the disaggregated model explain how corporate strategy should be designed for high performance. Strategy is a creative act that requires both analytical managerial problem-solving and articulating a vision, but also the communication and persuasion that are the essential features of leadership. Strategic and organizational choices must be made holistically, recognizing the interdependencies.

To improve performance and growth and adapting to major changes in their environment companies are:

- Experimenting with new organizational designs
- Changing their routines and processes
- Changing their corporate cultures
- Changing their scope of operations
- Redefining the allocation of decision-making and responsibility
- Revamping mechanisms for motivation and rewarding people
- Redesigning their information systems
- Seeking to alter the shared beliefs, values and norms that hold people together (the culture of the organization)

Roberts argues very convincingly that there are predictable, necessary relationships among these changes.

The three determinants of performance are:

- Strategy – what products to what customers and markets
- Organization – collection of people and how they are arrayed
- Environment – competitors, customers, technology, legal and regulatory context, and various political, social and demographic features, etc.

The general manager given a specific strategy must design an organization in the light of the relevant environment that will maximize performance. This requires a contingency approach for strategy and organization for what works in the specific environment.

Strategy is determined by objectives, scope, competitive advantage and logic. It defines what the organization does and what it does not do. It starts with a business opportunity (an unmet need).

The key concept in organizational design is complementarity among design choices. Complementarity occurs when a choice of two variables increases the returns rather than decreasing. One change may lead to other changes and all the pieces must mesh properly with one another. In making the organizational design decision how to motivate individuals to perform the required activities for high organizational performance is key. Also how to provide

coordination laterally across units and individuals. Which exact incentives will work? Here the concept of the dis-aggregated model creates small sub-units with delegated decision-making and decreased number of layers. But then a process to manage sub-units involving interdependencies is important.

Roberts' solution is called PARC:

- P-People
- A-Architecture (structure)
- R- Routines
- C- Culture (shared values, beliefs and norms)

The idea is to create high commitment human resource management with trust, transparency, empowerment, egalitarianism, job enrichment, teamwork and personal identification with the vision of the firm. Methodologies for doing this include: guaranteed employment, self managed teams, attempts to make work interesting and fulfilling, premium compensation via team, rigorous pre-employment screening, extensive socialization and training, transparency of information, open upward communication channels, strong culture focused on goals and vision and strong emphasis on employee "ownership" of firm.

As organizations are flattened and disaggregated and work teams created, the problem arises on how to promote lateral communication and cooperation. How do we link teams that face similar problems to provide mutual support and to spread learning? How do we establish "peer" groups for cooperation with only limited incentives? How do we build the culture, norms and behavior of cooperation? Roberts describes the approach of Nokia where, "The organizational architecture was kept fluid with project teams forming and dissolving easily, so all had the opportunity to work on interesting things and to build networks across the firm.--- The leaders of the company were open and very approachable and they clearly operated as a team and set an example of teamwork throughout the organization. Value-based leadership rather than control through rigorous processes was the model and the values of customer satisfaction, respect for the individual, achievement, and continuous learning were acted upon consistently."

I found his economic theories fascinating, but somewhat difficult to follow. It took some work but was well worth the effort. This is a very valuable contribution to business literature and ranks as must reading for persons interested in organizational design and strategy and new approaches to project and program management with teamwork and networks.

About the Reviewer:**Robert Youker**

Robert Youker is an independent trainer and consultant in Project Management with more than 40 years of experience in the field. Mr. Youker is a graduate of Colgate University and the Harvard Business School, and has studied for a doctorate in behavioral science at George Washington University. His project management experience includes new product development at Xerox Corporation and project management consulting for many companies as President of Planalog Management Systems from 1968 to 1975. He is retired from the World Bank where he developed and presented Project Management courses in Washington DC as well as in Africa, China, Pakistan, The Philippines, Turkey and Iraq. Most recently he was the author of the Instructor's Resource Kit on The Implementation of Development Projects on CD ROM, released by the World Bank in 2006.