

Chapter Thirteen Value Network Examples

Mapping organizations with rather messy looking “spaghetti and meatball” diagrams might feel unorganized to people who are more comfortable with tightly-engineered diagrams such as process schematics. In fact, such an exercise might feel like a step backward instead of a step forward.

But living systems *are* messy, especially if they are social systems involving real people. And real people need to personally find themselves in the system before they can begin to comprehend its workings or self-organize to support it. When mapping value networks, the goal not to get to a perfect diagram. The diagrams are merely visual aids and “moment in time” snapshots. The goal is to be able to hold a conversation where whole-system issues can be easily addressed. The method does not rely on some system “expert” or observer to validate the diagram. Validation comes through the Participants themselves who are describing their own lived experience in the organization. This simple, visual vocabulary helps people surface and talk about their mental models, which is an essential capability for organizational learning.

The Changing Game of Business

If organizations are living systems, then it makes sense to think about different ways they might interact with the environment. Seeing business as an ecosystem means thinking about relationships differently, and offers an opportunity to reframe a business or redefine its role. Many of the innovations in business models result from employing rules of engagement that are more organic.

Let’s return for a moment to the example used at the end of Chapter 11 (Figure 11-3). That same diagram, Figure 13-1, is a value network model of a clothing manufacturer, showing how knowledge and intangibles can be leveraged in an Internet strategy.

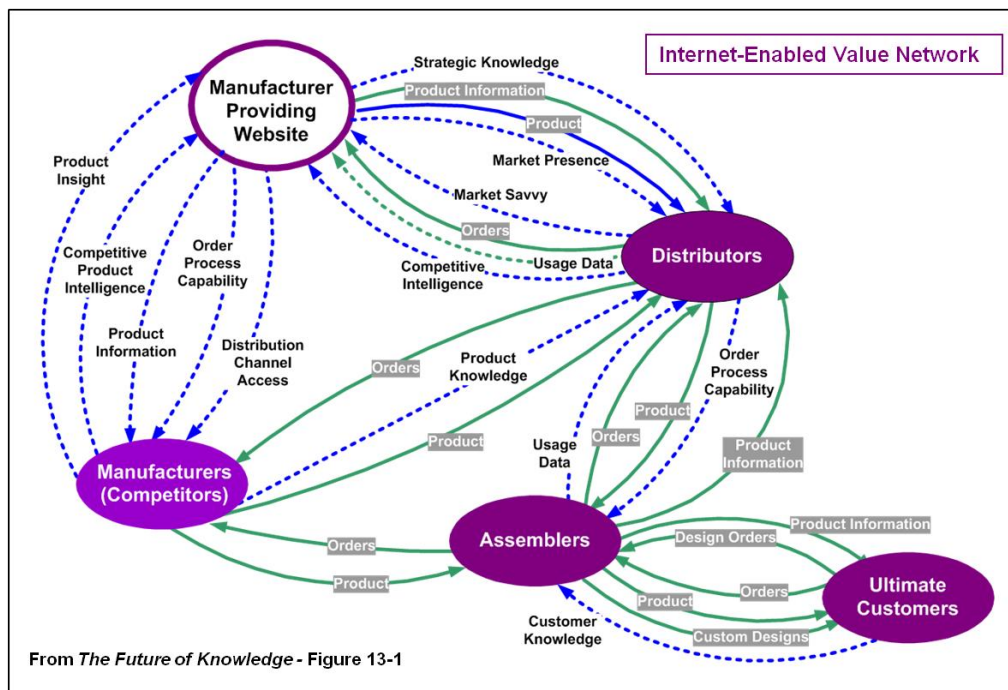


Figure 13-1: Internet-enabled value network.

The manufacturer made a strategic move into e-commerce by providing free marketing websites to its distributors. In this case, the manufacturer also allows competing manufacturers to sell products via the same website. Why on earth would they create a marketing channel for a competitor?

Selling competitors' products on the website only makes sense if we understand the flow of knowledge and intangible benefits that the manufacturer gains. This savvy company focuses on these flows of knowledge and intangibles to build closer relationships with its end users. In the process, it gains market intelligence, customer feedback, and competitive intelligence. The company shares knowledge of products and markets not only with the distributors, but also directly with its competitors. Incidentally, this situation is also an excellent example of what Adam Brandenberger refers to as co-opetition.¹

Rewriting the Rules of Knowledge Sharing

The full potential of value networks has been brought home by the overwhelming success of Cisco, the dominant company in Internet routers. Cisco completely changed the rules about knowledge sharing with partners and customers, garnering widespread attention for the phenomenal success of its business model.

In 1997, a team of researchers working at Digital4Sight in Toronto used this methodology to examine up-and-coming e-commerce companies.² Cisco was already gaining a reputation for being a good company to partner with. They were also noted for their use of web technology to support a free exchange of information with customers.

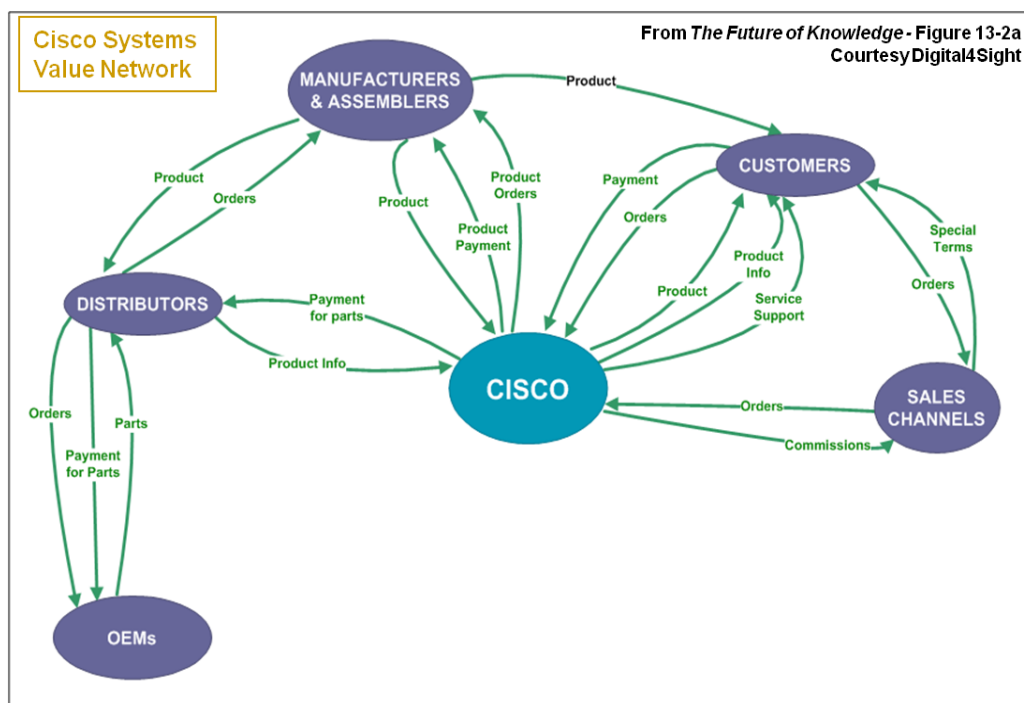


Figure 13-2a: Cisco Systems value map, tangible deliverables only.

But when the full pattern of knowledge and intangibles surfaced during the analysis, it readily became apparent just how good a partner they are. Figure 13-2 shows the value network exchanges. Frequent exchanges of knowledge, such as sharing strategic knowledge with partners, dominated the business model. Mission-critical intangible exchanges outnumbered key tangible exchanges by two to one!

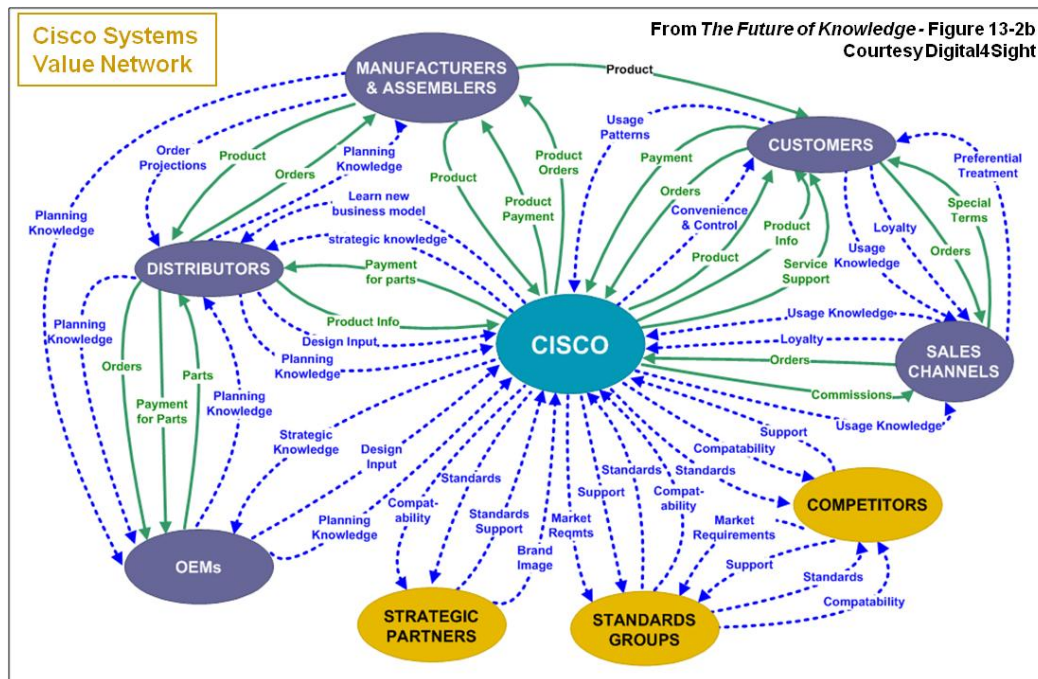


Figure 13-2b: Cisco Systems value map - all tangible and intangible deliverables.

Note that the “real” business model includes competitors and standards groups, even OEMs, with whom the company never exchanges money or tangible goods. The configuration of competitors and standards bodies is especially important, since favorable standards are an important intangible benefit that can make or break a technology company. If this were a more traditional business model, these participants would never show up because they are not engaged in direct financial transactions.

Defining Competitive Advantage

S.A. Armstrong Ltd. is one of the top companies in its field in North America. It is a Canadian engineering and manufacturing company providing heavy equipment that is used in commercial building construction. Company CEO Charles Armstrong led the company to being one of the early adopters of intellectual capital measures and knowledge management strategies. He has long been making the argument that intangibles are critical for every business, not just companies in high-tech or knowledge services - but his claims often fell on deaf ears in his very conservative industry, and even within his own company.

We spent one morning creating a value network map of the company. Charles didn't say a word to anyone else in the company about what it was; he just taped the drawing up on a wall in the conference room and left it there. Over the course of the next three weeks, people would use the room, and being curious would look over the diagram. In ones and twos, they started asking Charles about it and spending a few minutes with him in conversation about it. Sometimes they would point out something he had missed, or challenge why a particular exchange was there, or why it was so important.

One thing that became quite apparent from the diagram (Figure 13-3) is that the company provides a lot of intangibles in the form of knowledge sharing - running seminars, providing free software, and generally engaging in an open exchange with their primary customers.

Another important intangible for them is an explicit promise to support the customer and help minimize risk when unexpected situations pop up, as they often do on large-scale construction projects. That promise is backed up by action and is one of the reasons the company enjoys its reputation for excellent service.

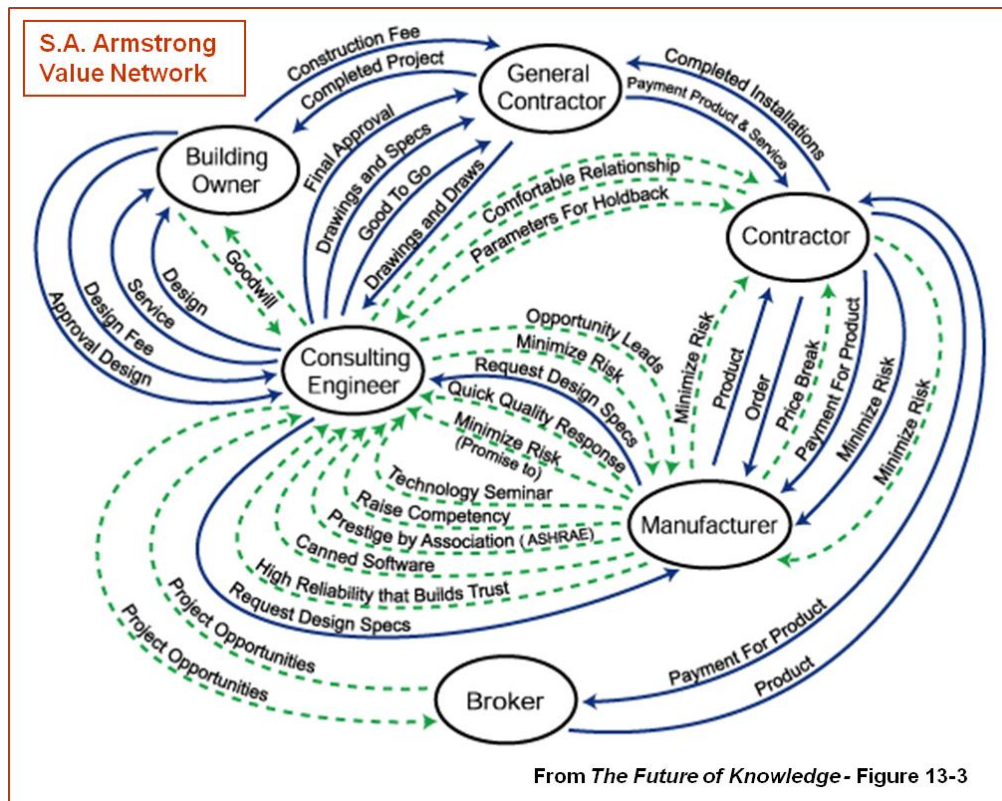


Diagram 13-3: S.A. Armstrong value network. Courtesy S.A. Armstrong.

The conversations that people were having about the diagram began to work a subtle change in people's perception of the business. They began to realize that all these "extras" were the very things that gave them competitive advantage in their market. Other companies might provide similar products, but they could not match S.A. Armstrong in service. The intangibles are not only their market differentiator, but are also extremely hard for other companies to imitate. Their intangible Deliverables are so much a part of the company philosophy and culture, that it would take a major effort for another company to create the same conditions.

Now when they engage with an important new customer or want to improve an existing relationship, they have a customer conversation using the mapping process. In one case, a new customer they were acquiring was a family-owned business that was changing leadership from father to son. When we mapped their value network it provoked a surprising and positive emotional response. The map showed that although the company has less than 100 employees, over the years the company had evolved into a value network that effectively manages hundreds of key relationships. The mapping process was a powerful way of validating the years of hard work, and assured the founder that his son understood the complex web of relationships that are key to the company's continuing success.

The Company of One

In their best-selling book, *Enterprise One to One*, Don Peppers and Martha Rogers make the point that every customer is unique.³ In the current economic environment, success comes from meeting each customer's distinctive needs. This is the main idea behind Customer Relationship Management (CRM). The goal is to know your customers so well individually that you can make a particular and personal offering available, even if there is only one customer who needs that feature.

Why not begin to think in terms of the company of one? Every company is unique. No two companies, even in the same industry are organized exactly the same way, with exactly the same number of people filling the same roles or managing the exact same processes and Deliverables. The variation between companies is the difference that makes a difference. It is far more interesting to understand how companies are special and unique than how they are the same.

Every business model is unique and every configuration of a value network has its own pattern and identity. Intangible exchanges offer important clues to the guiding principles, agreements, and values the company holds. The network patterns also reveal disconnects between what a company says it values or provides, and what they actually do.

Moving from Linear to Non-Linear Process Analysis in a Not-For-Profit

Volunteer associations are masters at creating value networks. Any purposeful organization requires a healthy exchange of tangibles and money to support its infrastructure and to assure delivery of its core services. Not-for-profit organizations are particularly rich in intangible exchanges since intangibles are often their primary deliverable to the community. Associations also weave richly textured social tapestries of volunteers, administrators, and affiliate associations.

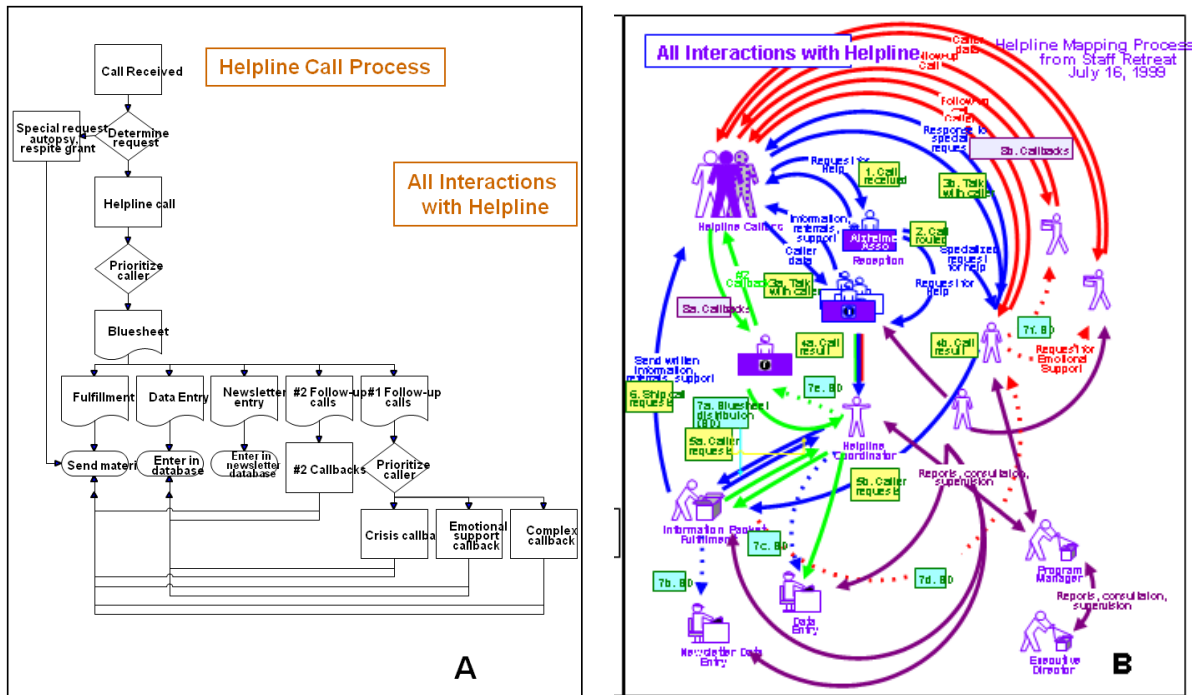
The local branch of a health care services undertook a major assessment and evaluation of their volunteer helpline unit, to try to improve services and speed response time. As part of the evaluation, consultants Lisa Faithorn and Kathy Cody conducted a mapping exercise during a group retreat. There was already an existing "official" process map of how the helpline was supposed to work. (Figure 13-4 A)

The flow chart looked very neat and orderly on paper, but the experience of the helpline unit volunteers did not at all match the process flow chart! Over time, a number of informal side processes had evolved to maneuver around the linear constraints of the process model. As a result, it was taking too long for new volunteers to become familiar with the ways things really worked and to be effective.

The mapping exercise moved the focus away from the linear depiction of the process and oriented instead to real people who were fulfilling different roles. It quickly became apparent that simple items on the flowchart actually were quite complex, involving several different people, and requiring continuing activities throughout the entire process. (Figure 13-4 B)

Even though the new map looked a bit messy and busy, everyone agreed that it accurately depicted how the helpline really worked. It also showed all the intangible "extras" that people were responsible for, that did not show up in the flow chart.

The goal was not to map the entire organization or system. The method was used to describe a complex, non-linear process that previously had been artificially forced into the linear flow diagram.



From *The Future of Knowledge* - Figure 13-4

Figure 13-4: (A) Existing process map of how the Helpline Call Process was supposed to work. (B) Nonlinear map of exchanges across the unit, showing how things really happened.⁴

Shifting to a non-linear modeling technique revealed not one but *three* deeply enmeshed and interdependent processes that could have variable time relationships with each other. The group teased apart diagram 13-4- (A) to create three new maps depicting the three core processes. (Figure 13-5)

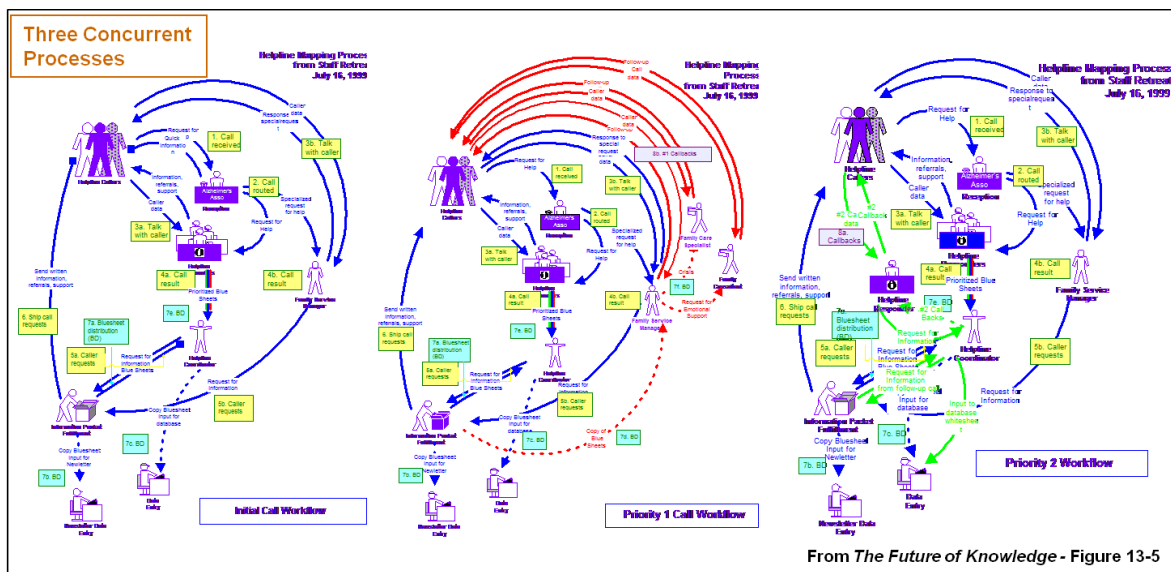


Figure 13-5: Maps of three concurrent processes that gave people a much stronger sense both of the whole and of their own role in the system.

In the process of developing the diagrams, the group also addressed and resolved numerous policy issues regarding handling of calls. They clarified their recruiting criteria for volunteers, and moved to a much deeper understanding of the role of the helpline as a component of the extended association services. With some refinement, the diagrams also became an orientation tool for new volunteers.

Extending Value to the Community

York Hospital in Maine noticed that the success of a patient’s stay is linked to the level of support they have at home before, during and after their hospital stay. The hospital staff is quite efficient at handling the patient once they are inside the hospital, but that simply isn’t enough. To assure patient success they created PATH (Patient Approach to Health) teams, groups of people that build strong relationships with community service groups. The teams follow the patients through their entire “path” of care.

Figure 13-6 reveals the core tangible and intangible exchanges of York Hospital’s PATH teams. In this model, the teams are organized geographically so the PATH team can more easily interact with social services groups in the local community.

Patient satisfaction and recovery rates have improved significantly with this model of health care. Yet, one can readily see that the PATH team has little tangible outputs or deliverables compared to the amount of intangible knowledge and benefits that they extend to others.⁵

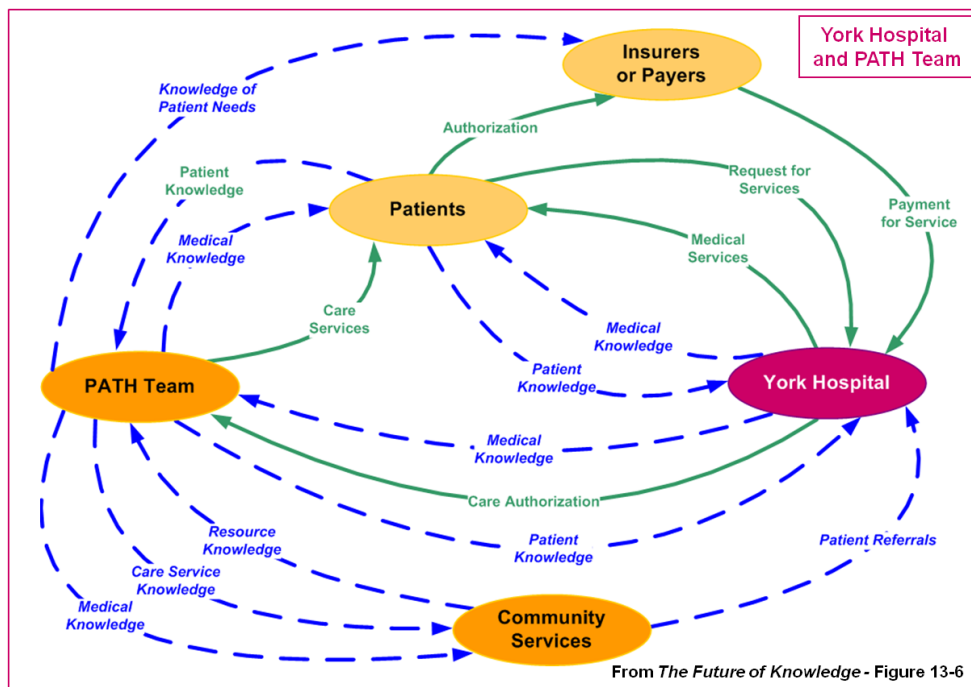


Figure 13-6: York Hospital and Path team business model.⁶

The York Hospital example demonstrates how embracing a value network perspective begins to expand the value of the system to the larger community. It is helping to improve the prosperity of the community by making available a resource team to families that are experiencing a health-related absence of a family member. This team might arrange for childcare, make sure that transportation needs are covered, or work with social service organizations to provide in-home follow-up care medically and personally.

Any time services become affordable and available to people who formerly did not have access to them, overall prosperity increases. Intangible value is real value that brings social good to the recipient. Increasing intangible value offerings expands wealth, not only in personal terms but also in the overall sense for the community.

Expanding Prosperity

For the most part, people think that an organization or company must be focused on either providing social goods and intangibles, or focused on making a profit. The two types of value have been generally thought of as a polarity. You can do one or the other, but you can't really do both. Yet one very successful company pioneered a business model that does generate both profits for the owners and prosperity for the participants.

E-Bay, the online auction site, has been featured in many articles in the business press. It is one of the few "dot-com boom" Internet businesses that continued to thrive during and after the e-commerce downturn in 2000. It has even shown a profit, earning \$90.4 million on \$9.3 billion in gross merchandise transactions in 2001.⁷

E-Bay operates with a principle of complete transparency, and a clear intent for everyone in the eBay network to be successful. They charge a small initial listing fee and a small percentage of each winning bid. So there are no hidden costs and no escalation of the investment needed to offer items for sale.

Through a simple rating system and purchaser comments, everyone's experience with every other participant is also transparent. Unscrupulous sellers are quickly exposed and people simply do not do business with them. So it has strong community elements in that people who do not hold to the community values aren't voted out—the community simply stops engaging in exchanges with them.

The company first came to my attention in 1997, when I was a member of the analysis team for the Digital4Sight study.⁸ (For perspective, at that time, eBay's website was black and white, in courier typeface, and it went down often.) But we were intrigued with what was revealed in the pattern of exchanges when we mapped the business model. The balance of tangible to intangible exchange and the pattern of reciprocity unfolded like a beautiful flower. (Figure 13-7)

What makes eBay especially interesting is how it demonstrates the potential for a value network to expand prosperity. Because of eBay, quite a number of people who had not been able to earn income suddenly had a way to participate in the economy. Others found a hobby could be leveraged to create additional income. As of early 2002, there are 30,000 to 35,000 of eBay's sellers that make online trading their primary livelihood.

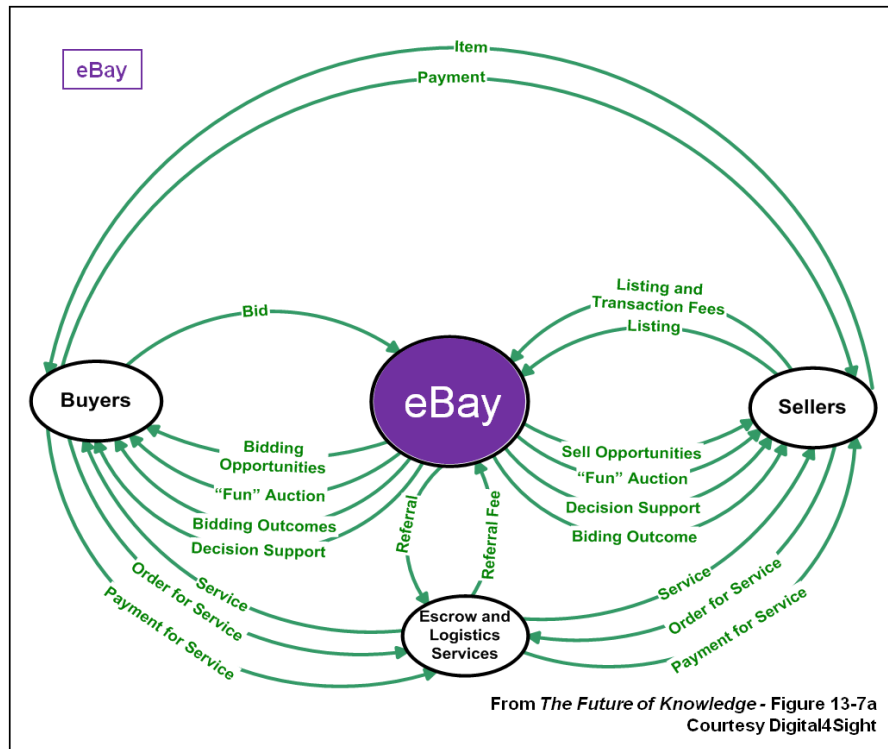


Figure 13-7a: eBay value network - tangible deliverables only.

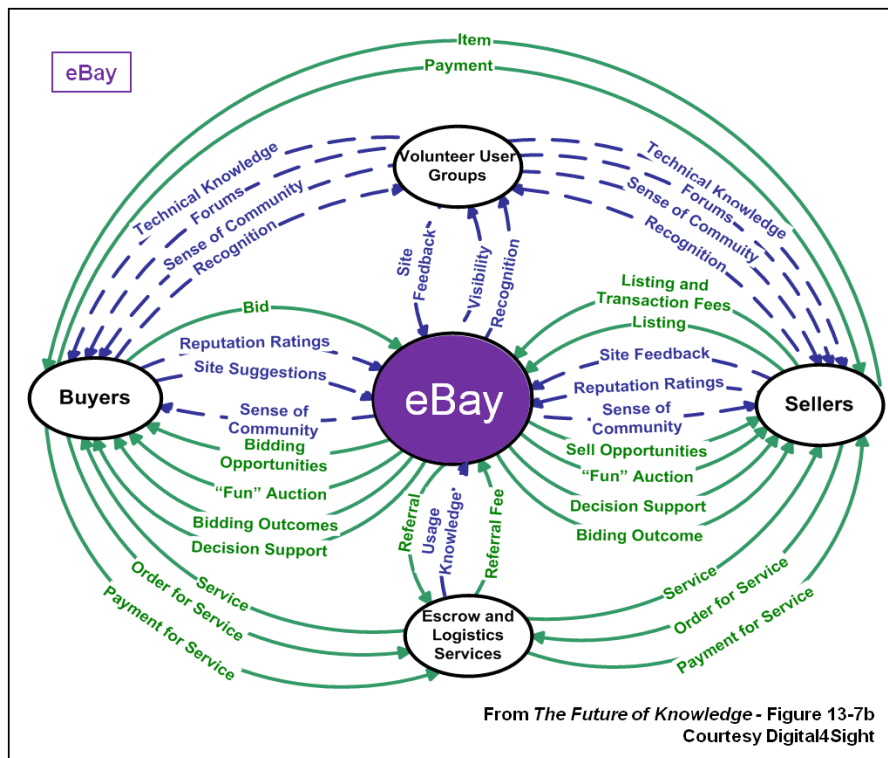


Figure 13-7b: eBay value network - all tangible and intangible deliverables.

Another aspect of increasing prosperity is the way the company has provided a vehicle for recycling millions of consumer items. Although many items are collectibles, others are consumer items that people might have purchased new. Even though the company clearly benefits from the prevalent consumer culture, even a small degree of reduction in consumption of raw materials for new products can be seen as an overall good for society.

The paradox is that these types of sales are “invisible” economic transactions. MIT economist Lester Thurow says, “E-Bay sales will never show up in the GDP (gross domestic product) as a measure of the economy, but they do affect real income. Keep in mind that we have a set of losers here, the guys who used to make a living doing transaction costs.” Thurow’s category of losers includes professional dealers who collect “middle man” fees and newspaper classified ads. Thurow notes that newspaper classified advertising has declined since eBay moved into handling used automobiles.⁹

Increasing Prosperity through Intangibles

We are beginning to see an interesting convergence where businesses are becoming more like networked communities and in some cases, networked communities are becoming more like businesses. An artist association that opens galleries or manages Internet marketplaces would be an example of a value network primarily focused on intangibles finding ways to increase tangible transactions. Some of this is happening organically through natural evolution. In other cases, it is happening more deliberately, and Friendly Favors is an example.

Sergio Lub, a California jewelry designer and entrepreneur, launched his jewelry business by traveling the world and creating a web of people selling his jewelry. He has long had a keen interest in community economics, and community exchanges in particular. In his travels to about 70 countries, including some with very hard economies and war zones, he discovered an important economic principle. “Happy people are those who are the most generous,” he found. “The more one gives, the more other people give, and there are suddenly more apples in the tree to eat.”

He gives the example of one woman who started collecting clothing to give to poor children in Central America. Others learned of what she was doing and began bringing her the clothing their children had outgrown. She now has a garage full of clothes, and the more she gives away the more she gets. It just keeps growing. Sergio was curious how certain communities and webs of friends, as in the example, can so easily create greater prosperity, while others don’t.

At a State of the World Forum, Sergio heard speaker Steve Rockefeller comment that the overhead of the Rockefeller foundation was greater than the money they gave. After Rockefeller’s talk, the head of the largest NGO in Sri Lanka stood up in the audience and told him that for every two dollars they receive it costs them a dollar to pay consultants to fill out the forms for the Rockefeller Foundation.

Sergio thought about that statement and contrasted this with another organization he was familiar with, the MacArthur Foundation which also gives away millions each year. He knew they were successful in allocating real financial help without that type of cumbersome grant-based system. They look for people who are already doing good work, or ask their circle of trusted friends for recommendations. Then with minimal paperwork they send a check.

In the State of the World forum discussion, it had come out that that the challenge for the Rockefeller foundations was the ability to trust that the cause was a worthy one. This was far less an issue with the MacArthur Foundation. Would it be possible, Sergio wondered, to extend that principle of referral by friends? Would it be possible to set up a system where people can recommend good work, where the referral system could not be manipulated, and people who are doing good things could find each other?

Out of that question, Friendly Favors was born. Friendly Favors (<http://www.friendlyfavors.org>) is an online community that was launched in August 1999. As of spring 2002, there are 11,442 members, living in 134 countries.

It is a completely voluntary association of people who acknowledge one another by awarding *Thankyous*, that are tracked on the website. Membership is free and open to all, but a new member must be sponsored by an existing member, thus building a chain of trust across the network. When someone logs on to the site as a member, they make an offering to the community of something they can provide to other members free or at a substantial discount. Members who take up the offers can give each other *Thankyous* for the favors they receive, which is deducted from their own pool of *Thankyous*.

The shared purpose of the community is to support people who are committed to building a sustainable world that works for all. A guiding principle is that members report generous acts and encourage more goodwill by sending *Thankyous*. The system serves as a complementary currency where intangible favors are rewarded, creating intangible benefits of goodwill and reputation, and also economic benefit in the form of reduced cost for real services. *Thankyous* cannot be converted to money, but they can entitle people to discounts.

This remarkably simple premise has established a value network that increases prosperity through the deliberate use of intangibles. The fact that it works is not an accident. A number of people who are interested in monetary systems are members of the network and help the group make conscious decisions about the way it works. It is an example of the way people are engaging in direct bartering of intangibles, moving beyond the confines of purely monetary transactions which were proving so burdensome to the Rockefeller foundation. They are finding ways to deliberately leverage the intangible economy to increase prosperity and contribute to the greater good.

Infinite Variety

The object in constructing any dynamic model is to find the unchanging laws or principles that generate the changing configurations. The whole-system approach to modeling business dynamics, based on the principle of exchange, allows us to explore not just a few organizational forms, but thousands. It also serves as an indicator of the mental and managerial skills an organization will need to expand its capacity for true systems thinking and mastering the integrative mode of cognition and knowledge creation. As our knowledge increases, we can expect to see more methods emerging that truly support systemic thinking.

With a value network perspective, people can gain new insights into managing their own organizations more effectively. More importantly, they can also find pathways to generate greater value for their own benefit, for other members of their value network, and for the good of society and the planet. Indeed, the terms “for profit” and “not-for-profit” may become obsolete as people appreciate that every organization is a network of real people exchanging both tangible and intangible value.

Chapter Endnotes

¹ Adam M Brandenberger, Jerry L Nalebuff, and Ada Brandenberger, *Co-opetition: 1. A Revolutionary Mindset That Redefines Competition a Cooperation; 2. The Game Theory Strategy That's Changing the Game of Business*, (Doubleday, 1997).

² Don Tapscott, David Ticoll, and Alex Lowy, *Digital Capital: Harnessing the Power of Business Webs*, (Harvard Business School Press, 2000).

³ Don Peppers and Martha Rogers, PhD, *Enterprise One to One: Tools for Competing in the Interactive Age*, (Currency Doubleday, 1997).

⁴ Lisa Faithorn, and Kathleen Cody, “Helpline Core Service Evaluation Final Report,” O’Neil & Associates, 1999.

⁵ Elizabeth Reuthe and Verna Allee, “Knowledge Management: Move the Case Model from a Snapshot to a Story,” *Health Forum Journal*, May/June 1999.

⁶ Elizabeth Reuthe and Verna Allee, “Knowledge Management: Move the Case Model from a Snapshot to a Story.”

⁷ Susan Brownmiller, “The eBay Obsession,” *My Generation*, May-June, 2002.

⁸ Don Tapscott, David Ticoll, and Alex Lowy, *Digital Capital: Harnessing the Power of Business Webs*, (Harvard Business School Press, 2000).

⁹ Susan Brownmiller, “The eBay Obsession,” *My Generation*, May-June, 2002.