



Value Networks:

How organizations really work

By Dr. Verna Allee

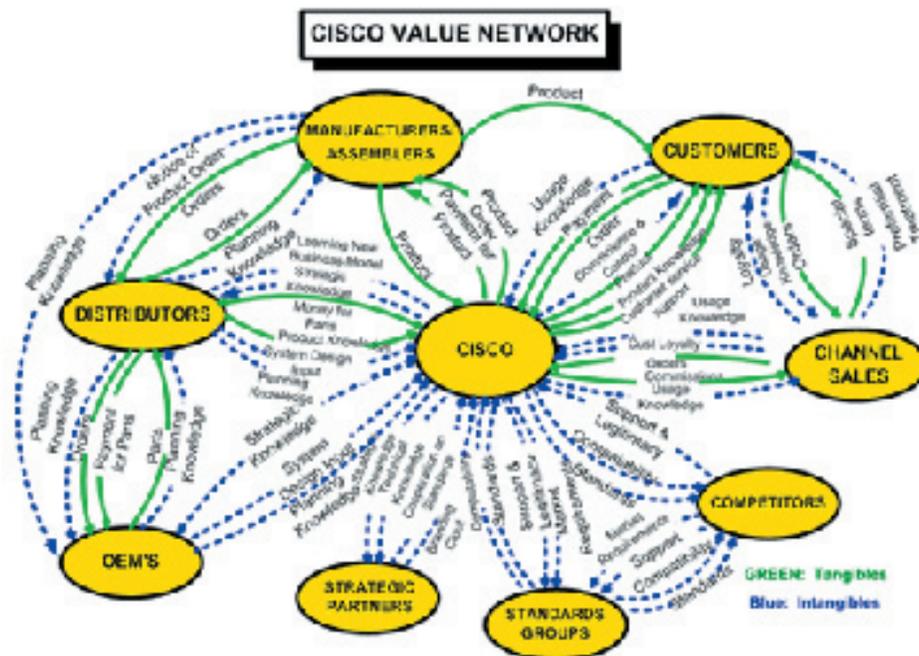
Interviewed by Dr. Alexander Schieffer

Editor's Note: *This interview seeks to reframe the traditional perspective on organizations. Verna Allee's work gives meaning to how the networked organization can be understood in a very practical way. She changes the lens from hierarchy to network, from process to people, from structure to relationship. Her innovative thinking strips away traditional business thinking to reveal the new patterns of management practice essential for success in a more complex and dynamic business environment. With her systems diagramming tools that map knowledge exchanges in the context of relationships, she provides a profound understanding of how value is created in organizations. Her approach demonstrates how and why making visible the intangible dimensions of relationships and knowledge exchanges significantly contributes to value creation and business self-organization.*

Verna Allee (verna@vernaallee.com) is President and Founder of Verna Allee Associates. Internationally recognized as a thought leader and author in value networks, knowledge, and intangibles, she has consulted with Motorola, Eli Lilly, HP, Sun Microsystems, PeopleSoft, Chubb & Sun, Samtel, American Express India, Clarica, and AT&T, and contributes to a variety of research initiatives. Verna is also a fellow of the World Business Academy and an advisor to the European Commission.

Dr. Alexander Schieffer (a.schieffer@c-cell.com) is Managing Partner of CELL (Center of Excellence for Leadership and Learning GmbH) and a Lecturer at the University of St. Gallen, Switzerland. There Alexander also holds the position of Head of International Network Management at the Institute of Leadership and Human Resources.

TRANSFORMATION



This map begins to reveal the complexity of tangible (green) and intangible (blue) flows. It represents Cisco's value network.

AS: What is the essence of your work?

The essence of my work is trying to make the invisible and unappreciated more visible and more appreciated. The relevant skill that I am trying to foster in people is the ability to see new patterns and pathways, to see systemically, to see dynamic relationships, to operate from more organic principles than mechanistic. Organizations desperately need systems thinking. A lot of people confirm that, but people really don't have the tools and have not developed the necessary skills.

So even if we bring people to where they are asking new questions, such as redefining the role of business in society, as long as they continue to rely on the traditional financial statements and process engineering tools, nothing really changes. My work is about helping people develop the toolsets that will allow us to operate from this other kind of systemic understanding.

AS: When did you begin to introduce these tools into your work?

In 1997, I was working on a project with Don Tapscott and his group looking at the emergence of e-commerce. My first book, *The Knowledge Evolution*, had just been published and we were trying to understand how knowledge contributes to these e-commerce businesses. I tried to apply business-activity mapping techniques I had developed about 1993 to see if they would work with knowledge and intangibles. Might it be possible to map those types of interactions and understand how they work in relationship to business transactions? Surprisingly, I noticed that there is indeed a transactional dynamic to knowledge and intangibles, so we began mapping the mission-critical knowledge exchanges within the organization. This is a way to look at those two different types of exchanges together, so that we can understand not just the business transactions and activities but also the way knowledge and other intangible exchanges work around the business activities. Since then we have used it for everyday business issues, project development, business

web and stakeholder strategies, and now we are using it to try to better understand global action networks.

AS: Networks, by definition, don't have a hierarchy. Does not the network metaphor introduced in organizations imply that hierarchy is irrelevant?

This view does challenge hierarchy, although leadership and accountability are still critical elements – they just work differently perhaps. I believe that business has always worked as networks. Hierarchy is mainly rooted in an idea that we impose on organizations about structure and bureaucracy. This idea is then reflected in organizational charts. But those charts don't say anything about how the work gets done; they are about formal reporting relationships. When you ask most business people nowadays to describe their business model, they usually draw either an organizational chart or a flow chart of the value chain, but both of these views are very limited. They don't show dynamic relationships and interdependencies. The network perspective helps to understand what really happens.

If we drop our old ideas about what a company is and simply notice the different kinds of exchanges that take place between people, then we discover a dynamic web of transactional relationships where boundaries are completely arbitrary. I no longer look at the company in the traditional way, which typically is defined by size, the number of employees, or revenue. Instead, I look at its influence, the impact the organization has, and in how many relationships it plays a key role. Take a company like Amazon. They have only a few hundred employees, and yet they handle literally millions of relationships (with customers, with suppliers, with partners who feature the Amazon icon on their own website and create their own business links to Amazon). They are the central hub in a huge value network. There is certainly leadership and an active set of behaviors that they have to engage in to be successful, but Amazon's influence is not powered by position in the traditional sense.

AS: Your mapping method makes the intangibles and the invisibles visible. People become aware of the relationships and the resulting intangible exchanges that ultimately are the organization. Employees develop an expanded view about their own organization.

Yes. Also it enables employees to understand which knowledge exchanges and intangible contributions are critical for their own success and for the organization as a whole. Of course, not every exchange is critical, as the key function of many conversations in a company is to improve and develop relationships. But it is crucial that the exchanges and relationships which are critical are understood and managed in a conscious way.

For example: If a company wants to automate its invoicing and billing process, it might require that various technicians from different departments work on that task very closely. That would be an important knowledge exchange. From my experience, these kinds of mission-critical knowledge exchanges are often not visible, not transparent to the people involved, and they certainly are not mirrored in flowcharts or business models. In this example, the business process flowchart would reflect the incoming order, delivery of goods, the invoice billing going to the customer, and the receipt coming back to the organization.

If we drop our old ideas about what a company is and simply notice the different kind of exchanges that take place between people, then we discover a dynamic web of transactional relationships where boundaries are completely arbitrary.

I believe that the traditional way of looking at organizations does not match reality. I use a very different kind of lens [that] brings value creation down to the molecular level – the cellular level of value – which are the exchanges that happen at the interpersonal level.

This process view does not acknowledge that there would have to be quite a number of conversations about technology integration, which might happen in an optimal case anyway, but often no conscious emphasis or planning would be devoted to such mission-critical activities. However, those conversations take time and resources, and how well they are done and executed has a lot of impact on the business.

AS: So your tool not only makes the invisible knowledge exchanges visible, you are also making the value of this intangible apparent, as well as highlighting the role that the intangibles play in creating more business value?

Yes. You find that those intangibles are the 'grease on the wheel' – they ultimately ensure that things are running smoothly. If this knowledge exchange (these conversations) did not happen, things would not be as efficient and relationships would be much weaker.

AS: Isn't it all about 'expansion'? You expand the traditional view of the organization with your network perspective. You expand the visible, tangible dimensions with the invisible, intangible dimensions.

Well, there is even another expansion around how we define value and an expanded foundation for economics. The classical monetary exchange economy is expanded to include the barter-based economy. We are living in the middle of a huge barter economy that goes on all around us that is completely ignored by economists. An economist recently said to a friend of mine, "We already know that 60% of the European economy is an intangibles economy...so we have to pay attention to the other 40%!" Yes, it is different but just because we don't understand it yet doesn't mean we should just ignore it. My approach does not make the old way of thinking completely obsolete. But it adds some crucial dimensions which have been neglected for the longest time. If we want to understand the real dynamics of value creation, then we must move to very different assumptions about how value is really created.

I believe that the traditional way of looking at organizations does not match reality. I use a very different kind of lens. This new lens brings value creation down to the molecular level – the cellular level of value – which are the exchanges that happen at the interpersonal level.

In any economy, of course, we are always exchanging goods, services, and revenue – the tangibles. But when we are really looking at how business works, we find that there are a lot of knowledge and intangible exchanges that happen before we ever get to the business transaction. We are so used to only focusing on the business transaction itself. However, it is essential to acknowledge that the quality of the knowledge and other intangible transactions do influence to a large extent how well we are executing the actual business transaction. What I do is like asking, "Will the real business model please show up?"

I also try to expand the traditional view of leadership, to have not only a personal but also a social dimension. We are all well aware that people in organizations no longer have the time and capacity to judge and determine everything from the top, in a typical top-down bureaucratic way of assigning tasks. People must be able to negotiate their own tasks. So, increasingly we have to rely on the communication and shifting leadership that occurs between self-organizing

groups within each system.

Self-organization in complex systems sounds like a nice bit of jargon, but what does that really mean? For self-organization to happen people must have the knowledge and information they need to make good decisions and have the autonomy to make those decisions. They also must have a clear, shared understanding about how the system works and what needs to be done to be successful. And they also need to have a shared purpose and common values. If all those elements are there, then self-organization is possible. If those elements are not in place, then people can't self organize, no matter how much one says that there should be self-organization. It won't happen because people don't have the capacity. They have not been enabled to be self-organizing.

AS: Back to your metaphor of the 'lens shift': With it goes quite a radical shift from processes to people. Can you elaborate on how people and relationships are central to your perspective?

Only real people can make decisions and initiate action. Processes can't. Processes are not the active agents in the organization. People are. In this respect, we have heard a lot of lip service given to how important people are, but most organizations have not incorporated the kind of management practices that can make it real.

AS: When your customers try to move from processes to people, when they put relationships at the center of their perspective, and try to map them with your methodology, don't they need a new language for that? What difficulties have you experienced with people trying to express the 'intangible'?

Actually, it is not that difficult to master the concepts. We often have to adapt the language to the environment we are working in. We always start with their own common business language. For example, civil society organizations don't use the language of tangibles and intangibles. Sometimes they use the terms "formal exchanges" and "informal." Some companies are more comfortable with contractual and non-contractual. In government, one talks about mandated and non-mandated. So the distinctions are not that difficult for people to grasp once you understand how people think about their business. The language is not as critical as being able to understand the concept: that one set of activities is what we have to deliver to stay employed or get paid; and the other set is what we do anyway – where we do not get paid for doing them directly but we do them anyway to make our businesses successful. Those are almost always intangible exchanges of knowledge and other benefits or courtesies that we extend to each other.

AS: When you offer people this new perspective, what are the issues that people connect least with? Where are the biggest hindrances in understanding or in adapting this perspective?

I have actually found it amazingly simple to facilitate a group through the mapping process, although people might react differently depending on their learning styles. Some people find the diagrams more confusing than helpful; other people love them. On the other side of the analysis, some people find the tables for cost/benefit and value creation tedious, and other people really go

...one set of activities is what we have to deliver to stay employed or get paid; and the other set is what we do anyway – where we do not get paid for doing them directly but we do them anyway to make our businesses successful.

to town with them. It is designed to support both types of comfort zones. It is almost comical to watch different groups gravitate to the different aspects of the methodology.

People who want to use the methodology can easily learn it through a web-based toolkit, online courses, or a two-day workshop. And when working with organizations, I also don't really get into the intellectual framework of the methodology. So I won't speak the more technical language of 'living systems theory', 'complexity', 'intangibles', 'self-organization', 'systems-thinking', etc. The actual work is much more practical and focused on the organization's real situation – whether we are addressing shop floor issues or developing strategic scenarios.

For example, we might be looking at a particular project or activity within an organization. One of the first questions would be, "Who is involved in it? What individuals and groups in the organizations play an active role in that?" Anybody familiar with the focus activity can quite easily identify those key people and groups. Then we would explore the question, "What is happening between these people and groups? What kind of things do you have to provide each other?" So one will find an active exchange of reports, data, information, etc. Then we simply start mapping it out. Somewhere along the way in this process, people naturally move into a more relationship-based thinking and perspective. There is no real need for consciously educating them in all the nuances of the methodology unless they are interested in that. And once people are in this perspective, they can move in it very naturally. I have never had any difficulty with people not being able to identify what happens between them.

People do sometimes struggle with the ideas around self-organization because, particularly in the U.S., we have a heroic or charismatic model of leadership – the lone cowboy mentality. So that can be a difficult shift. Other sticky places are shifting from linear processes and value chains to seeing dynamic relationships and interdependencies or the network patterns. Also, metrics for some reason are enormously difficult for people. But they are really important – otherwise how do you know you are making any progress? Cost/benefit analysis is simply trying to understand where you get the highest return for your efforts.

Some people breeze right through all this while others have to work at it harder. Some people never seem to get there. It's kind of funny when you think about it, because I can remember back in the early 1980s when teams, processes, and value chains were all new ideas. Now people are stuck in their process 'worm tubes' as badly as they used to be stuck in their functional 'silos.'

AS: You say the system describes itself?

Right. Creating the map of relationships and exchanges is like holding up a mirror to the system so the system can see itself. It is trusting the inherent wisdom in the system, that people know exactly what they need to do. It is not about one person figuring it all out. It is having representatives of those groups of people – or the people themselves – engage in a new conversation about how things work. Very frequently people are surprised during those conversations and during the mapping process when they discover: "Oh, that is how things work! I thought it happens that way, but this is what really happens." And that is what one must be able to understand. Not how things are supposed to happen (as defined in process charts) but how things do really happen. This approach

People do sometimes struggle with the ideas around self-organization because, particularly in the U.S., we have a heroic or charismatic model of leadership – the lone cowboy mentality.

gives people a common language to talk about how their system works. People start realizing what it is they really need from each other in order to make the whole organization successful.

So the core objective of this system-diagramming technique is not to get people to draw the right kind of map, it is about facilitating a process which enables people to engage in the right kind of conversation – so that people are seeing their own work more systemically and are able to talk about how the system really works.

A single person cannot understand the system. Only the system itself can understand the system. But without the right tools it can't do this.

AS: That sounds like activating the 'collective intelligence'. But doesn't the process itself also bring up resistance to collective learning?

(Laughter) Well that might happen. I recall a project with a hospital group and we got to the place in the diagram where we were addressing the interaction between doctors and nurses around the patient. All of a sudden major resistance kicked in. People started squirming in their chairs. Some people said that there was not enough time to finish the diagram; others said this method will never work...hospitals are different... When it becomes difficult (usually just before the breakthrough) some will not want to continue. Those are the moments where you have to hold that tension and find out what really lies behind it. And one never knows what is going to come up. In this case, all at once there was a collective "Aha" when people realized that they had been focusing on the mechanism for knowledge exchange – the patient's chart – instead of the real interactions that needed to happen between doctors, patients, and staff. Charts, processes, and computers aren't the active agents – people are. That's where we need to shift our business analysis.

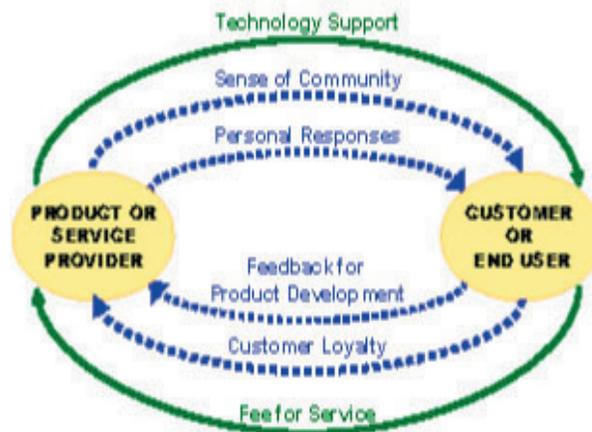
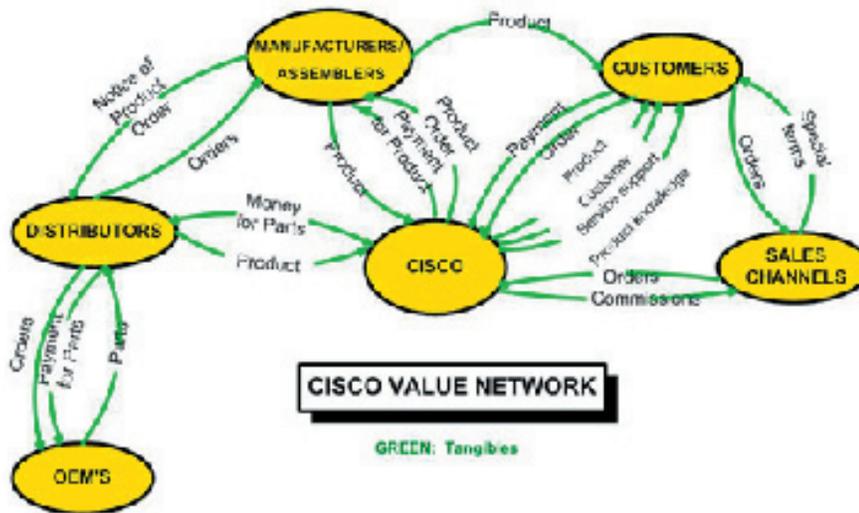
The real issue is: How can you support that creative aspect of people where they are constantly innovating, negotiating with each other about doing things differently, and yet be aware of the need to make changes visible and manageable for other people? So when people change something, it is often not because they changed it that things become confusing – it is because everybody else thinks it is still working the other way. So this approach offers a way to make all these innovations more visible when they need to be. Transparency around the living, breathing, constantly changing interactions is more important, rather than whether it is right or wrong to do a specific process in a particular way.

You can't anticipate all the changes in a complex system, and you can't fake it or make it behave in some idealized way. The issue is that processes within systems keep changing. Everybody knows that even in organizations where people agree to follow a specific process, months later they are finding out that no one is following the process at all, that their diagrams and charts have all become obsolete. People are constantly innovating and changing what they do, so why fight that? Why try to solidify a process? Nature doesn't do it and it's counter-creative. We have to develop the flexibility to shift our lens and expand our awareness so that we can appreciate the dynamic exchanges that create value in our organizations. This is where resilience and competitive advantage will lie in the future.

A single person cannot understand the system. Only the system itself can understand the system. But without the right tools it can't do this.

TRANSFORMATION

- Allee, Verna, *The Future of Knowledge: Increasing Prosperity through Value Networks*, Massachusetts: Butterworth-Heinemann, 2003.
- Allee, Verna, *The Knowledge Evolution: Expanding Organizational Intelligence*, Massachusetts: Butterworth-Heinemann, 1997.
- <http://www.vernaallee.com>. Articles to download
- <http://www.alleetoolkit.com>. Interactive web tools and application



Copyright © 2004 World Business Academy, 428 Bryant Circle, Suite 109, Ojai, CA 93023
 Academy Phone 805 640-3713 Fax 805 640-9914 Website www.worldbusiness.org
 Senior Editor, David Zweig david@worldbusiness.org Phone 510 547-3223