



John Maloney
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CTM interviewed John Maloney, one of the panelists presenting on the New Ideas in Social Networks panel at upcoming February 28-29, 2008 Executive Round Table.

John is General Manager of Value Networks, LLC, a software technology company for value networks visualization, analysis and optimization. Offerings include software licensing, expert services, enterprise integration and syndication of industry benchmarks. Value Networks customers gain network business diagnosis, corporate performance optimization and improvements in network business innovation. John is a veteran of engineering, finance and knowledge leaders Hewlett-Packard, Northrop Grumman and British Telecom. He is the leader of the **Colabria Action/Research Networks**.

CTM: John, the first question is clearly to ask you to tell us about value networks. What does the term mean?

John: A value network is the complex ecosystem of interdependent connections and exchanges that inhabit organizations. Networks exist in enterprises, government agencies, institutions and all forms of work and wealth creation. They work together via roles, links and exchanges to create and grow economic value.

CTM: Can you comment on why organizations should seek to understand their value network?

John: Analyzing and studying value networks are a mindset shift. They visualize and optimize the tangible and intangible exchanges that create value. If we go back thirty years, businesses were organized functionally. Everyone had to serve a function. The org chart was how to understand the organization. Then in the mid-1980s, we had scholars like Michael Porter come in and refocus us on *process*. Making sure you had a robust process was the key to efficiency, productivity, and quality. We saw things like business process reengineering and Six Sigma. Today, we are discovering that these

paradigms are not producing the returns required for continuous growth and prosperity. Process is limited because it does not look at the larger picture of the entire eco-system of the company and its economic system. There are complex links and exchanges of information, knowledge, and *intangibles* in every connection that contribute to the whole.

CTM: So, are process and function not important in a value network?

John: Value networks don't dismiss function or process at all; think of it more as they provide the context for them. A network still depends on function. Bureaucracy doesn't have to be a pejorative term; functions are important to a thriving eco-system. Similarly, you have to have process models, but the network model is overarching all of these.

Let me give you an example of what I mean by looking beyond function. I often give presentations about value networks, and I sit in front of a group of executives and hold up their org chart. I ask them what this is, and they all answer, of course, an org chart. In reality, it is a simple network, a hub and spoke network, to be precise. Then I ask them, is this how work gets done in the organization, and they all laugh. Everyone knows that work gets done through the *informal networks* that are behind the org chart. So function has its purpose, but we now need to look more closely and study all these other links and exchanges, particularly the intangibles. In the past, we weren't paying attention to them, but now we have the technology to see them and use them. Value networks are the flow paths and knowledge pathways that exist in the organization and make it operate.

Let me add some clarification here. One of the caveats about the relationship between function and process and value networks is that you can't go from a process orientation and simply add a network perspective. It doesn't work. You must have a network orientation first and then insert process into if you are seeking to really optimize the organization and achieve favorable outcomes.

Process is linear and orderly, and the goal is to make the activity remove variation. But when you do that, process becomes stagnant. It doesn't evolve or grow. The law of diminishing returns sets in. Take Wal-Mart, for example. Let's say Wal-Mart is seeking to go being from a \$300 billion company to a \$600 billion company. They are simply not going to do that with more Six Sigma or more supply change management.

Let me put it another way. The three most popular visualization tools in an organization are the org chart, the spreadsheet, and the process diagram. Now we just need to add a fourth one, the value network map. This is the next layer of organization, maturation and abstraction. It allows us to visualize, analyze and optimize the networks in the organization.

CTM: So one of the ideas is that value networks are thus much better at examining complexity in the organization, right?

John: Yes. That's because complexity is not just in the tangibles. It's about intangibles like knowledge, trust, and brand. What value networks do is make all these visible. When you do a network analysis, you can now see where the real problems might be, not just the tangible problems, but all the intangibles too.

In traditional process engineering, the emphasis was on reductionism. You would take things apart, find the problem and then put it back together. It was predictable. You can't do that with the complexity we have now. We can't live with predictable outcomes; we need to look more at probabilistic outcomes. Predictive models have very narrow outcomes while probabilistic ones have wider options.

Here's a metaphor I use to explain this. If you take a horse and cut in half, you don't get two small horses, you get a mess. The same goes for process. If you take a complex process, like innovation, and take it apart, you don't get better faster innovation, you get a mess. So you need another approach, a new way to model the network. For example, as the supply chain gets more and more complex, and as people get more and more involved in every step of the process, and because you can't tell what people are going to do, you need to examine not the process but the value network.

CTM: What are some examples of companies that are using value networks?

John: We can look at companies like E-bay, Cisco, Amazon, Facebook, and Google. These are all based on a value network archetype. And you can see the payoffs here. These are all companies that have become the engines of wealth and growth, right? These are companies with multi-billion dollar valuations. All these network companies are making enormous progress today.

Another example is Boeing and their flight test centers. They began studying their value network and their target goal is a six-fold increase in productivity, testing six planes in the time it formerly took them to test one.