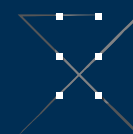


A "Smart" approach to perform

# ORGANIZATIONAL NETWORK ANALYSES

New technicalities and tools to affect the productivity of Companies  
and improve the performance of Value creation



**ACTIVE  
VALUE  
ADVISORS.**

*Management Consultants*

1.

Executive Summary

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What's ONA?

- Introduction
- Important points that quickly emerge from an ONA
- Approaches to perform an ONA are innumerable, but not always effective

3.

HOW<sup>4</sup>: look at the Organization Value through a network lens

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The Organizational Network Analysis can affect the Value creation performance of the Company

- Value Creation performance in a People-Based View

# Contents

# Executive Summary

## COOPERATION, EFFICIENCY & INFORMAL NETWORKS

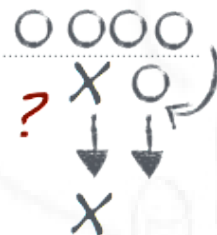
Cooperation and efficiency in the interaction between Resources, especially in complex organizations, are the central elements that determine their **Productivity** in carrying out their work.



Every organization, in fact, besides from its purely hierarchical structure, holds an informal structure of employees. Visualizing and understanding this 'informal network' is essential, especially if you're trying to gauge the effectiveness of reorganization efforts, break down barriers to cooperation, identify key talent, improve performance or assess risks to retaining knowledge. The Organizational Network Analysis (ONA), making visible the connections between People and providing a complete x-ray of the real functioning of the organization, is the most appropriate methodology to do so.

## AN INNOVATIVE APPROACH TO PERFORM ONA

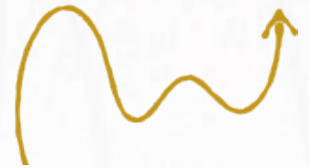
Multiple approaches try to perform this valuable analysis, but most of them are difficult to apply and results often do not justify the efforts.



Active Value Advisors has developed an effective methodology and a powerful tool (**HOW<sup>4</sup>**) that allow Companies to perform Organizational Network Analyses through an approach that is simple but sophisticated.

## HOW DOES IT WORK?

A web-based survey that consists of just **4 questions**, gathers detailed information from the employees. These data are analysed using complex algorithms to produce graphical network maps, social capital reports and other interesting analysis that allow the organization to deepen 5 major critical business areas: **Economic Profit Performance, People Development, Change Management, Innovation and Cooperation**. Moreover, HOW<sup>4</sup> can help to read and understand data collected from the ONA survey by **appropriate indicators** that show evidences in terms of **Employees, Units and Organization as a whole**. The ONA, as a technicality that can impact the **Productivity** of Resources by improving their relationships within the Organization, can also affect the **Value creation** performance of a Company.



## HOW DO YOU KNOW?

The Active Value Advisors methodology allows you to calculate the **Economic Profit** (or EVA<sup>®</sup>) - the metric that measures the Value created in a Company - in a **People-Based view**, in order to highlight the difference between Cost of Personnel and its Productivity rather than the difference between the Employed Capital Cost and its Return. In other words, we can determine the Economic Profit using '**People**' instead of '**Capital**' as denominator.



# What's ONA?

## INTRODUCTION

Every organization has **hidden networks of relationships** that employees use in order to **get work done, make decisions** and **solve problems**.

Although Organizational Networks are often ignored by leaders and managers, they hold the keys to **improving performance**. In fact, while hopefully promoting efficiency and flexibility, a by-product of these efforts is that coordination and work increasingly occur through **informal networks of**

**relationships** rather than through **formal reporting structures** or **prescribed work processes**.

These seemingly invisible webs have become central to performance and strategy execution.

Research shows that appropriate connectivity in networks within organizations can have a substantial impact on **performance, learning, innovation** and benefits also accrue from well-connected networks between organizations.

A network assessment aims to identify how **people collaborate, share information, solve problems** and **get work done**. Organizational Network Analysis (ONA) provides an X-ray into the inner workings of an organization and it's a powerful way to expose and make visible the movements of the flow of information and cooperation among Resources. A network perspective can enhance performance in **three principal areas** that are vital to the survival and success in an increasingly competitive world:

### COOPERATION

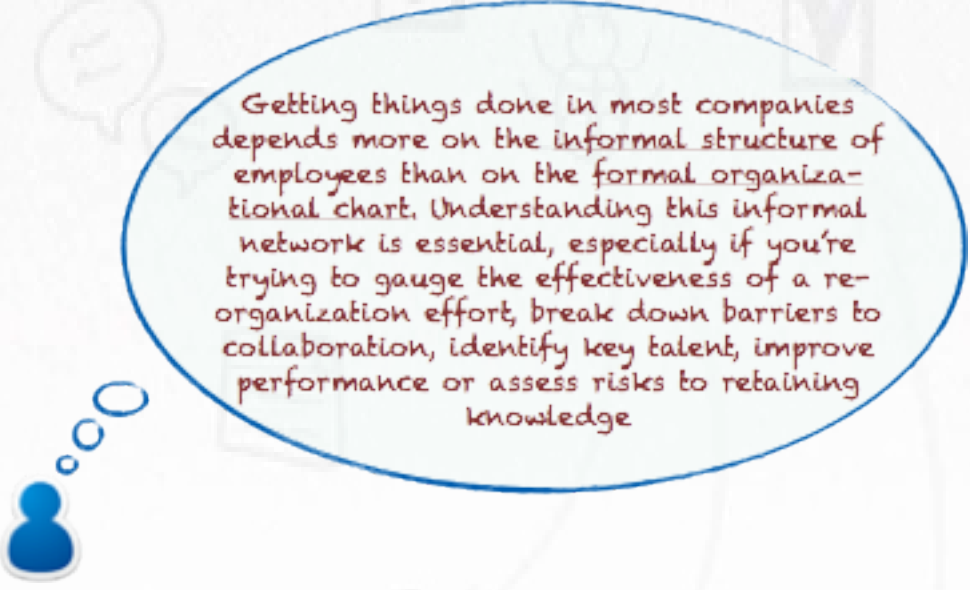
A network perspective could help leaders identify **points of misalignment** and accelerate cooperation in the right places and at the right times.

### PRACTICE

Network analyses could help management determine whether targeted units or functions are achieving the kind of **connectivity** necessary to achieve the desired results and, if they are not, it shows how to identify and track surgical interventions.

### DEVELOPMENT

Network perspective can help organizations identify high performers, understand how they use their network to maximize effect and replicate the **behaviour** and **relationships** that make them **successful**.



Getting things done in most companies depends more on the informal structure of employees than on the formal organizational chart. Understanding this informal network is essential, especially if you're trying to gauge the effectiveness of a re-organization effort, break down barriers to collaboration, identify key talent, improve performance or assess risks to retaining knowledge

## IMPORTANT POINTS THAT QUICKLY EMERGE FROM AN ONA

Once networks become **visible**, leaders can address these and other aspects in order to have immediate impacts on performance as follows:

*How* people complete activities related to **strategy, decision making, routine work, innovation, problem solving** and other aspects of the **organization life**,

*How* the organization actually functions and faces **risks** and **instabilities**,

*Who* are the organization's **high performers** from a network perspective,

*Who* is **under** or **over exploited**,

*How* to identify **power people** or **roles** that have disproportionate influence over the network as a whole,

*How* to **communicate efficiently** and **quickly** with a large number of people,

*How* to accelerate **implementation of critical projects**,

*How* to increase **knowledge sharing** and **innovation** in the organization,

*How* to **break down silos** and collaborate across functional, geographic, and other barriers,

*How* to promote the **right people** into the **right jobs** and develop effective **succession plans**.

How can an organization make an Organizational Network Analysis? A number of technicalities can be used, but most of them are difficult to apply and do not always lead to the desired results.

Active Value Advisors has developed a simple, fast but extremely effective methodology



## APPROACHES TO PERFORM AN ONA ARE INNUMERABLE, BUT NOT ALWAYS EFFECTIVE

Of course Network Analysis is not a new subject.

This approach has enjoyed a **rich research tradition** within anthropology, sociology, psychology and also management studies. Consequently, a vast body of knowledge on techniques for the analysis of social networks has been accumulated.

In fact, the analytic side of the social network subject has become so rich that one of the most widely read primers on social network analysis is more than eight hundred pages long!



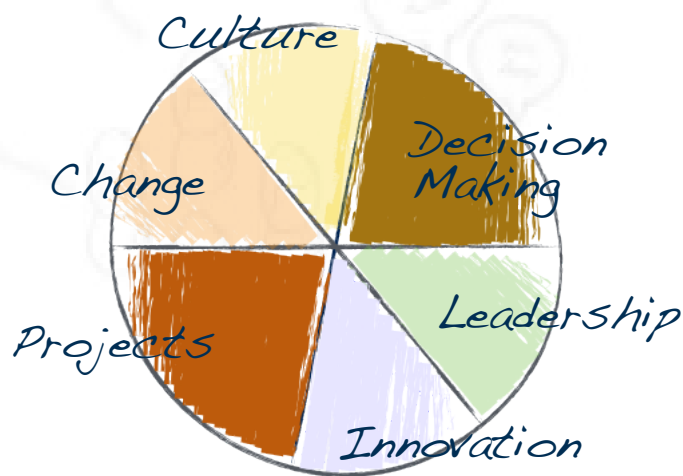
HOW<sup>+</sup> is a web-based tool that allows companies to perform Organizational Network Analysis by conducting an online survey. This consists of just 4 questions that are sufficient to analyze the organizational structure in a simple but effective way. Through complex algorithms to interpret the collected data, organizations can read them with the help of specific indicators

Yet although network analytics have advanced substantially over the past decades, the managerial applications of the ideas have not kept pace.

Then, several approaches have spread in practice to identify the hidden networks of relationships within the organizational structure of the company but not always they revealed **feasibility** and **effectiveness**. Some examples are long and complex questionnaires submitted to resources (but often difficult to interpret in an objective manner and with the right methodology of analysis) or methods of reading available e-data (such as email traffic data) with consequent problems of privacy, accuracy and completeness of information.

Active Value Advisors through **HOW<sup>+</sup>** has developed a **simple, fast** but **extremely effective methodology** to deepen the **Value** of an organization through a **network perspective**.

**ORGANIZATIONAL NETWORKS INFLUENCE EVERYTHING ORGANIZATIONS DO**



# HOW<sup>4</sup>: look at the Organization Value through a network lens

## WHAT IS IT?

Active Value Advisors performs Organizational Network Analysis (ONA) through its online software application - **HOW<sup>4</sup>** - that allows organizations to explore their employee networks by **department**, **function** and **office geography**.

From its geographical dashboard to its detailed views that could be drilled into critical areas and units through specific indicators, **HOW<sup>4</sup>** provides organization with a powerful tool for setting organizational goals and managing them.

### Where do we start?

A **four-question web-based survey** (yes, just 4!), gathers interaction information from employees. These information are analysed using **complex algorithms** to produce **graphical network maps**, **social capital reports** and other **interesting analysis** that allow the organization to deepen **5 major critical business areas** as follows.

### PEOPLE DEVELOPMENT

Network Perspective can help organizations identify high performers, understand how they use their networks to maximum effect and replicate the behaviours and relationships that make them successful.

### COOPERATION

HOW<sup>4</sup> applies ONA to enable executives to see the ties between specific groups and individuals and then design targeted programs to cultivate the connections that create Value.

### ECONOMIC PROFIT PERFORMANCE

Financial Reports tell a limited story about Value creation. What they miss is that economic returns are created in large part by interactions, cooperation across product, functional and geographic lines within account teams and with clients.

### INNOVATION

The innovation often emerges from the areas at the intersection between functions and disciplines. HOW<sup>4</sup> can help company increase innovative cooperation and determine where the blocks to innovation exist in your organization's intra-network.

### CHANGE MANAGEMENT

Without targeted network-building initiatives, people could stick to their familiar patterns of cooperation. HOW<sup>4</sup> enables company to take the first incisive step: knowing what and where your company's informal network is and exactly how it is functioning.

# WHAT CLIENTS GET FROM AN ONA CARRIED OUT WITH HOW<sup>4</sup>

For our analysis to be successful, we had to:

1. **Convince Management** to allow us to come in and perform a network analysis on a group of strategic importance,
2. **Administer a survey and produce detailed analysis** with actionable insights,
3. **Convince the organization** to invest time and sometimes money in making changes based on the network insight we provided,
4. **Conduct a follow-up network analysis six to twelve months later** to assess strategic, operational and financial impact.

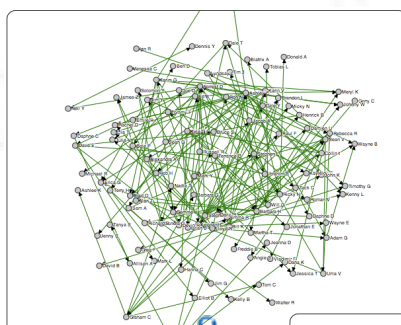


The first thing Clients can get from an Organizational Network Analysis performed with HOW<sup>4</sup> is 3 network diagrams featuring the organization in three different views: Hierarchical, Work and Desired

Here is what Clients get from an Organizational Network Analysis carried out with HOW<sup>4</sup>.

## 1 - ORGANIZATIONAL NETWORK MAPS

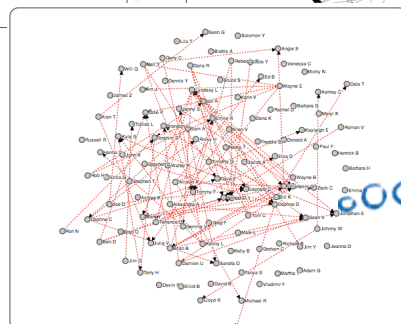
First and foremost, the information gained from the web-based survey will allow to graphically display through an online report the network of the organization according to **3 different views**:



**HIERARCHICAL**  
Represents Boss/Employees relations according to the structural organization within a Company



**WORK**  
Represents work relations between employees, in other words the links established by people working together

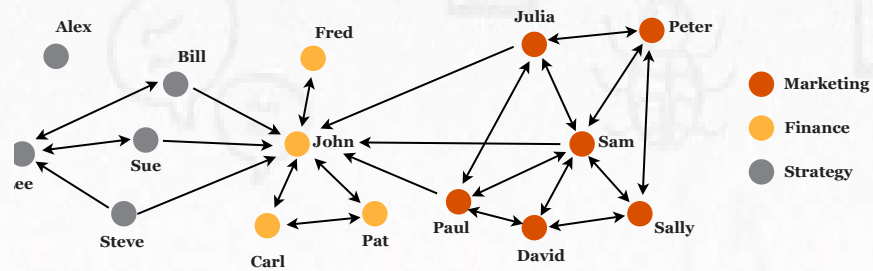


**DESIRED**  
Represents links that employees want to activate to work better and be more productive



The Network Maps need to be **read** and **interpreted** because they could reveal valuable information on behaviour of resources within the organization.

## INTERPRETING A NETWORK DIAGRAM



### RELATIONSHIPS

The map above shows the flow of information within a team. Each line indicates a relation-link between two people; arrows represent the direction of the relationship (incoming arrows show that the person is a source of information; outgoing arrows show that the team member seeks information from the linked parties).

### CENTRAL PEOPLE

Network diagrams make clear who the most prominent people within a group are. On this team, nine people rely on John for information. His colleagues in Finance come to him, but so do people in Marketing and Strategy. John himself does not reach out to people outside of Finance. The diagram alone can't tell us if John's impact is positive or negative. If the group is overly dependent on him, he may be a bottleneck, slowing the flow of information and holding up decisions. On the other hand, people like John often play a very positive role, providing valuable information and holding a group together.

### PERIPHERAL PEOPLE

Some people are only loosely connected to a network; a few may be completely isolated. In this network, no one goes to Steve for information and Alex is out of the loop entirely. As is true with Central People, the diagram alone doesn't say anything about the value of peripheral people. Sometimes such outsiders turn out to be underutilized resources and integrating them can be critical to a network's effectiveness and efficiency.

### COMPONENTS

Groups within a network often arise as a product of location, function, hierarchy, tenure, age, or gender. In this case, the team is split by function; very little information is being shared among the three groups. Moreover, connections in Strategy and Finance are sparse, while the Marketing subgroup is tightly knit.

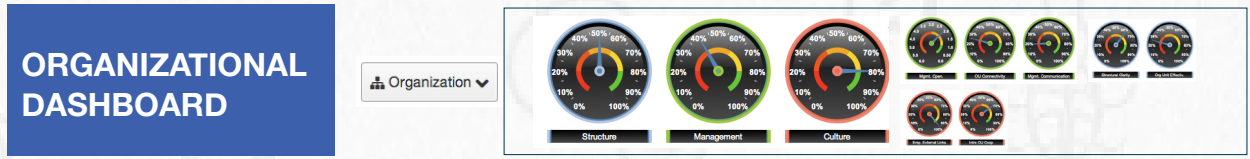
## 2 - DIAGNOSTIC INDICES

**Distinctive Feature !**

HOW<sup>4</sup> features with **appropriate indicators** that will allow complete study of the data collected through the survey. So it will be possible to carry out a **comprehensive assessment of the organization** from the 'Network Perspective' providing **3 organizational views**:

1. Employees,
2. Units,
3. Company as a whole.

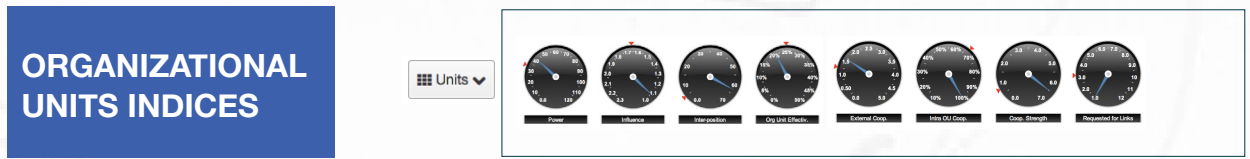
Such indicators have the purpose of facilitating the **reading and interpretation of the results of the analysis on different aspects** and **make it comparable over time**.



The dashboard gives an overview of the organization and the gauges describe the organization’s state in relation to different indices. The possible insights below arise from the organization’s behaviour.

*Main Aspects investigated*

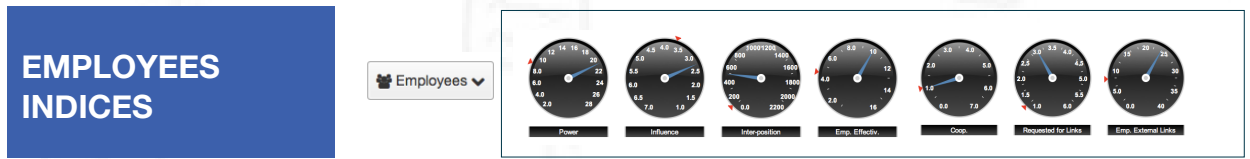
- Structural Clarity
- Management
- Culture



Graphs and tables contain the data from different indices for the units of the organization. The units which concentrate most of the power and influence are those whose indices’ rates exceed the rates of other units.

*Main Aspects investigated*

- Unit Power & Influence
- Organization Units Connectivity
- Internal/External Cooperation



The dominant employees are those who concentrate most of the power and influence in the organization and the departure of these leading figures can cause real damage to the organization in the short term.

*Main Aspects investigated*

- Employee Power & Influence
- Importance of the employees to the organization
- Employees Cooperation

HOW+ helps to read and understand data collected from the ONA Survey by appropriate indicators calculated using specific algorithms. These indices show evidences in terms of Employees, Units and Organization as a whole

### 3 - PEOPLE ASSESSMENT

One of the most important aspect of the ONA is the possibility to **assess resources** from a **network perspective**.

This means revealing a handful of people contributing a great deal of **time-saving value** to the organization in terms of **relationships** and a **spirit of cooperation**.



The ONA is useful also to assess people from a network perspective. Managers quickly use the network analysis results to identify Central Connectors, Brokers and Peripheral People

There are many possible taxonomies to classify resources according to a network perspective. Through the lens of the ONA, Management can for example understand the **knowledge held by central connectors, peripheral players and brokers**. It turns out that people in each of these roles tend to be sought out for unique kinds of information or characteristics and retaining this knowledge requires more than simply documenting employees' skills and expertise areas. Organizations can replace an individual's knowledge but more difficult to recover are the **network connections** that enable work to get done in a given context.

Three **network roles** are summarized below and the specific knowledge associated with each role can help organizations identify critical network-related knowledge to retain and the potential means to do so.

CENTRAL PEOPLE	
(Have many direct connections)	
RISKS	Loss of technical expertise and organizational memory as well as a set of relationships that help many colleagues get information or other resources to do their work. Loss of experiential knowledge and reputation that enable rapid on boarding.
ACTIONS	Use personal network profiles in career development and on boarding practices to create network redundancies where departure might fragment a network. Reallocate information access and decision rights to ensure that key points in the network do not become too vulnerable.
BROKERS	
(Have many bridging connection)	
RISKS	Loss of broad knowledge of how the organization operates and the ability to recognize opportunities requiring integration of disparate expertise. Loss of the ability to mobilize and coordinate efforts of disparate groups in the pursuit of opportunities.
ACTIONS	Identify and develop brokers through staffing and rotation across division, geography and expertise groups. Assign brokers strategically where information gaps exist or where ideas can move from concept to action.
PERIPHERAL PEOPLE	
(Have few direct connections)	
RISKS	Loss of people who could work more productively and effectively.
ACTIONS	Pair peripheral people with brokers or central connectors or both to bootstrap them into the network. Ensure that peripheral people are visible and engaged, encourage project mobility, lunch & learns, Webcasts. Reward employees for connections into the organizations.

# The Organizational Network Analysis can affect the Value creation performance of the Company

## VALUE CREATION PERFORMANCE IN A PEOPLE-BASED VIEW

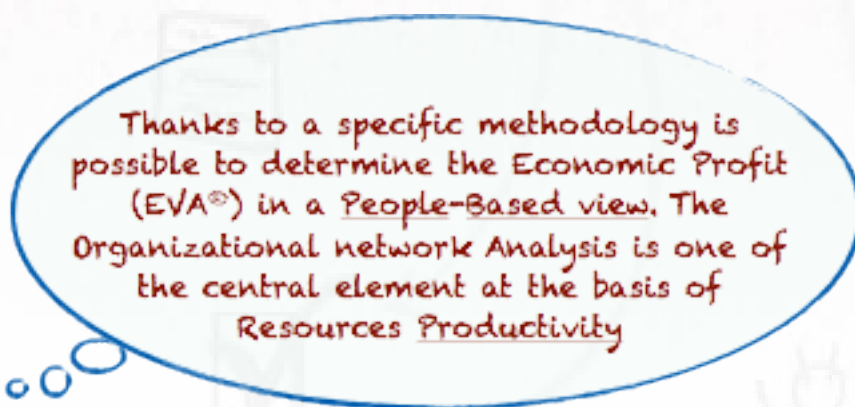
The **Economic Profit** (EVA<sup>®</sup>) is a metric that measure the Value created exceeding the required Return of the Company's investors (being shareholders and debt holders) and a method of firm valuation similar to the Discounted Cash Flow (DCF): in equal conditions, in fact, we can calculate the value by adding the Capital Employed to the expected

Economic Profit, this corresponds to the actual Value of expected Cash Flows.

An Active Value Advisors methodology allows assessment and comprehension of Economic Profit (or EVA<sup>®</sup>) in order to identify the difference between **Cost of Personnel** and its **Productivity** instead of the difference between the Employed Capital Cost and its Return. In other words, we can determine the Economic Profit using '**People**' instead of '**Capital**' as denominator<sup>1</sup>. This measure may be useful to rigorously identify and quantify the Value of People in terms of Productivity of their work Vs their Cost for the company.

In a People-Driven view, therefore, different levers are available in order to increase the Company Value:

- **Productivity:** one of the central element at the basis of the Productivity of Resources is how they collaborate and interact. This helps to be faster, more effective at work and, therefore, more productive. Precisely the Organizational Network Analysis is a methodology that can be applied within the Company to increase the Productivity of Resources. This analysis, in addition, can also give useful indications in terms of **optimal organizational sizing of people**.
- **Cost of Personnel:** Analysing properly the Remuneration and Compensation policies, the Organizational Roles and the Capabilities of Human Resources it's possible to get at least 3 different Cost of Personnel that differently impact on the ability to create Value.
  1. **EFFECTIVE COST OF PERSONNEL:** it's obtained from Salary that Resources received annually,
  2. **IDEAL COST OF PERSONNEL:** it's obtained by evaluating the organizational Roles according to the existing strategic Project/Design,
  3. **INTRINSIC COST OF PERSONNEL:** it's obtained by analysing people skills, expertise and competencies.



<sup>1</sup> The People-Based Economic Profit can be calculated rearranging algebraically its Traditional formula. By determining the Revenue per employee net of Costs (including amortization, Taxes and Capital Charge to cover the Cost of Debt and Equity) what results is the measure of Productivity per employee. Subtracting the average Cost of Personnel and multiplying the Number of Internal Resources what we get is the People-Based Economic Profit.

This requires the specific methodology that Active Value Advisors has developed, see our Paper: “Fundamentals of People-Driven Business: Thinking of Human Resource as a Capital<sup>2</sup>”.

$$\text{'TRADITIONAL' ECONOMIC PROFIT} = \left( \text{Return on Capital Employed} - \text{Cost of Capital Employed} \right) \times \text{Capital Employed}$$

### ORGANIZATIONAL NETWORK ANALYSIS

The cooperation and the efficiency in the interaction between Resources, especially in complex organizations, are the central elements that determine the Productivity and may represent, therefore, an opportunity to create Value.

$$\text{'PEOPLE-BASED' ECONOMIC PROFIT} = \left( \text{Resource Productivity} - \text{Cost of Personnel per Resource} \right) \times \text{Number of Resources}$$

### SALARY OPTIMIZATION AND STRATEGIC MANAGEMENT OF RESOURCES

Analysing properly the Remuneration and Compensation policies, the Organizational Roles and the Capabilities of Human Resources you can get at least 3 different Cost of Personnel that differently impact on the ability to create Value.

<sup>2</sup> (<http://www.activevalue.eu/publications.php?anno=2012>)





# Active Value Advisors.

## 3 Competence Centres

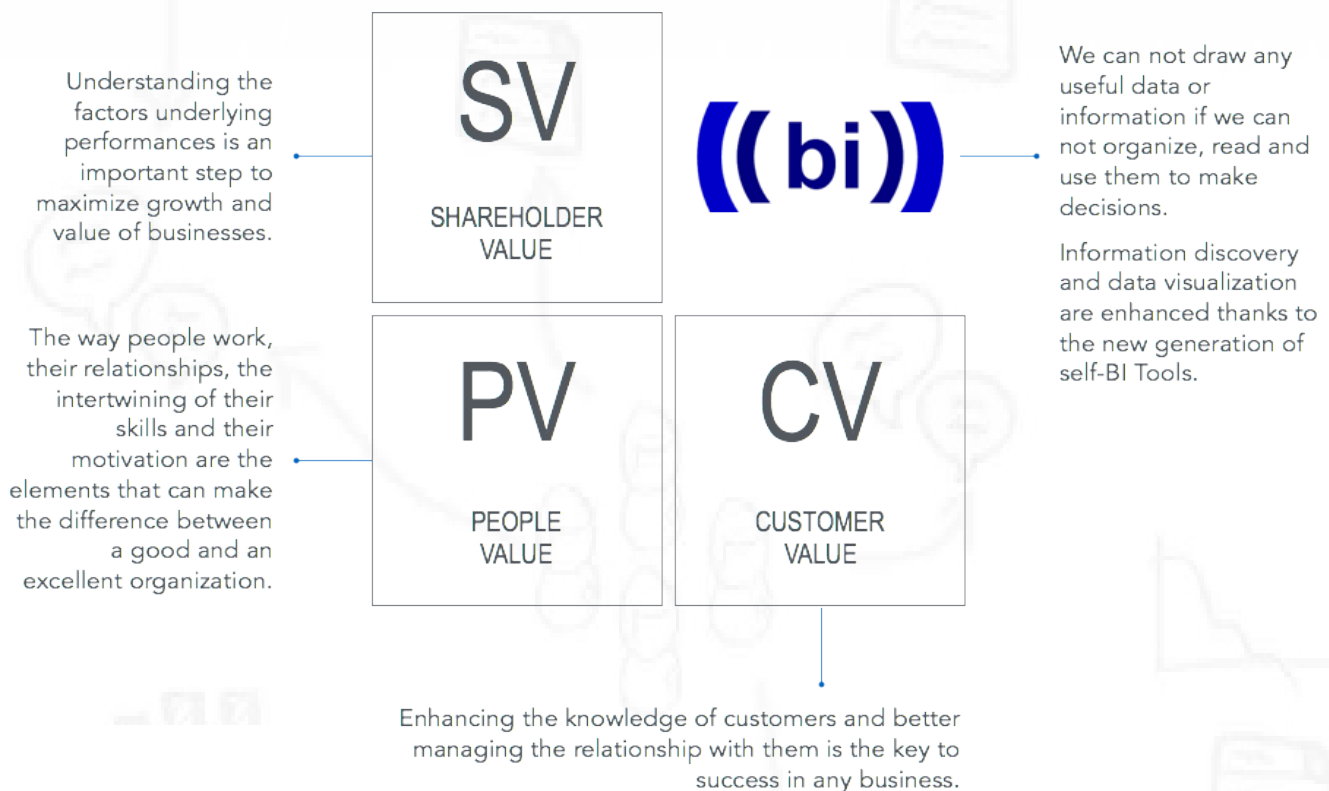
Active Value Advisors is an independent management consulting firm that acts as a partner for Companies who need to strengthen their Governance System and for those Companies who want to pursue a path of growth through solutions consistent with the objective of creating sustainable Value.

Active Value Advisors assists those companies by leveraging successful techniques and experiences focused on Value based management systems and by bringing them available to the top management through **Business Intelligence (BI) tools**.

The professionals of Active Value Advisors have long experience in assisting major Italian listed groups in the development of Business Plans, in the selection of actions to improve Value performance and in the assistance to the change process that the competitive dynamics and market opportunities require.

In carrying out the mandates we use a common language declined in many professional services pertaining to various management issues: **Shareholder Value**, **Customer Value** and **People Value**. Each centre of competences responds to a fundamental dimension of the management system: the Shareholder, the Customer and the Internal Resources.

Thanks to the collaboration with accredited professionals in the area of Strategic Pricing, Active Value Advisors has enriched their skills and professional methods with innovative models and tools of Value Pricing.





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