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DESENVOLVIMENTO DE EXECUTIVOS E EMPRESAS

EXPONENTIAL ORGANIZATIONS: HOW TO MEASURE THEM

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EXPONENTIAL ORGANIZATIONS

Definition:

The ideal of the so called Exponential Organizations, which have as main asset the knowledge, is to provoke a reflection on the management structures and its changing impact for the society, creating companies with characteristics of more agility, responsiveness, and using disruptive technologies.

For many researchers this will be the only way to cope with a VUCA world (volatile, uncertainty, complex, and ambiguous).

A PROPOSED FRAMEWORK FOR RATING EXPONENTIAL ORGANIZATIONS

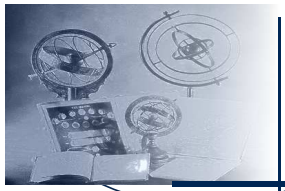
The **Organizational Differentiation Model (ODM)** is a comprehensive approach based on two sets of organizational variables – intervening variables called "**commitments**" and a set of end-results variables called "**results**", aiming at assuring a strategic and articulated logic across the company businesses, designed to increase its **market value**, achieved through the interaction of the two sets of variables, leading the organization into **adding value to society**. (BRUNO, 2005).

ORGANIZATIONAL DIFFERENTIATION MODEL

The model is based on the evaluation of eleven major dimensions divided in two groups:

- ✓ **commitments** – encompassing “human capital”, “innovation capital”, “process capital”, “relationship capital”, “environment, relationships and society”; and

- ✓ **results** – involving end-results as “operational margin”, “net profit”, “capital turns”, “earns before interest, taxes, depreciation and amortization” (EBITDA), and “economic value added” (EVA) or “cash value added” (CVA).

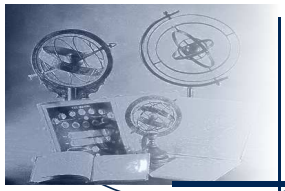


ORGANIZATIONAL DIFFERENTIATION MODEL

✓ COMMITMENTS

Human Capital does not belong to the firm, as it is a direct consequence of the sum of its employees expertise and skills.

Process Capital means the internal and external processes that exist within the organization and between it and the other players; namely the ***Relationship Capital*** that is concerned with the customers, suppliers, subcontractors and other major player involved – as global business is today a reality, it being difficult to determine a company's boundary (JOIA, 2000); and ***Innovation Capital***, a direct consequence of the organization's culture and its capacity of creating new knowledge from the existing supply. These last three capital sources constitute what is called **structural capital** that belongs to the company, and can be traded, being the actual environment built by the organization to manage and generate its knowledge adequately. Ending up ***Environment and Society*** means the way the organization deals with the protection of natural resources and the development of society as a whole.



✓ RESULTS

The second group of dimensions are related with hard data, in other words, organization's results. In order to analyze the operational management performance the *operational margin* has been selected. To make sure that the stockholder is being satisfied both, the *net margin* and the *net capital turns*, have been chosen.

As far as cash generation is concerned the *EBITDA* (earns before interests, taxes, depreciation and amortization) was selected as indicator. Finally, to check the effectiveness of the capital investments management, one of the two indicators has been chosen, namely *cash value added* (CVA) or *economic value added* (EVA).

ORGANIZATIONAL DIFFERENTIATION MODEL
CONCEPTUAL FRAMEWORK

ORGANIZATIONAL DIFFERENTIATION

- **Market Value**
  - **Book Value**
    - **Physical Capital**
    - **Monetary Capital**
  - **Intellectual Capital (Intangible)**
    - **Human Capital**
    - **Innovation Capital**
    - **Process Capital**
    - **Relationship Capital**
  - **Social Responsibility**
    - **Environment**
    - **Society**

Results (R) **X** **Commitments (C)**

Business Indicators:

- ✓ Operational Margin
- ✓ Net Margin
- ✓ Net Capital Turns
- ✓ EBITDA
- ✓ EVA
- ✓ CVA

ODI = R x C

Being:

$0 \leq ODI \leq 1$

$0 \leq R \leq 1$

$0 \leq C \leq 1$

Commitments indicators:

- ✓ Quality of Working Life
- ✓ Organizational Learning
- ✓ Management Abilities
- ✓ Managing Innovation
- ✓ Managing Macro Processes
- ✓ Managing Relationship and Environment/Society

- $R = \frac{1}{6}\sum_{1}^{6}\frac{\text{indicator}}{\text{ideal score}}$

Source: Balance Sheets

- $C = \frac{1}{6}\sum_{1}^{6}\frac{\text{indicator}}{\text{ideal score}}$

Source: Closed Instruments Scores

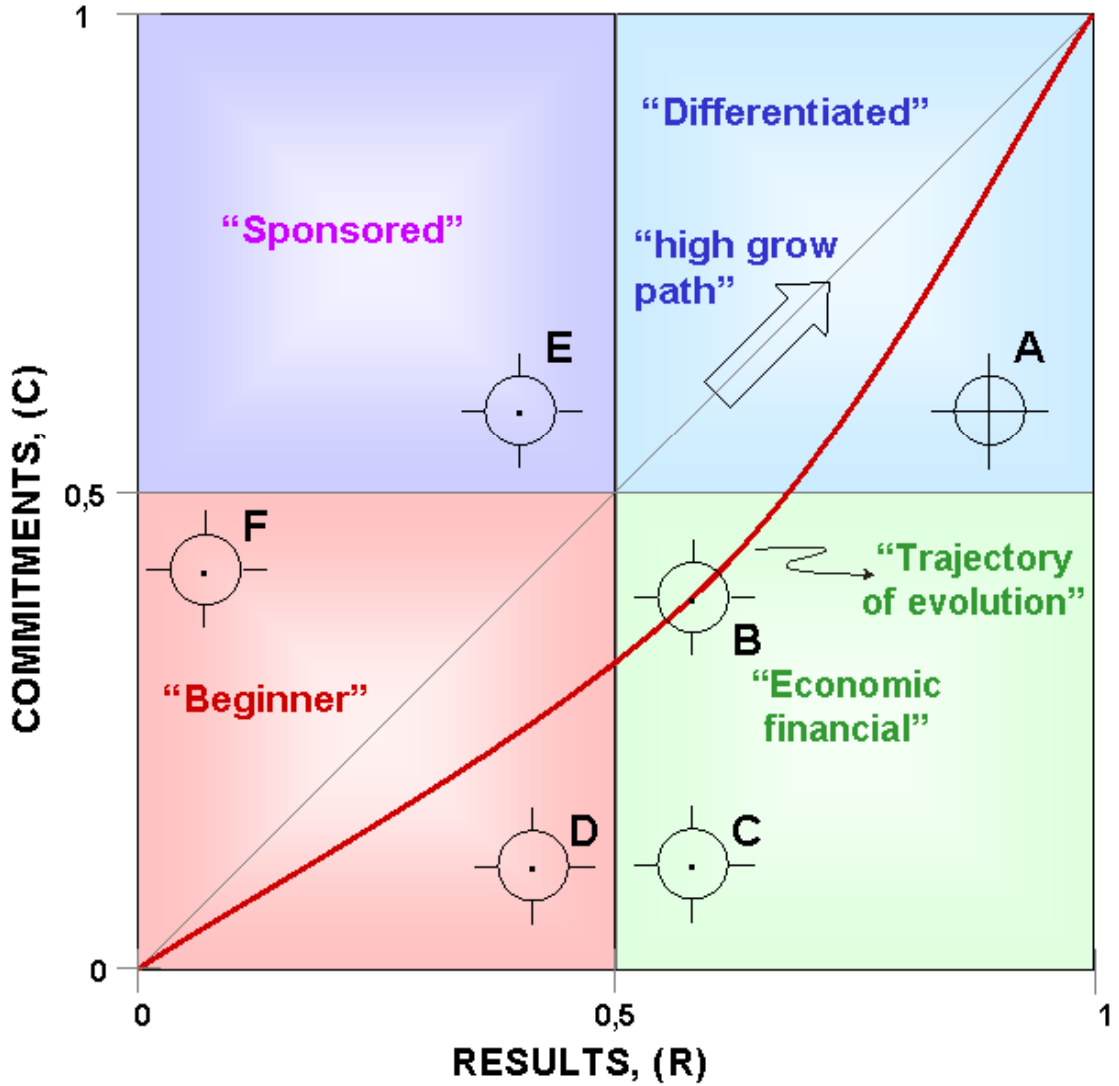
INTELLECTUAL CAPITAL (INTANGIBLE)

(US$ BILLIONS)

Company	Market Value	Net Assets	Assets Estimated Replacement Value	Intangible Value (%)
Cola-Cola	148	6	15	90
Microsoft	119	7	18	85
Intel	113	17	43	62
GE	169	31	77	54
Exxon	125	43	107	14

Source: BOOTH, 1998.

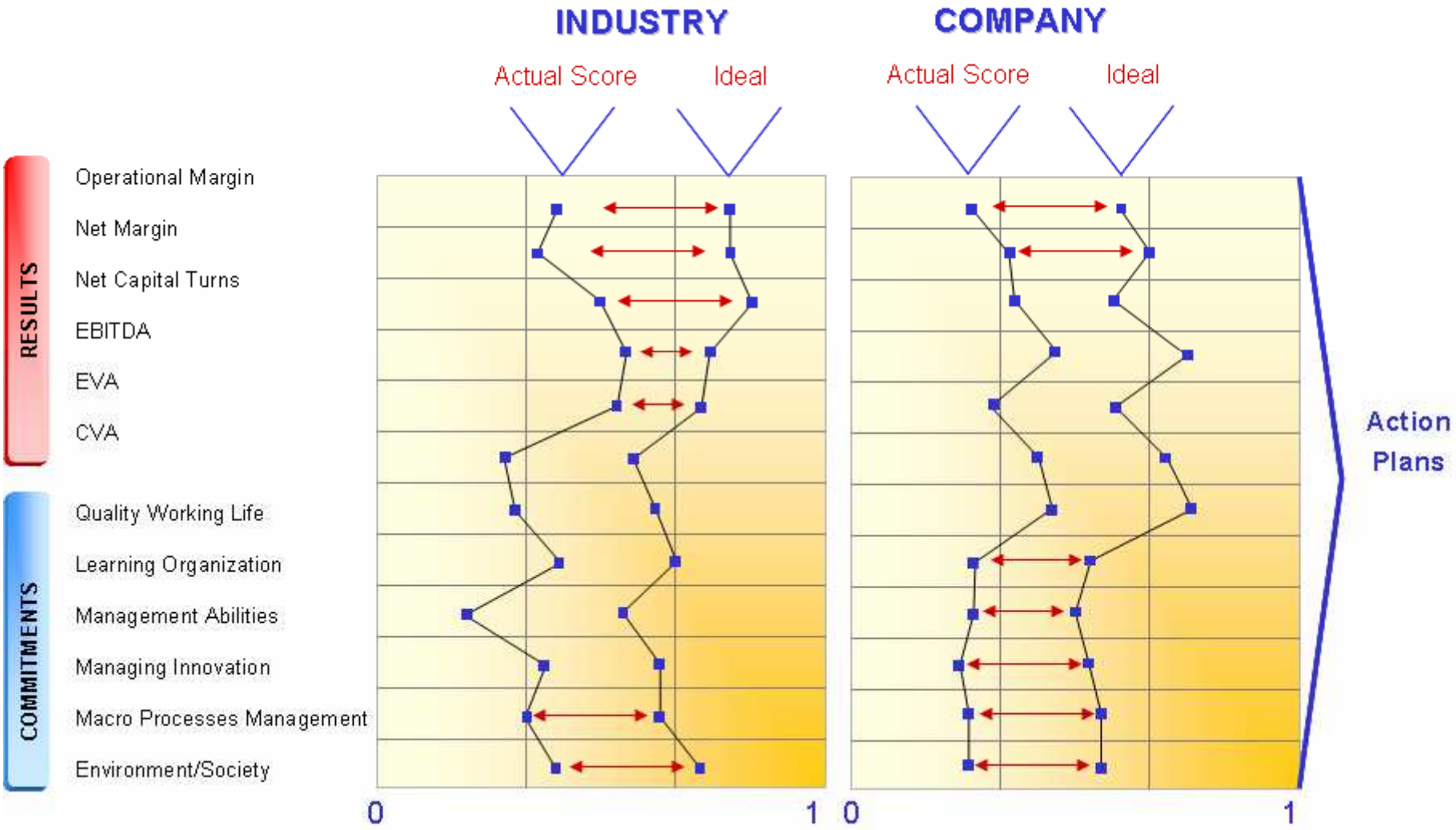
ORGANIZATIONAL DIFFERENTIATION MODEL
GRAPHIC INTERPRETATION



ODI = R x C

Winner: "A"
R = 0.8 e C = 0.6
ODI = 0.48

ORGANIZATIONAL DIFFERENTIATION MODEL
GAPS AND RECOMMENDATIONS

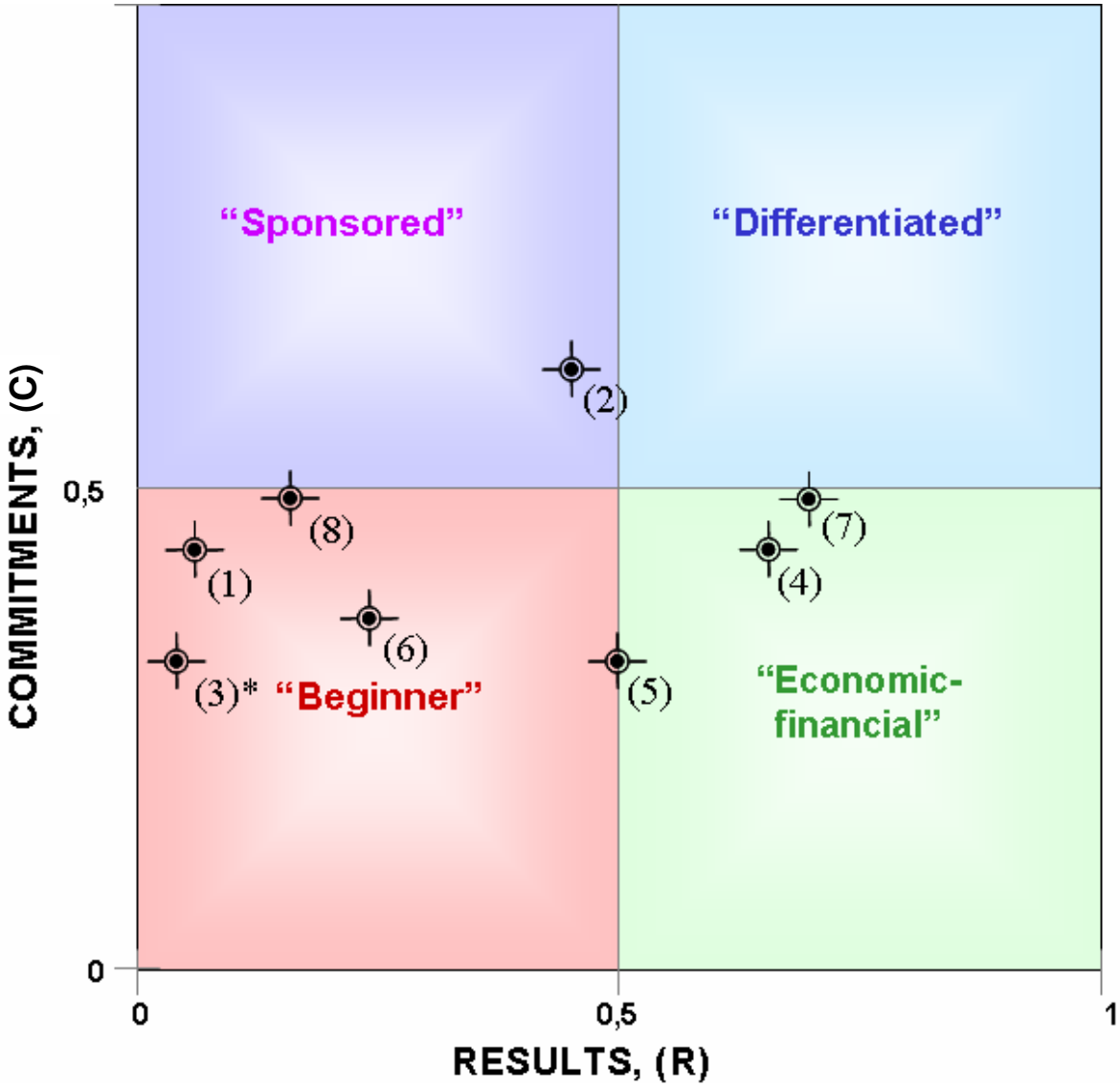


ORGANIZATIONAL DIFFERENTIATION MODEL
PILOT RESULTS

COMPANIES	SECTOR	C	R	ODI	GROSS ANNUAL INCOME (US$ MILLIONS)
1	Health Care	0.45	0.08	0.04	25
2	Paper & Packing	0.63	0.45	0.28	80
3	Mechanical Components	0.30	0.05	0.02	5
4	Electrical Components	0.45	0.65	0.29	40
5	Transportation/Logistics	0.30	0.50	0.15	50
6	Consumer Electronics	0.35	0.25	0.09	350
7	Vehicles	0.48	0.70	0.34	7000
8	Virgin Media	0.49	0.22	0.11	70

C = Commitments
R = Results
ODI = Organizational Differentiation Index

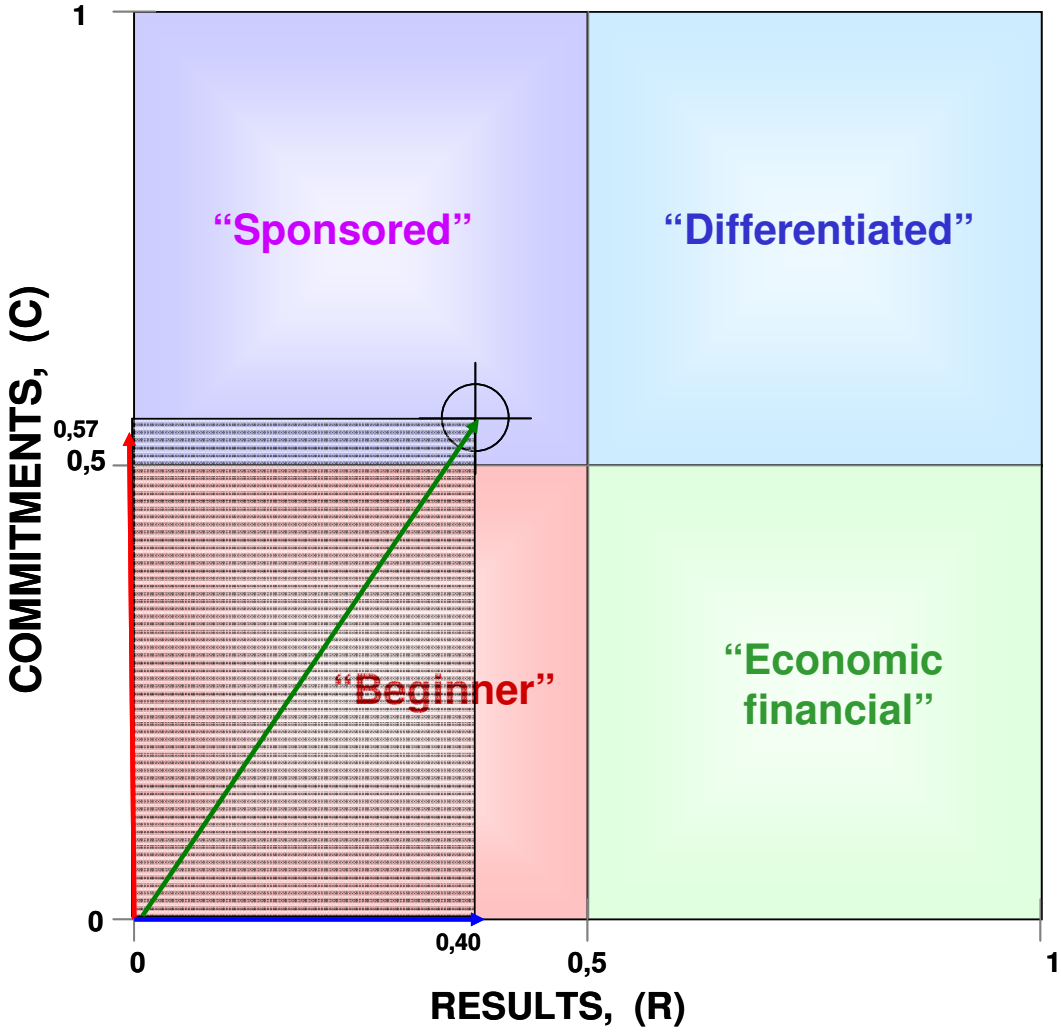
ORGANIZATIONAL DIFFERENTIATION MODEL
PILOT RESULTS POSITIONING



ORGANIZATIONAL DIFFERENTIATION MODEL
EXAMPLE: COMPANY X

- ✓ Graphic sector
- ✓ Largest company in South America
- ✓ 1.000 employees
- ✓ 350 millions printed material per year
- ✓ US$ 100 millions gross annual income

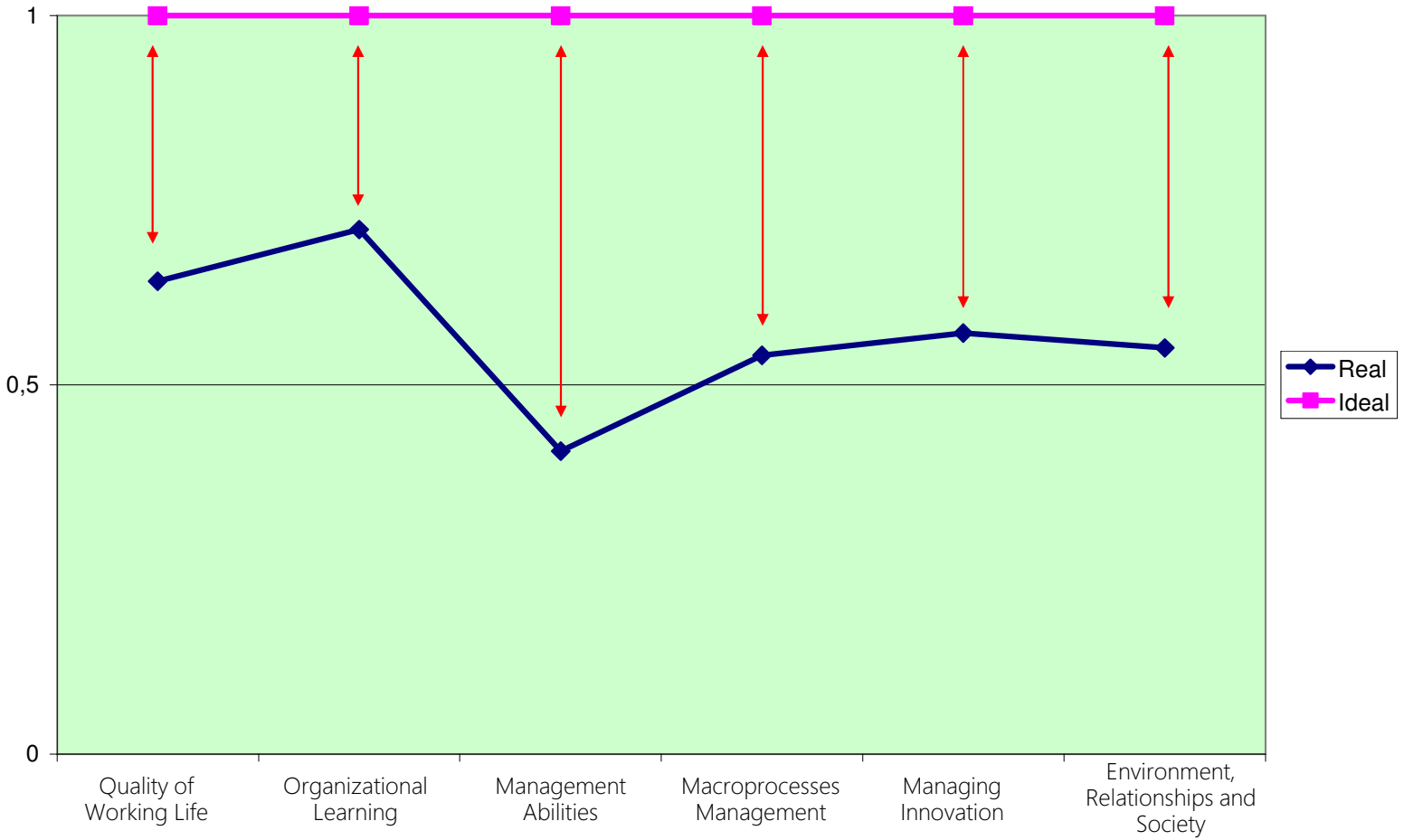
ORGANIZATIONAL DIFFERENTIATION MODEL
EXAMPLE: COMPANY X



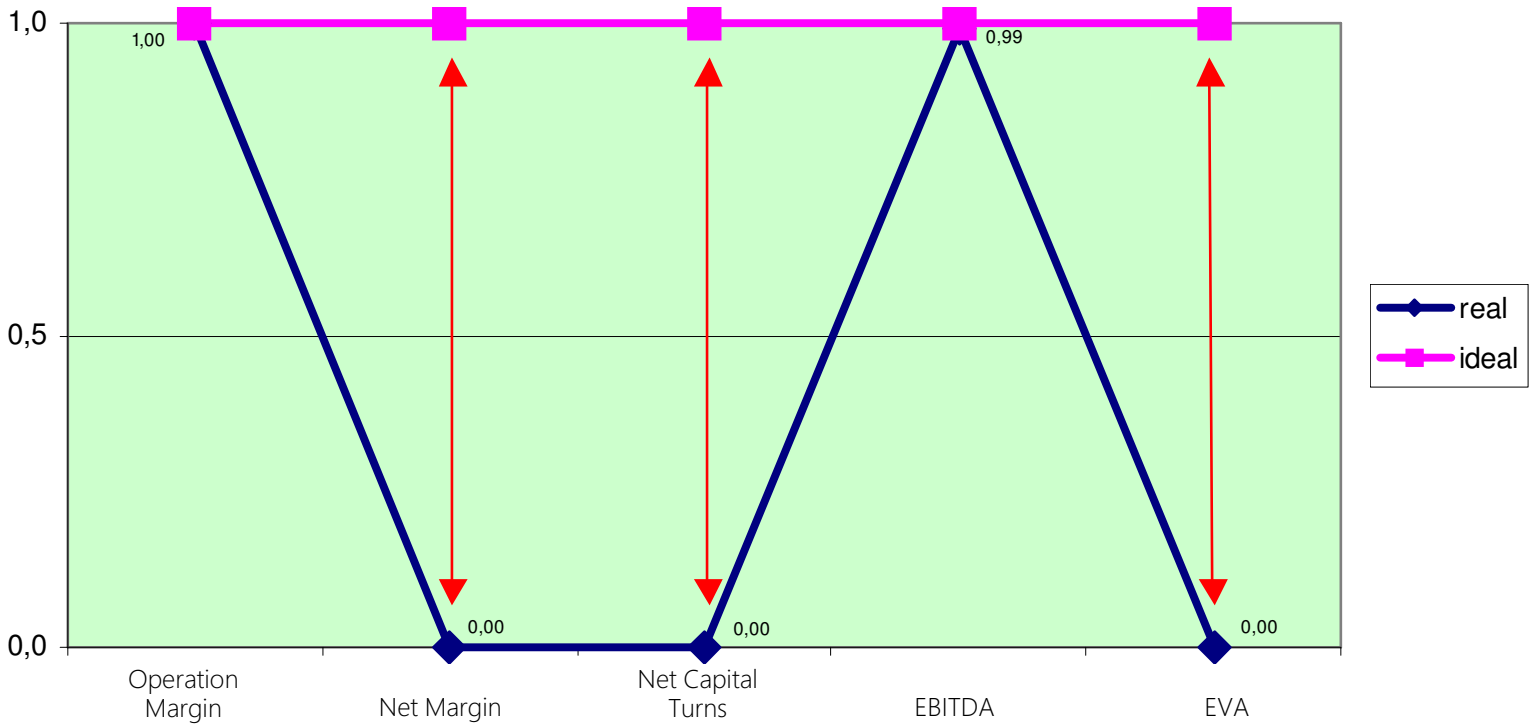
ODI = R x C

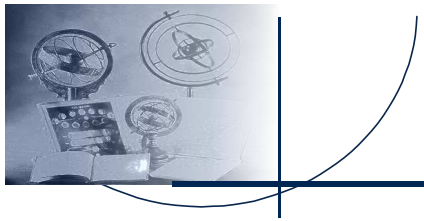
Computation:
R= 0. 40 e C= 0.57
ODI = R x C = 0.23

ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: COMMITMENTS GAPS



ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: RESULTS GAPS



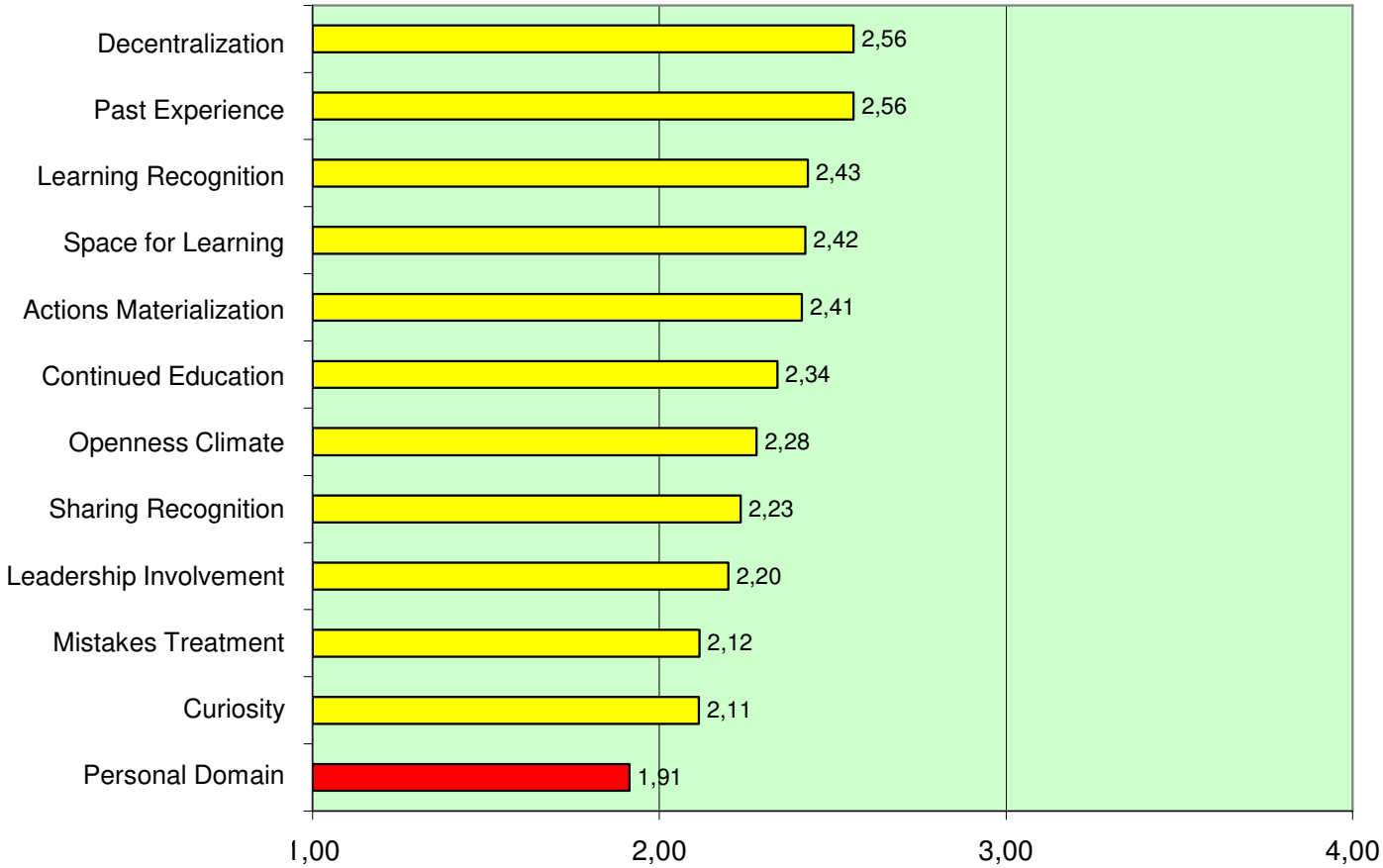


ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: QUALITY OF WORKING LIFE GAPS

Sample size: 107 employees

Score: 2.20/4 = 0.55

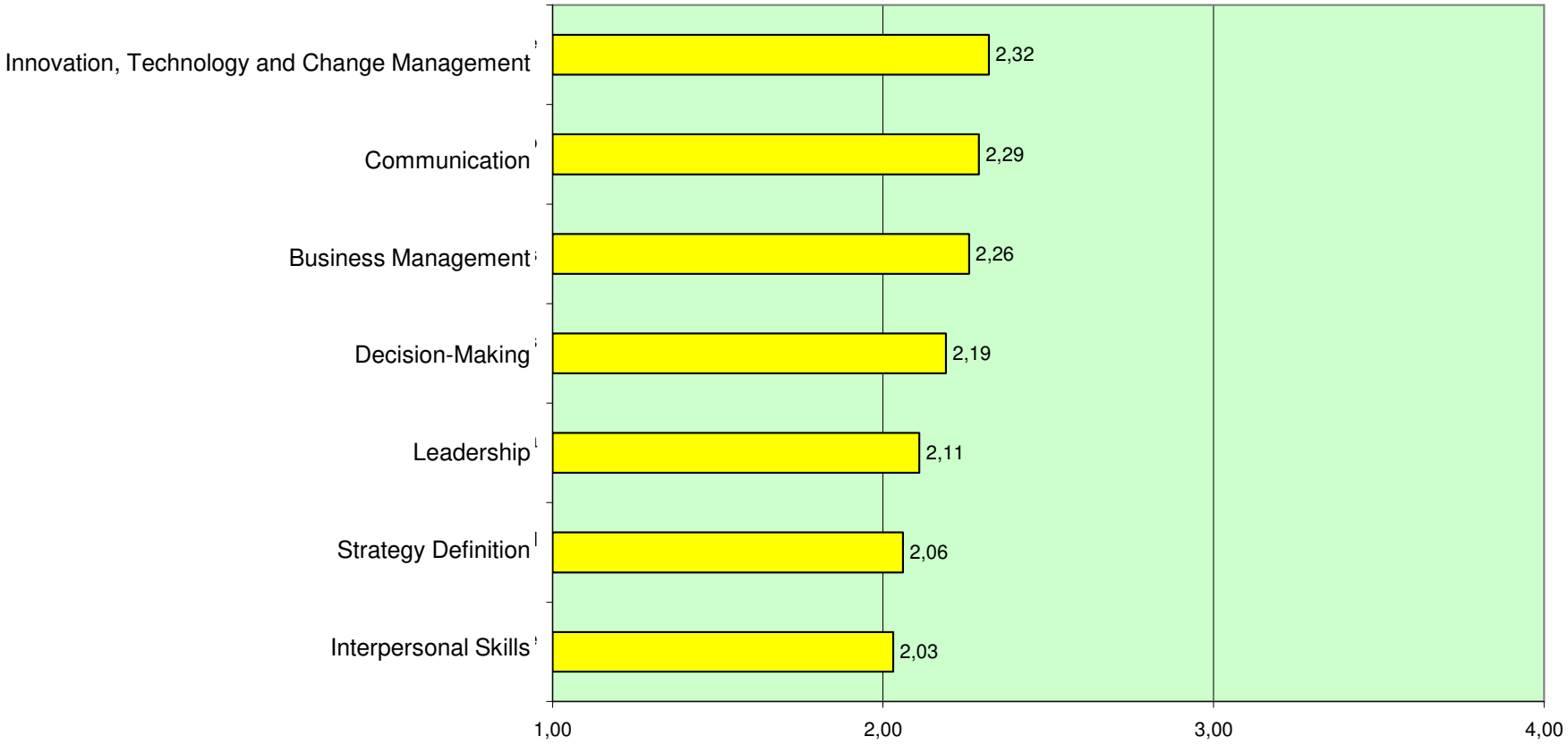
ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: ORGANIZATIONAL LEARNING



Sample size: 108 employees

Score: 2.29/4 = 0.57

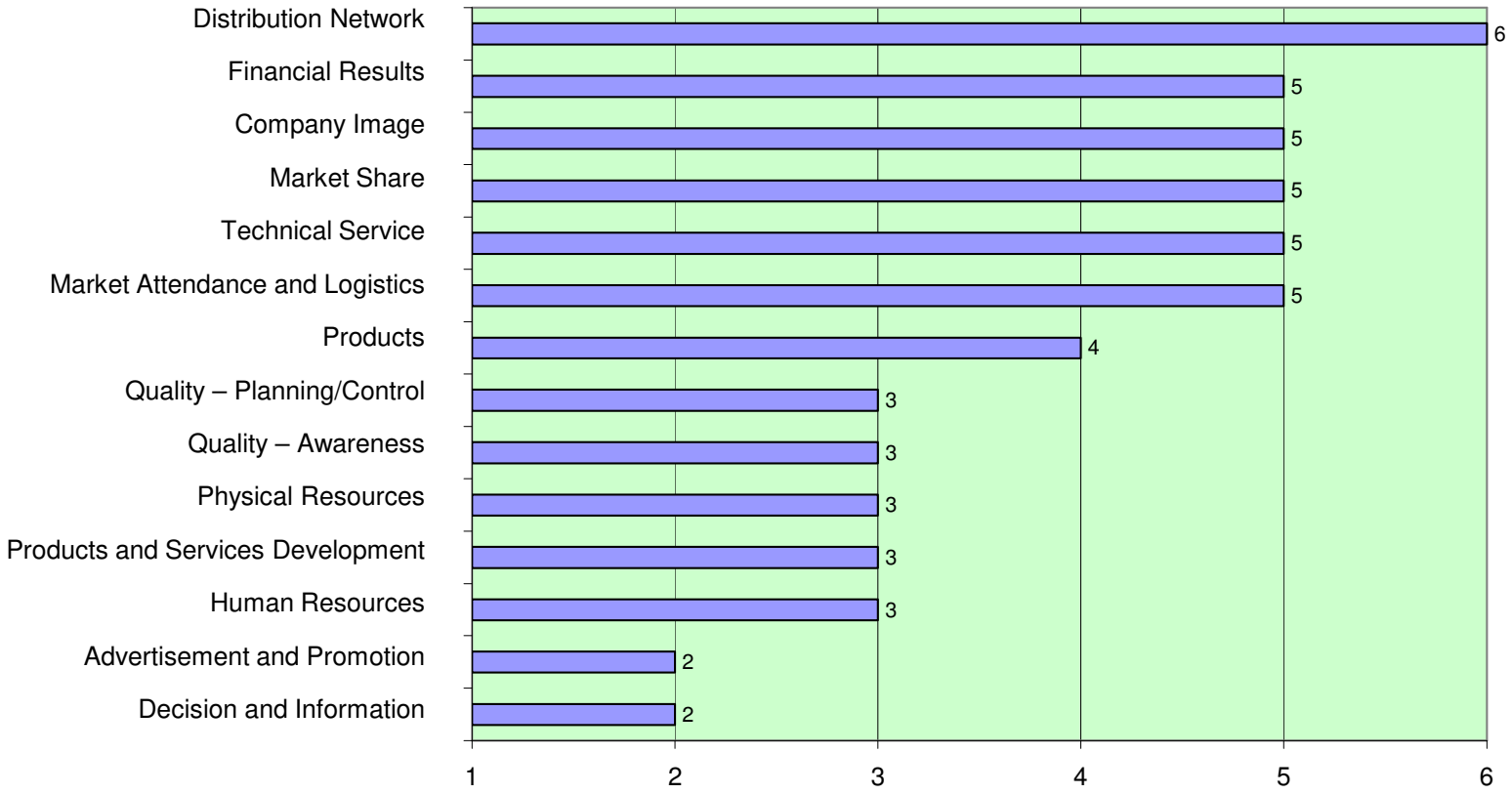
ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: MANAGEMENT ABILITIES



Sample size: 5 managers

Score: 2.17/4 = 0.54

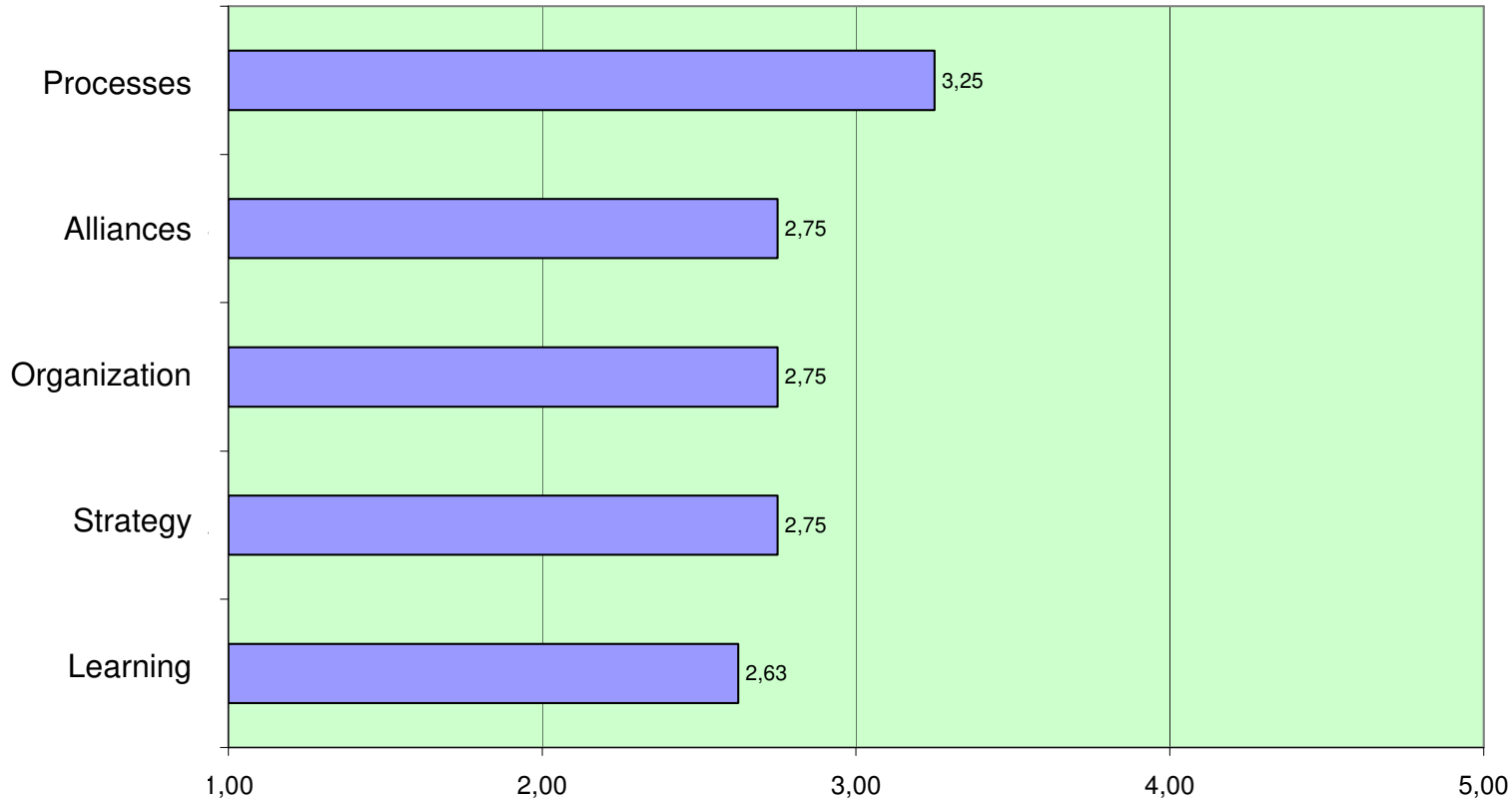
ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: MACROPROCESSES' MANAGEMENT



Sample size: 5 managers

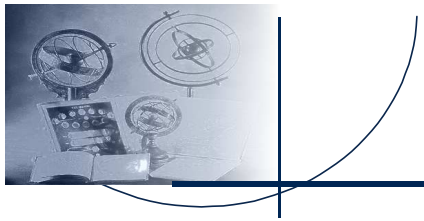
Score: 54/84 = 0.64

ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: MANAGING INNOVATION

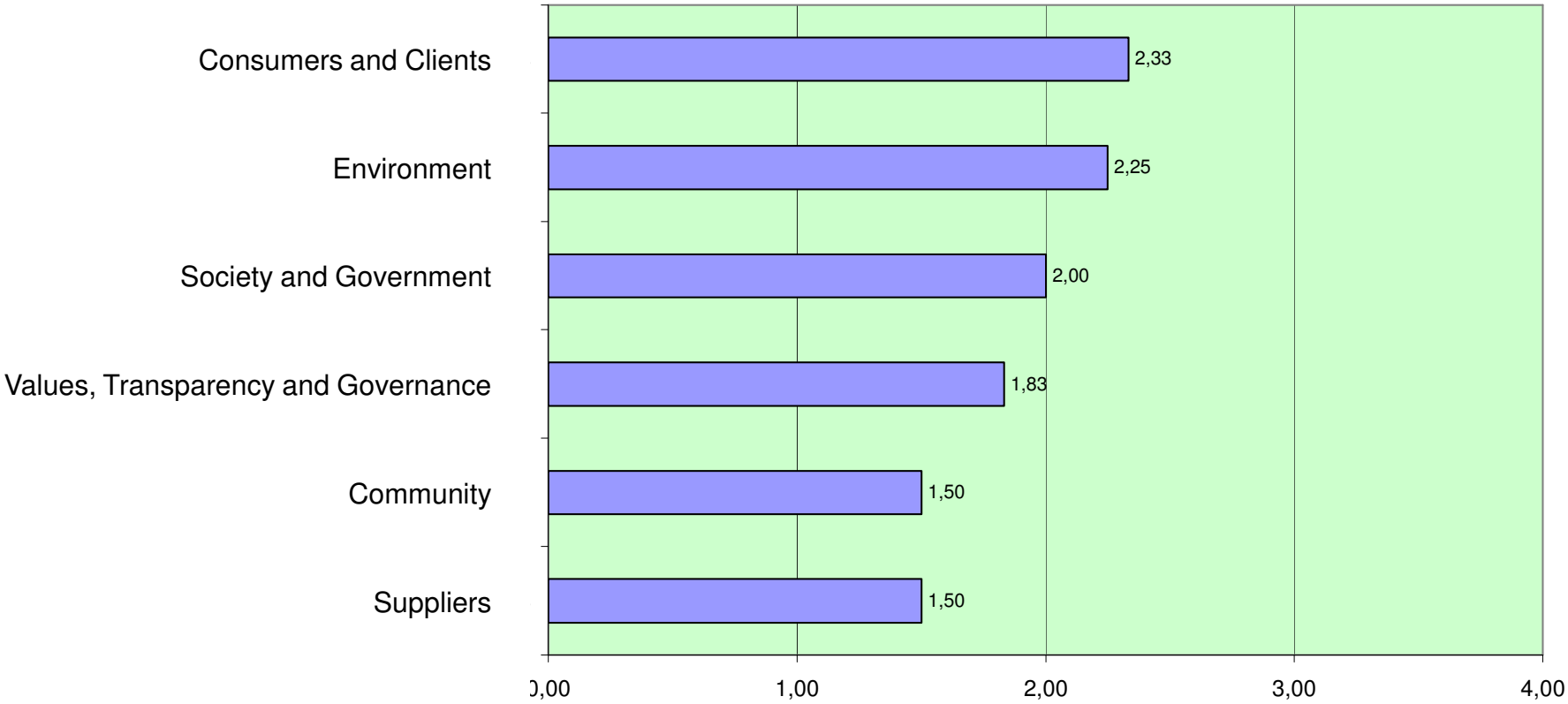


Sample size: 5 managers

Score: 113/160 = 0.71



ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: ENVIRONMENT, RELATIONSHIPS AND SOCIETY

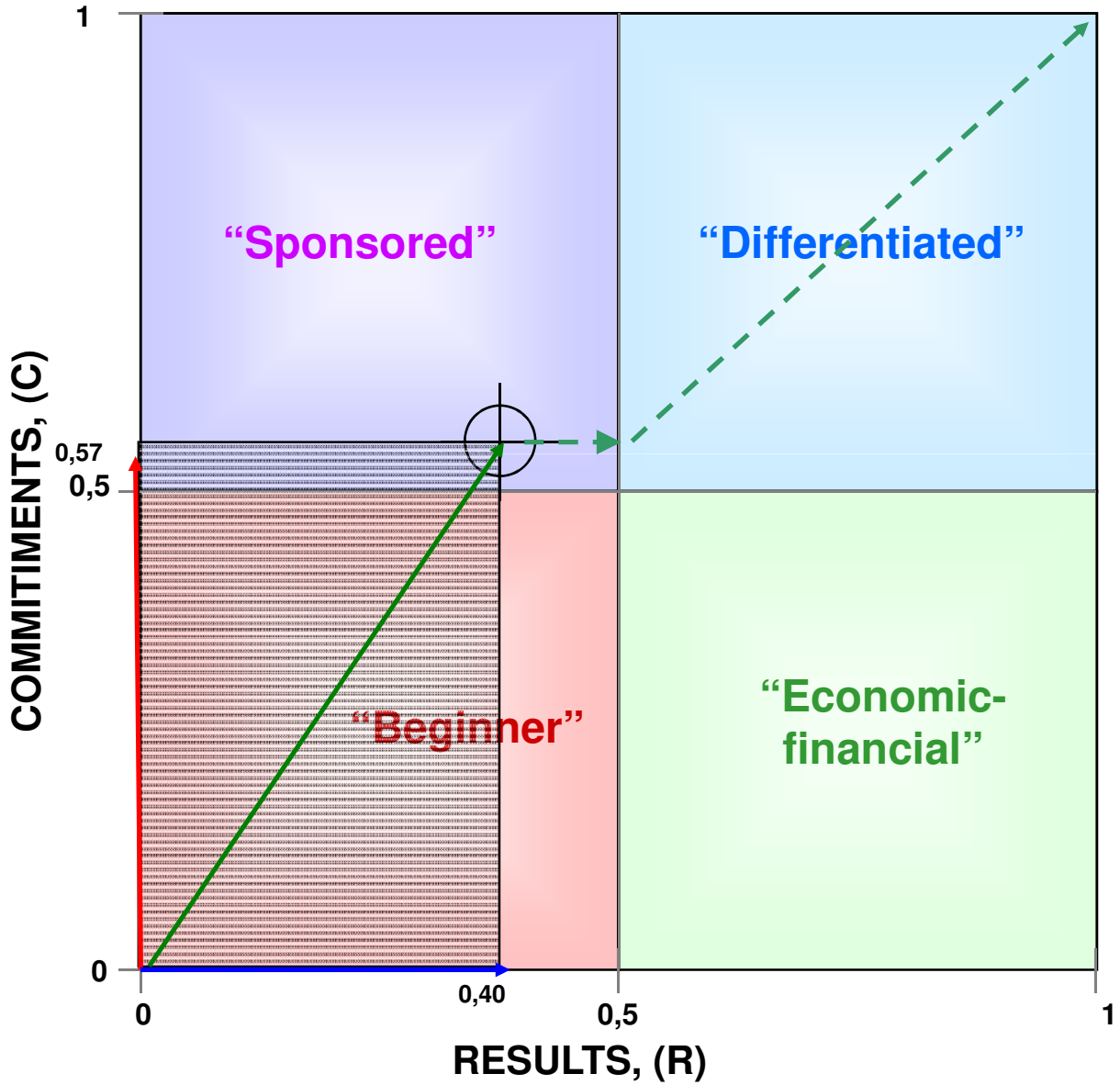


Sample size: 5 managers

Score: 44/108 = 0.41

ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: RESULTS GAPS

Indicators	Real	Target
Operatinal Margin	12.0%	12.0%
Net Margin	N.I.	N.I.
Net Capital Turns	N.I.	N.I.
EBITDA	19.9%	20.0%
EVA	0	N.I.
CVA	Dropped	

N.I. = not informed

ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: NAVIGATION STRATEGY