EXPONENTIAL ORGANIZATIONS: HOW TO MEASURE THEM

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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).
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).
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).
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.
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)**

**Commitments (C)**

**Business Indicators:**
- Operational Margin
- Net Margin
- Net Capital Turns
- EBITDA
- EVA
- CVA

**Commitments Indicators:**
- Quality of Working Life
- Organizational Learning
- Management Abilities
- Managing Innovation
- Managing Macro Processes
- Managing Relationship and Environment/Society

**ODI = R x C**

**Being:**
- $0 \leq ODI \leq 1$
- $0 \leq R \leq 1$
- $0 \leq C \leq 1$

**R = \frac{\sum \text{indicator}}{6} \text{ ideal score}
Source: Balance Sheets**

**C = \frac{\sum \text{indicator}}{6} \text{ ideal score}
Source: Closed Instruments Scores**
<table>
<thead>
<tr>
<th>Company</th>
<th>Market Value</th>
<th>Net Assets</th>
<th>Assets Estimated Replacement Value</th>
<th>Intangible Value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cola-Cola</td>
<td>148</td>
<td>6</td>
<td>15</td>
<td>90</td>
</tr>
<tr>
<td>Microsoft</td>
<td>119</td>
<td>7</td>
<td>18</td>
<td>85</td>
</tr>
<tr>
<td>Intel</td>
<td>113</td>
<td>17</td>
<td>43</td>
<td>62</td>
</tr>
<tr>
<td>GE</td>
<td>169</td>
<td>31</td>
<td>77</td>
<td>54</td>
</tr>
<tr>
<td>Exxon</td>
<td>125</td>
<td>43</td>
<td>107</td>
<td>14</td>
</tr>
</tbody>
</table>

## ORGANIZATIONAL DIFFERENTIATION MODEL
### PILOT RESULTS

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

C = Commitments  
R = Results  
ODI = Organizational Differentiation Index
✓ 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

“Sponsored”
“Differentiated”
“Beginner”
“Economic financial”
ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: COMMITMENTS GAPS

- Quality of Working Life
- Organizational Learning
- Management Abilities
- Macroprocesses Management
- Managing Innovation
- Environment, Relationships and Society
ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: RESULTS GAPS

- Operation Margin
- Net Margin
- Net Capital Turn
- EBITDA
- EVA

Real vs Ideal

0.00 0.00 0.00 0.99
ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: QUALITY OF WORKING LIFE GAPS

Sample size: 107 employees
Score: 2.20/4 = 0.55
Sample size: 108 employees
Score: 2.29/4 = 0.57
Sample size: 5 managers
Score: 2.17/4 = 0.54
Sample size: 5 managers
Score: 54/84 = 0.64
Sample size: 5 managers
Score: 113/160 = 0.71
### ORGANIZATIONAL DIFFERENTIATION MODEL

**COMPANY X: ENVIRONMENT, RELATIONSHIPS AND SOCIETY**

<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumers and Clients</td>
<td>2.33</td>
</tr>
<tr>
<td>Environment</td>
<td>2.25</td>
</tr>
<tr>
<td>Society and Government</td>
<td>2.00</td>
</tr>
<tr>
<td>Values, Transparency and Governance</td>
<td>1.83</td>
</tr>
<tr>
<td>Community</td>
<td>1.50</td>
</tr>
<tr>
<td>Suppliers</td>
<td>1.50</td>
</tr>
</tbody>
</table>

**Sample size:** 5 managers  
**Score:** $\frac{44}{108} = 0.41$
## ORGANIZATIONAL DIFFERENTIATION MODEL
### COMPANY X: RESULTS GAPS

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Real</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Margin</td>
<td>12.0%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Net Margin</td>
<td>N.I.</td>
<td>N.I.</td>
</tr>
<tr>
<td>Net Capital Turns</td>
<td>N.I.</td>
<td>N.I.</td>
</tr>
<tr>
<td>EBITDA</td>
<td>19.9%</td>
<td>20.0%</td>
</tr>
<tr>
<td>EVA</td>
<td>0</td>
<td>N.I.</td>
</tr>
<tr>
<td>CVA</td>
<td></td>
<td>Dropped</td>
</tr>
</tbody>
</table>

N.I. = not informed
ORGANIZATIONAL DIFFERENTIATION MODEL
COMPANY X: NAVIGATION STRATEGY

- **Commitments (C)**
  - 0.57
  - 0.5
  - 0

- **Results (R)**
  - 0
  - 0.40

- **Quadrants**
  - **Sponsored**
  - **Differentiated**
  - **Beginner**
  - **Economic-financial**