Organizing
within
Networks

S. Santoni

Session 5
Wrap Up

References

Organizing within Networks
Network Roles and Positions

S. Santoni[1][2]

[1]Bayes Business School

[2]Soundcloud

MSc in Business Analytics, 2022/23

Outline

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1 Session 5 Wrap Up

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Network Theories across the Various Weeks of SMM638

Network theory	2	3	4	5	6	7	9	10
Value creation		•	•					
Coordination				•				
Network change					•	•	•	•
Contagion						•		•

Groups of Network Theories

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Underlying model	Social capital	Social homogeneity
Network flow	Capitalization (value creation)	Contagion
Network architecture	Coordination	Adaptation (network change)

Source is [4, page 47]

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Underlying model	Social capital	Social homogeneity
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Source is [4, page 47]

Networks as Social Capital: Capitalization and Coordination

How do the capitalization and coordination perspectives differ?

	Capitalization	Coordination
Level of analysis	Individual nodes/groups of nodes — aka, the trees in the forest	The network as a whole — aka, the forest
Key tenet	(Information exchange) Networks bring resources to individual nodes	The organization and functioning of organizations/markets depend on the characteristics of its underlying (information exchange) network
Sample problem	What is the best network position for a node or a group of nodes with a given objective function (e.g., innovativeness)?	What is the best reporting structure for an organization with certain characteristics (e.g., a start-up in a high-tech industry)?

Market Coordination and Network Structure

Price fixing conspiracies in the heavy electrical equipment industry

THE SOCIAL ORGANIZATION OF CONSPIRACY: ILLEGAL NETWORKS IN THE HEAVY ELECTRICAL EQUIPMENT INDUSTRY*

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University of Chicago

ROBERT R. FAULKNER
University of Massachusetts

We analyze the social organization of three well-known price-fixing conspiracies in the heavy electrical equipment industry. Although aspects of collusion have been studied by industrial organization economists and organizational criminologists, the organization of conspiracies has remained virtually unexplored. Using archival data, we reconstruct the actual communication networks involved in conspiracies in switchgear, transformers, and turbines. We find that the structure of illegal networks is driven primarily by the need to maximize concealment, rather than the need to maximize efficiency. However, network structure is also contingent on information-processing requirements imposed by product and market characteristics. Our individual-level model predicts verdict (guilt or innocence), sentence, and fine as functions of personal centrality in the illegal network, network structure, management level, and company size.

"People of the same trade seldom meet together but the conversation ends in a conspiracy against the public, or in some diversion to raise prices."
    —Adam Smith, Wealth of Nations

"The fact that secrets do not remain guarded forever is the weakness of the secret society."
    —Georg Simmel, The Secret Society

(Pfeffer 1987; Pfeffer and Salancik 1978; Burt 1983), direct manipulation of market ties (Baker 1990), and embeddeding business decisions in social relationships (Granovetter 1985). These market-restricting tactics are legal, but business organizations also indulge in practices proscribed by law that flagrantly subvert the market mechanism.

We analyze the social organization of a prevalent illegal corporate practice—price-fixing.

Source is [1]

Key features of the case

- **Scope of the business case**: the case deals with the organization of three well-known price-fixing conspiracies in the heavy electrical equipment industry

- **Relationship under investigation**: the information exchange network among the individuals involved in the price-fixing conspiracy

- **Outcomes of interest**:
    - Coordination among the conspirators
    - Concealment of the conspiracy

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Market Coordination and Network Structure

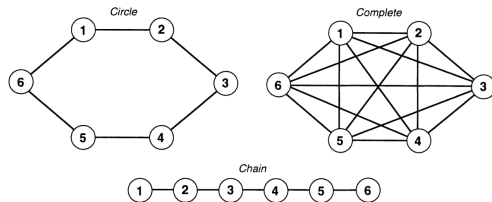Network structure promoting concealment

Proposition 1

The need for secrecy lead conspirators to conceal their activities by creating sparse and decentralized networks.
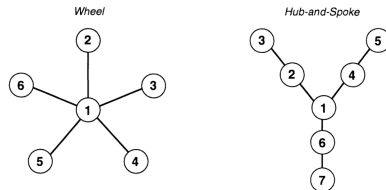
Argument for Proposition 1

Decentralization or 'compartmental insulation' limits exposure, making it difficult to uncover an entire network, particularly its leader
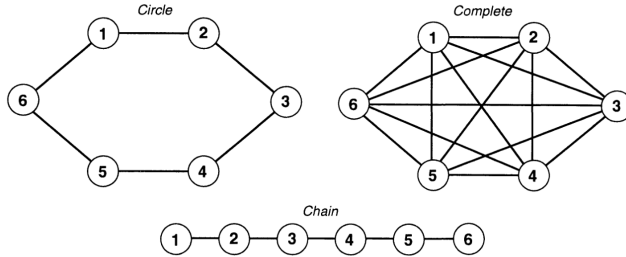

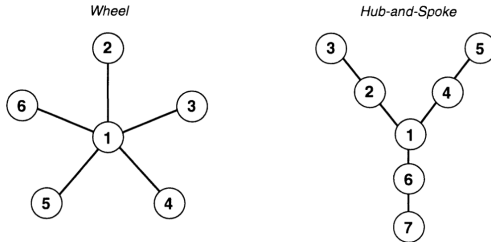Source [1, page 849]

Decentralized Networks

Circle

Complete

Chain

Centralized Networks

Wheel

Hub-and-Spoke

Market Coordination and Network Structure
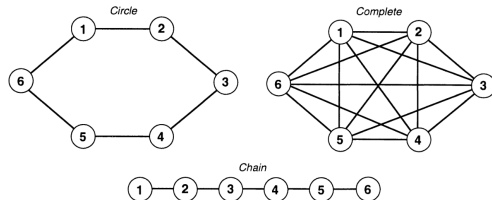
Network structure promoting coordination

Proposition 2

The conspiracies with low information-processing requirements — switchgear and transformers — exhibit centralize communication networks. The conspiracy with high information-process- ing requirements — turbines — should exhibit decentralized communication networks
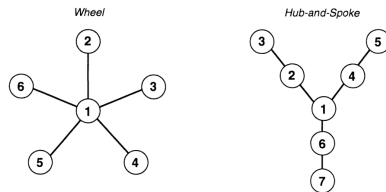
Argument for Proposition 2

Experimental research on small groups has found that simple, routine, unambiguous tasks are performed more efficiently in centralized structures, while difficult, complex, ambiguous tasks are performed more efficiently in decentralized structures.

Decentralized Networks

Centralized Networks

Source [1, page 849]

Market Coordination and Network Structure

Which is the best network structure to achieve coordination in fix-pricing conspiracy?

Organization Objective	Information-Processing Requirement	
	High	**Low**
Concealment	Decentralized networks	Decentralized networks
Coordination	Decentralized networks	Centralized networks

Figure 1. Concealment Versus Coordination: Theoretical
        Expectations

Source [1, page 845]

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Table 1. Network Characteristics and Outcomes for Three Price-Fixing Conspiracies

Network Characteristic and Outcome	Conspiracy		
	Switchgear	Transformers	Turbines
Network Characteristic			
Size (number of participants)	33	21	24
Density	23.3	32.4	35.5
Nieminen graph centralization (degree)	41.7	36.1	51.4
Freeman graph centralization (betweenness)	21.3	17.6	24.2
Sabidussi graph centralization (farness)	39.0	37.4	60.8
Outcome			
Percent guilty	66.7	52.4	16.7***
Recommended sentence (in months)	1.43	2.64	1.25
Imposed sentence (in months)	.57	.82	.75
Time served (in months)	.10	.18	.25
Recommended fine (in dollars)	$2.33	$2.95	$5.25***
Imposed fine (in dollars)	$2.17	$2.91	$4.50*

* $p < .05$ *** $p < .001$ (one-way ANOVA)

Note: All outcomes except verdict are averages based on guilty verdicts.

Source [1, page 851]

Table 2. Logistic Coefficients for Regression of Verdict on Personal Attributes and Network Variables: Participants in Three Price-Fixing Conspiracies

Independent Variable	Model 1
Constant	-3.834*
	(1.890)
General Electric (1 = GE; 0 = otherwise)	-.561
	(.769)
Westinghouse (1 = Westinghouse; 0 = otherwise)	-.060
	(.875)
Turbines conspiracy (1 = turbines; 0 = switchgear or transformers)	-3.416*
	(1.471)
Top executive (1 = top executive; 0 = otherwise)	.281
	(.753)
Middle manager (1 = middle manager; 0 = otherwise)	1.643†
	(.927)
Turbines conspiracy × top executive	4.020*
	(2.019)
Degree centrality	.381**
	(.138)
Betweenness centrality	.002
	(.021)
Farness centrality	.020
	(.019)
Number of participants	69

† $p < .05$ (one-tailed test)

* $p < .05$ ** $p < .01$ (two-tailed test)

Note: Numbers in parentheses are standard errors. This model correctly classifies 86.5 percent of those found guilty and 78.1 percent of those found not guilty. Overall, the model correcly classifies 82.6 percent.

Source [1, page 852]

Time for the Ragu Sauce Simulation Game!

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Ragu Sauce Simulation Game

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Goal

Teams of seven members are asked to write on a piece of paper the recipe for the authentic Italian ragu sauce without using the Internet and without asking to 'externals.'

Setup

- A team has seven members, a.k.a., nodes
- The information on how to make the sauce is dispersed across four 'source' nodes
    - Two members know sub-sets of ingredients
    - Two members know sub-sets of cooking steps
- The 'manager' nodes — who do not have any specific information on ingredients and cooking steps — are required to collect and synthesize the information from the 'source' nodes
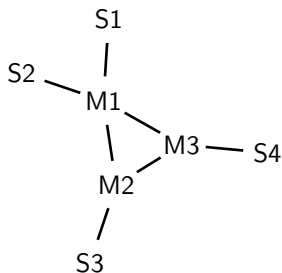
Organizing
within
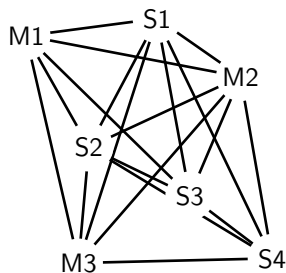Networks

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Two teams are supposed to achieve the goal presented in the previous frame. The only difference between the two teams is the network structure. Team **A** has a centralized reporting structure; team **B** has a decentralized reporting structure.

Team A.
Centralized reporting structure

Team B.
Decentralized reporting structure
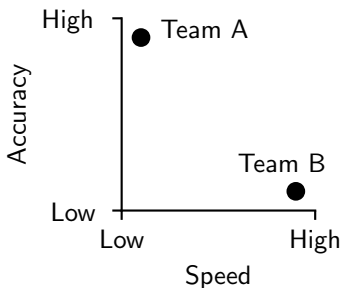
Ragu Sauce Simulation Game
Main results

**Speed Vs. accuracy
in decision making**

Notes. — Team A is slower in processing information, but less likely to make mistakes. Team B is faster in processing information, but more likely to make mistakes.

**Fluid Vs. rigid
task partitioning**

- In team A, there is a clear distinction of roles and responsibilities: manager nodes are responsible for the gathering and integration of dispersed information; source nodes are supposed to share their private information but do no take part in the integration phase

- In team B, the distinction of roles is not visible — potentially, everybody does everything

Ragu Sauce Simulation Game

Generalizable insights

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Proposition 3

The characteristic of a reporting network — present in any organization — affects the way in which information is gathered, integrated, and used to make decisions.

Ragu Sauce Simulation Game

Generalizable insights

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Proposition 3

The characteristic of a reporting network — present in any organization — affects the way in which information is gathered, integrated, and used to make decisions.

Corollario to Proposition 3

The centralization of a reporting network is a key attribute shaping the decision making process.

- First-thing-first: centalization is a network-level property — that is, it regards the 'forest' not the 'trees' of a network
- The paper on illicit networks uses the following measures of graph centralization Freemans's graph centrality index [3] , defined as $\sum_{i=1}^{g}[C_A(n^*) - C_A(n_i)]$, where $C_A(n^*)$ is the largest centrality index across the g actors in the network and $C_A(n_i)$ is the centrality index of the i-th actor in the network
- For an overview of graph-centrality measures, see for example [2] and [5, pages 176-177]

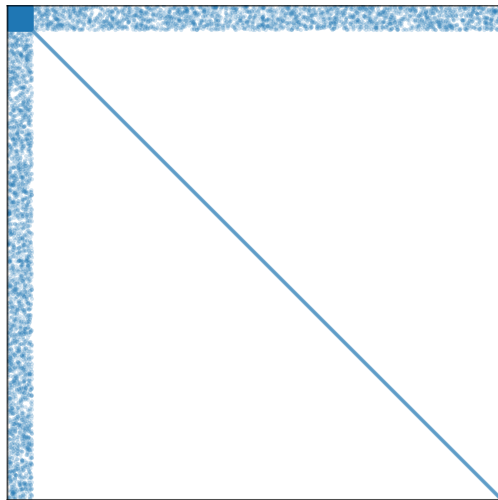**!! Be aware that NetworkX does not implement any centralization measure !!**

Leading question

- Can you see any types of position in this network?
- That is, can you see specific types of nodes occupying a certain position in the network?

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- Can you see any types of position in this network?
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References

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References

[1] Wayne E Baker and Robert R Faulkner. "The Social Organization of Conspiracy: Illegal Networks in the Heavy Electrical Equipment Industry". In: *American Sociological Review* 58.6 (1993), p. 837.

[2] Stephen P Borgatti and Martin G Everett. "A Graph-Theoretic Perspective on Centrality". In: *Social networks* 28.4 (2006), pp. 466–484.

[3] Linton C Freeman. "Centrality in Social Networks: Conceptual Clarification". In: *Social networks* 1.3 (1979), pp. 215–239.

[4] John Scott and Peter J Carrington. *The SAGE Handbook of Social Network Analysis*. SAGE publications, 2011.

[5] Stanley Wasserman, Katherine Faust, et al. "Social Network Analysis: Methods and Applications". In: (1994).