

Online social networking; the challenge for corporations

Throwing sheep

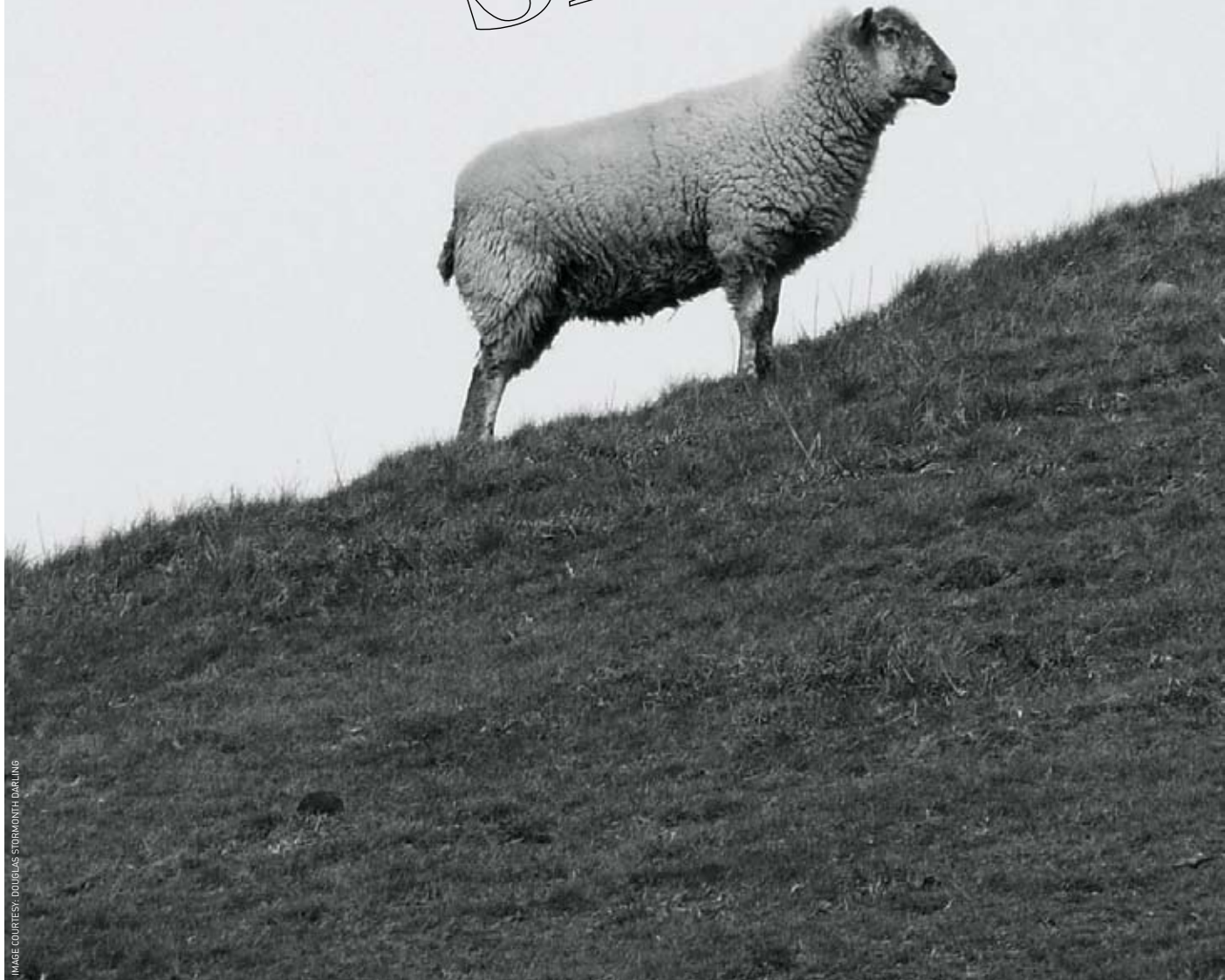


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Online social networking sites like MySpace, Facebook and YouTube are not just social phenomena. They and their offshoots, say **Matthew Fraser** and **Soumitra Dutta**, have serious implications for the way the corporate world works

The “Web 2.0” challenge for corporations is currently one of the most hotly debated management issues as companies wrestle with the challenge of deploying “social” software tools that promise to harness collective intelligence, foster open innovation, boost productivity and enhance value.

The online social networking phenomenon exploded in 2006 and quickly reached a tipping point with the global popularity of Web 2.0 sites like MySpace, Facebook and YouTube. They have since been followed by micro-social software applications like Flickr and Twitter. There are now more than 600 million people worldwide on online social networking sites. Facebook alone counts nearly 200 million members.

Last year, Barack Obama’s spectacularly successful use of Web 2.0 platforms like Facebook and YouTube to mobilise support and raise money has changed the face of electoral strategy.

Web 2.0 has become a management challenge because online social networking is penetrating corporate environments, often with controversial outcomes related to security, privacy, liability, brand reputation and productivity.

Many corporate executives, when they don’t dismiss Web 2.0 as a needless distraction, regard it as a risk-management problem. Web 2.0 evangelists, on the other hand, argue that social software tools can be deployed to enhance value. They call for a radical transformation of corporations into an “Enterprise 2.0” model that promotes more horizontal forms of organisation to facilitate peer production, open innovation and mass collaboration.

While many CEOs are increasingly intrigued by the business case for Web 2.0 deployment, there is still a significant “fear factor” inside many corporations. The widespread adoption of social software tools threatens to destabilise entrenched status hierarchies and disrupt established power relations.

Still, Web 2.0 is gaining momentum. In December 2007 McKinsey published a forward-looking prediction of eight business technology trends to watch. Five of them – more than half – were Web 2.0 trends.

Today there are numerous companies selling Web 2.0 software tools to facilitate social networking in organisations: Contact Networks, Leverage Software, SelectMinds and Oracle’s Visible Path.

Another consultancy, Forrester, projects consolidated Web 2.0 spending growth at 43% annually – from \$764 million in 2008 to \$4.6 billion in 2013. Still, deployment has been modest. That \$4.6 billion spending number is only a tiny fraction – less than 1% – of global corporate spending on enterprise software.

General Motors is a notable convert to Web 2.0. GM uses its internal blog, FastLane, as a corporate “focus group” that attracts some 5,000 visits daily, including consumers. Proctor & Gamble, for its part, has famously outsourced its R&D through sites like InnoCentive, which “crowdsources” product development and problem solving for its clients. A G Lafley, P&G’s chief executive, has said he wants 50% of the company’s product development crowdsourced outside the company.

Perhaps the best-known example of a Fortune 500 company converted to open innovation is IBM. After the Big Blue chip business had lost \$1 billion in 2002, the company was desperate for a new strategy. Crisis forced IBM to take drastic measures. The solution was a new “open ecosystem” that opened up its chip R&D to outside partners. And it worked.

IBM’s chip division quickly turned the corner and began booming. IBM also launched its “WikiCentral” in 2005 as a vehicle for internal expertise. A year later the Big Blue organised a brainstorming platform called InnovationJam that was soon attracting more than 150,000 participants inside and outside the company

600m

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\$4.6b

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to help identify emerging business opportunities. Against this backdrop, the Web 2.0 revolution is no longer a purely “social” phenomenon. Social software tools present tremendous opportunities and serious challenges for complex organisations – especially as a younger generation familiar with sites like MySpace, Facebook and YouTube move into the workforce and gets promoted up the ranks.

Our analysis in *Throwing Sheep in the Boardroom* is organised around a thematic structure with the acronym ISP. I for *identity*. S for *status*. P for *power*.

In the book we argue that the Web 2.0 revolution is producing destabilising “e-ruptions” for the way *identities are constructed*, the way *status is assigned*, and the way *power is distributed*.

We argue, moreover, that the Web 2.0 revolution is *disaggregating* identities, *democratising* status, and *diffusing* power.

Put more simply, in the online world people are increasingly adopting multi-faceted identities for purposes of self-exhibition; status and its rewards are increasingly determined based on performance and merit; and power is increasingly being pushed from vertical, centralised institutions towards horizontally structured social networks.

These three e-ruptions pose tremendous challenges for complex organisations as young people in “Generation Virtual” (GenV) move into the workforce and bring with them a radically new system of values based on virtual social interaction.

For corporations, the challenges are both external and internal.

Externally, communicating with the outside environment has been radically transformed by the emergence of Web 2.0 platforms like blogs, which cannot be managed in the same way as mainstream media.

Internally, corporate managers are facing serious challenges as their employees use Web 2.0 social tools at the office. Many employees have been disciplined or dismissed for using Facebook and YouTube at the office while numerous companies have banned social sites outright. And yet the evidence indicates that Web 2.0 social networking is inexorably penetrating corporate environments despite management resistance.

Three examples reflect each of this article’s major themes: identity, status, power.

Identity

On online social networks, personal identities are frequently fabricated and wholly invented. This can pose serious threats to society when false identities are used for purposes of fraud, privacy

invasion, cyberbullying and sexual predation. It has also produced unfortunate consequences for some corporations when false identities have been exploited for PR and marketing purposes.

Major PR firms have suffered serious reputational setbacks in the blogosphere after “flogging” (fake blogging) on behalf of corporate clients.

In 2006, Edelman managed a flog for retail giant Wal-Mart called Wal-Marting Across America. The blog created the impression that it was written by an average American couple, “Jim” and “Laura”, who were chronicling their travels across America in a recreation vehicle and making stops in Wal-Mart parking lots.

It turned out, however, that the blog was being written by “fake people” – Laura was a freelance writer and Jim was a *Washington Post* staff photographer – paid by a pro-Wal-Mart public relations front, Working Families for Wal-Mart, which had already been at the centre of another phony-blog controversy. Working Families for Wal-Mart had been set up, it turned out, by none other than Edelman.

Another controversial corporate flog was Sony’s marketing campaign using MySpace profiles and YouTube videos to hype its PSP game console.

Even CEOs have committed astonishing blunders on their blogs, including attempts to hide behind false blogging identities to promote their brands – and, even more controversially, knock their competition.

Whole Foods president John Mackey was busted doing this after he blogged using an identity called “Rahodeb” (a scramble of his wife Deborah’s name). Mackey’s flog posts betrayed a clear conflict of interest when he trashed another food retailer, Wild Oats, on Yahoo! stock forums. Whole Foods was making a takeover attempt on Wild Oats while Mackey was flogging about how overvalued the competing retailer was. When Mackey’s flogging was uncovered, the U.S. Securities Exchange Commission launched an investigation to determine whether he had violated any laws about disclosure of insider information.

Status

Websites like RateMyProfessors.com have destabilised academic institutions as millions of students rate, review and rank their teachers in the same way they rate their favourite songs and movies on MySpace and Facebook. Rating, reviewing and ranking have become engrained in GenV’s social DNA.

These reflexes are now having an impact on corporations as rating and ranking move into office cultures. One site called ImproveNow.com gives employees an opportunity to rate their bosses, anonymously, according to a number of questions, such as “are angry words between you and your boss quickly forgotten?”



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In the online world people are increasingly adopting multi-faceted identities for purposes of self-exhibition, status and power

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ImproveNow is no RateMyProfessors, however. It is a highly controlled “HR” environment where bosses initiate the ratings by asking employees to log on and conduct evaluations. ImproveNow is primarily a service for managers – with a business model based on revenues from executive training – not a bottom-up democratic platform for employees.

More in keeping with Web 2.0 values is a site launched in June 2008 called Glassdoor, which stands a chance of becoming the RateMyProfessors of the corporate world. Glassdoor members get access not only to reviews and rankings of CEOs and top executives but also to insider knowledge about salary and bonus levels and the pros-and-cons of working at specific companies.

The site operates on a “give to get” policy. The service is free of charge but you have to provide information about your own workplace to gain access to information about other employers.

Glassdoor thus can lay off on its own members the cost of building its database. Information about corporations is crowdsourced by their own employees – or, in many cases, ex-employees.

Another corporate rating-and-ranking site is Criticat, which serves as a collaborative platform for transparent information about companies. Criticat features a box called Shout, which asks employees to answer the question: “What is one thing you would want to change if you were made the CEO of the company?”

If sites like Glassdoor and Criticat take off they could become a serious challenge for HR executives because it turns the table on employers by empowering job candidates with strategic information.

Power

The Web 2.0 revolution is diffusing power from centralised institutions to the margins, where spontaneous social networks are located. This eruption has already transformed certain industries – such as pop music – by turning entire business models on their head. It also holds out the promise of transforming corporate governance and even democratic participation.

In the corporate world, the example of a British soccer team illustrates how the Web is diffusing power to social networks. In 2007, the struggling Ebbsfleet United Football Club was purchased by thousands of its own fans organised on the Web.

They leveraged the power of Internet-based mass collaboration to storm the Kent-based football club’s boardroom. Organised on the website MyFootballClub.co.uk, roughly 27,000 fans paid £35 each to buy – and manage – the underperforming team.

Today the team’s new owners – in the spirit of the

club’s motto “Own The Club, Pick The Team” – not only vote via Internet on top management but also select players and decide on transfers.

MyFootballClub.co.uk operates like an investment fund that prefers majority positions (it owns 51% of Ebbsfleet), voting control and takes a hands-on approach to management.

One of the first decisions taken by the team’s virtual owners was to demote the club’s manager to head coach, thus making him subject to their online votes on team selection, formation and tactics.

Critics quickly dismissed the new fan-owned Ebbsfleet as “fantasy football”, saying the experiment wouldn’t last. And yet, despite the naysayers, mass online ownership hasn’t hurt the club’s fortunes.

In May 2008, Ebbsfield won the FA Trophy. MyFootballClub.co.uk has since been kicking the tyres of other takeover prospects, including clubs like Leeds United, Nottingham Forest, Cambridge United, Accrington Stanley and Halifax Town.

The implications of these Web-based forms of social organisation are obvious for corporations. Indeed, shareholder groups are now being organised on Facebook and other social networking sites as part of their efforts to call for governance reform and protect shareholder interests.

These are still early days in the Web 2.0 revolution for corporations. But these trends are building momentum and we predict that a tipping point will be reached sooner rather than later, following a similar trend in social and political spheres. **gf**

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ABOUT THE AUTHORS

Matthew Fraser is Senior Research Fellow and Soumitra Dutta is Roland Berger Chaired Professor of Business and Technology at INSEAD, France.

Their book, *Throwing Sheep in the Boardroom: How Online Social Networking Will Change Your Life, Work and World*, is published by Wiley.

www.throwingsheep.com

