Point of View

The Business Impacts of Social Networking

A white paper by AT&T and Early Strategies

Preface
The Social Networking ground swell is building rapidly. It is time to decide whether your business can take advantage today or whether you'd prefer to stay on the beach and wait until the waters are calmer. This paper is the 1st of a series which help highlight some of the opportunities and threats for those wishing to get afloat today makes recommendations on how you need to change going forward.

This report has been developed jointly by AT&T and Early Strategies though many of the original ideas where developed from research by Early Strategies.

The business impacts of social networking
The Web 2.0[1] revolution is changing our lives; it is a ground swell that touches both our personal and professional environments. Social networking[2] is a concept that federates all of these changes and is at the center of this transformation. Tools and behaviors which sprang from the consumer area are now making the transition to the corporate world; with diverse implications for businesses of how it may change the way they work.

Before looking at some predictions and challenges for business, let's start with the main notions and principles embraced in the concept of Social Networking:

• Electronic tools can **increase the number of active connections** each person can maintain (human limit is around 150 stable relationships, according to some research; the increased maximum is not known)[3]

• Take any two people at random on the planet and they will be separated by an average of **six degrees of separation**[4], meaning a person who knows a person who knows...; virtually anyone can be contacted through 6 steps.

• **Weak ties**[5] (contacts you rarely see and barely know) often create more value when you need help than strong ties (contacts you see everyday and know well)

• In every demographic set, for a given incidence (marketing campaign, application deployment, ...), there is as much opportunity in the main target small group as in the numerous niches constituting the **long tail**[6]: applications such as e-commerce and social networks are delivering value for and from this 'long tail'

• The new generation just starting their working careers, also called the **Millennials**[7], is made up of digital natives – born with a mouse in their hand, who have mastered the Internet and the PC and have a radically different approach to computing, with profound implications for the professional world

Social networking takes advantage of all the above notions to produce tools that foster collective intelligence, collaborative work and support communities: not only social networks, but also search engines (where result order is based on the number of hits from the wide community), blogs, wikis, collaborative tagging (folksonomy[8]) and instant messaging/presence features, at least, are part of the social networking movement. It is a constantly changing area where applications integrate with each other and new features are regularly launched.

Predictions: Social Networking's impact on the corporate world

The big question is how corporations will be impacted and how they will make the most of the web 2.0 opportunities?

1. Corporations will change the way they communicate

Social networking is bringing a broad new range of technology innovations to communications: multimedia, presence, interactivity, etc... Now, customers are not only looking for the value of the products, but for corporate values that make sense. Being visible and personalizing communication are the silver bullets, even for B2B businesses, as well as the need to let go of some of their image control.

2. Corporations will change their vision

As businesses become more transparent thanks to the increasing volume of information available online, employees will rely more on the enterprise culture, and search for it if it is not explicit enough. In parallel, stakeholders will seek proof of corporate social responsibility awareness, made inevitable by the growing transparency. Eventually, corporations will define their "unified collaboration & communication" strategy at the highest level - the vision.

3. Corporations will change their organization

Many businesses debate how they can flatten the pyramid, to gain the benefits of startups with their associated adaptability and fast growth models. Most will see very different consequences and roles and responsibility mutations as a result of Social Networking: managers will need to adapt and become social networking evangelists; knowledge management professionals will become the architects of this evolution if it is controlled at all; and the IT group will need to work much more closely with knowledge managers and users to enable the new applications.

4. Collective intelligence and customer experience will lead innovation

Many different ways to innovate are being piloted in 2008, all of which include collective thinking, most often through contests, but also via a regular process of gathering together employees, customers and partners from the value chain. With product lifecycles getting shorter, the enterprise needs to capitalize on those relationships and anticipate customer needs. Hence, making the most of collective innovation is still a fumbling process that has to be formalized

5. Networking will be key to employee excellence

People think more globally as their contacts become increasingly international; they pay attention to what their online contacts mention, and use social network features to gain greater depth of knowledge in their areas of interest. In this way, they have access to multiple advisors and mentors, in addition to the raw information; hence social networking is a true self development tool that can be used at any time, including from a mobile terminal like a BlackBerry or iPhone.

6. Employee mobility will increase

As employees increase their visibility and make their expertise available to communities, inside or outside their organizations, they will be more frequently solicited. This will also happen as they grow the number of online contacts they maintain, as long as these links are meaningful.

7. Corporations will adapt their motivation and career path systems

To get employees to participate in collaborative work, corporations will need to adapt their motivation systems; they will also have to find inside the company or recruit externally the best "animators", who will value the quintessence of the new tools. Lastly, they need to develop community motivations and rewards, in addition to just targeting individuals.

Regarding career path, becoming an "animator" (a business blogger for example) will be recognized as a specific complementary experience, and expert paths will become more open as new tools help individuals to become visible and known within the community with minimal barriers. And excellence will remain the ingredient for success.

8. IT/telecoms applications will mutate

Some outcomes are already easy to predict: corporate directories will become rich applications (not necessarily comparable to social networks such as LinkedIn or Facebook but probably with a similar level of rich capabilities), intranets will be personalizable and presence features and user rating will invade almost every application.

9. Corporate adoption will happen at different speeds

Some companies will adopt social networking tools and benefits faster than others – though in the end all that survive will do. Several adoption triggers and accelerators will help predict how each corporation will do; and different social networking corporate models will emerge: knowledge management, business development, integration and brand consolidation.

Ten Associated Challenges
1. Adopt new ROI concept

The change is sociological rather than technological, thus it will be difficult to justify with traditional ROI methods; if the corporate vision incorporates and builds upon the move to social networking and web 2.0, then the key performance indicators will easily follow.

2. Security

As Intranets open to business partners and internal users start to use collaborative applications sitting on the Internet, it will become difficult to define security as a whole, enclosed solution; and as current security providers hesitate to engage because of the open source nature and the growing proliferation of viruses (faster than anti-virus software can absorb), new solutions will be needed.

3. Intellectual property

As the corporate frontiers blur, employees will need to be careful about the information they share. The risk of information leakage will be increased by advances in search engines. Training about intellectual property should be extended to all employees, not only those in physical contact with customers.

Collective innovation also holds intellectual property challenges.

4. Adoption

Corporations will need to define the right plan to reach critical mass, as it is known that only 1% to 20% of users regularly use and create value via social networking and collaboration.[10]

In addition, managers and executives who have the responsibility to make the adoption happen may resist the change, putting in jeopardy enhanced corporate vision and strategy.

5. Storage

Bandwidth, memory and archiving storage needs will increase to support rich media applications whether locally or 'On Net'. Rich media lifecycle policy should be decided, in order to enable online congestion to be avoided.

6. Interoperability
As a wider range of applications develop collaborative capabilities, inside and outside the corporation, interoperability will be needed, as well as shared authentication schemes, without impacting security.

7. Speed: will the corporate world ever keep up?
Web 2.0 developments are fast: the average time between the idea and a world-class mature application, with millions users, is two years. The corporate world needs more time than this to specify, justify, develop, pilot and implement business applications. These long processes risk being surpassed technically and by the competition; corporations will need to increase their idea-to-readiness process speed, in addition to catching-up on the technology and mindset changes. In addition, the threat of employees using unauthorized collaborative tools over the Internet in the interim exists, since professional users are also consumers who have access to the latest social networking tools and features.

8. Indirect Benefits of Social Networking not Appreciated
This is the main resistance area today, for two main reasons: the networking time is not yet seen by all as a cost efficient activity, and to allow it needs corporations to give more freedom to employees to manage their working time.

9. Risk of loss of employees, losing human and intellectual capital
The most disruptive impact for corporations will be an increasing ease of mobility for employees who maintain an active professional dialogue with their counterparts around the world.

10. Capturing the value
Social networking adoption will need a management system or even a "listening" system to ensure the value is captured; and to resist the Big Brother syndrome, which is too costly and will slow adoption. Management and executives should get involved, allowing projects to reach their potential, fully embracing the value of these initiatives, and leveraging it. Ensuring the quality of collaboration is another aspect of this challenge.

Corporations will change the way they communicate
Changing the way you undertake external and internal communication, marketing and advertising will shortly become inevitable, simply because the Internet and Web 2.0 have delivered
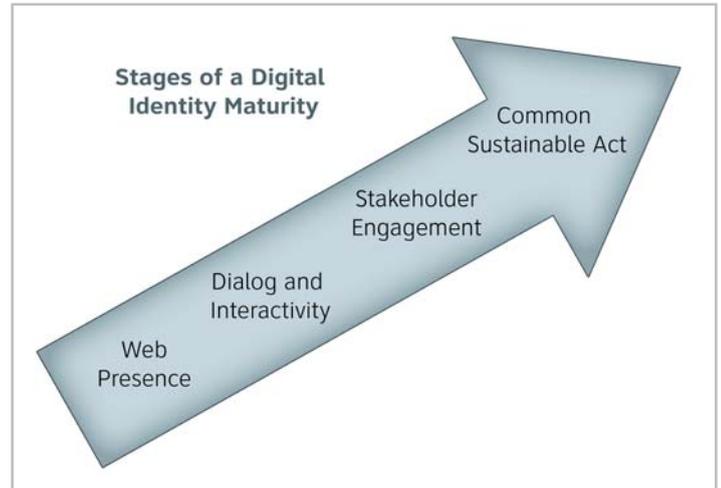

Figure 1: Stage of a digital identity maturity

new instruments and the audience – especially millennials - is expecting corporations to use them. A whole bunch of new tools is on tap, including social networking, blogs, syndication, folksonomy and wikis, rich media such as geo-localization, webcasts and Webinars, mashups, reputation systems (bookmarking and rating), virtual world events, interactive ads, applets and widgets. Now, the simple statement about the inevitable evolution of corporate communication needs much more complex thought regarding "how" to implement these new types of communication. The goal remains the same – strengthen the brand, engender loyalty and turn stakeholders into advocates, sell more, in a more profitable manner – companies could simply replace old newsletters, standard ads and such, which are losing impact, with these new tools. Nevertheless, the evolution is also happening on the customer end with filtering and demand for true participation: **customers are not only looking for the value of the products, but also for corporate values that make common sense.** They wish to change purchases from basic consumption to a responsible act, and demand for a clear and meaningful digital identity, to which corporations can reply with different stages of involvement: web presence, open and interactive dialog with customers on products, client engagement when gaining adhesion to proposed corporate values, and eventually to open participation for building a sustainable act together with stakeholders.

Heritage of social networking sets new demands for corporate communication

Authenticity	Honest, upstanding, consistent with the culture and daily operations, not just a varnish; employees must recognize their company.
Transparency	Transparency is a key to success, while fake or incomplete information is detected and not excused.
Attentiveness	Fostered spontaneous information also responsive and both ways : companies need to listen.
Worth	Useful or beneficial for the stakeholder without an immediate compensation (return) awaited by the corporation.
Ethical	Embracing a selfless cause , with loose link to the company production , is good.

Figure 2: New demands for corporation communication

Doing the math to initiate new marketing and communication plans will become less comfortable: it will not be possible any more to rely on a simple ROI calculation, since intangible values and indirect strategies will be needed in the equation. Even though the financial results remain the paramount criteria for success, it is not the sole criteria any more.

The experience of social networking has engendered **a need for substance that marketing and communication planning will have to take into account**. The trust factor – authenticity and transparency – is a direct consequence of the adoption of social networking activities: users want complete and worthwhile information, employees are well informed (they do network internally) and want to identify with the external corporate image. At the same time, the companies, in parallel to generating demand for their products, will have to ensure there is demand and interest for their communication: early wins will mean solid market share.

To enable all this, corporations will need **to be present where their stakeholders spend time:** social networks such as Facebook, user generated content sites such as You Tube or Daily Motion are channels to consider, even for B2B businesses; multi-channel communication and marketing might leverage any campaign. And corporations will need to accept that in the social networking arena, most of what is said about the company will not be said 'By the company' and as such, these communications need to be managed differently than in the past.[11]

On their own premises, meaning web site, e-commerce site or customer portal, corporations will have to ensure that they tailor the communication: greet the user with his name and according to his gender, propose information, services and products in connection with his profile, previous purchases or browsing habits. **Personalization is the most effective way to engage**

customers: leveraging personal profiles must be a feature of any current development, both to target and to exchange meaningfully.

An important consequence of the impact of social networking is also that **companies need to be ready to lose total control of their image:** it might be extraordinarily disturbing for many organizations, nevertheless if communication is done within the above roadmap, it will generate a sound payback. This also means being ready to monitor the brand image through educating employees who communicate externally (virtually all of them), constant watching, facing issues or attacks and managing crisis.

Corporations will change their organization
As corporations move to more collaborative activity and collective intelligence, the traditional organizational model needs to evolve: social networking challenges the roles and responsibilities in place today.

Startups generally, and web 2.0 startups specifically, often have a flat organization (the Google model) with few management layers, large groups under each manager-mentor, informal work relationships based on synergistic teamwork; their structures are adaptive and able to process information quickly enough to make daily meaty business decisions; personal connections predisposed to community work are facilitated by physical closeness and focus on projects rather than on hierarchical relationship. Although this social enterprise model has proven its efficiency and favors innovation and rapid development, it presupposes a small organization and employees settled into a single location: it is roughly transposable to already mature organizations, with lots of employees, plenty of locations, usually several fields of activity and established processes. Hence big corporations will grow their own ways to absorb and leverage social networking benefits.
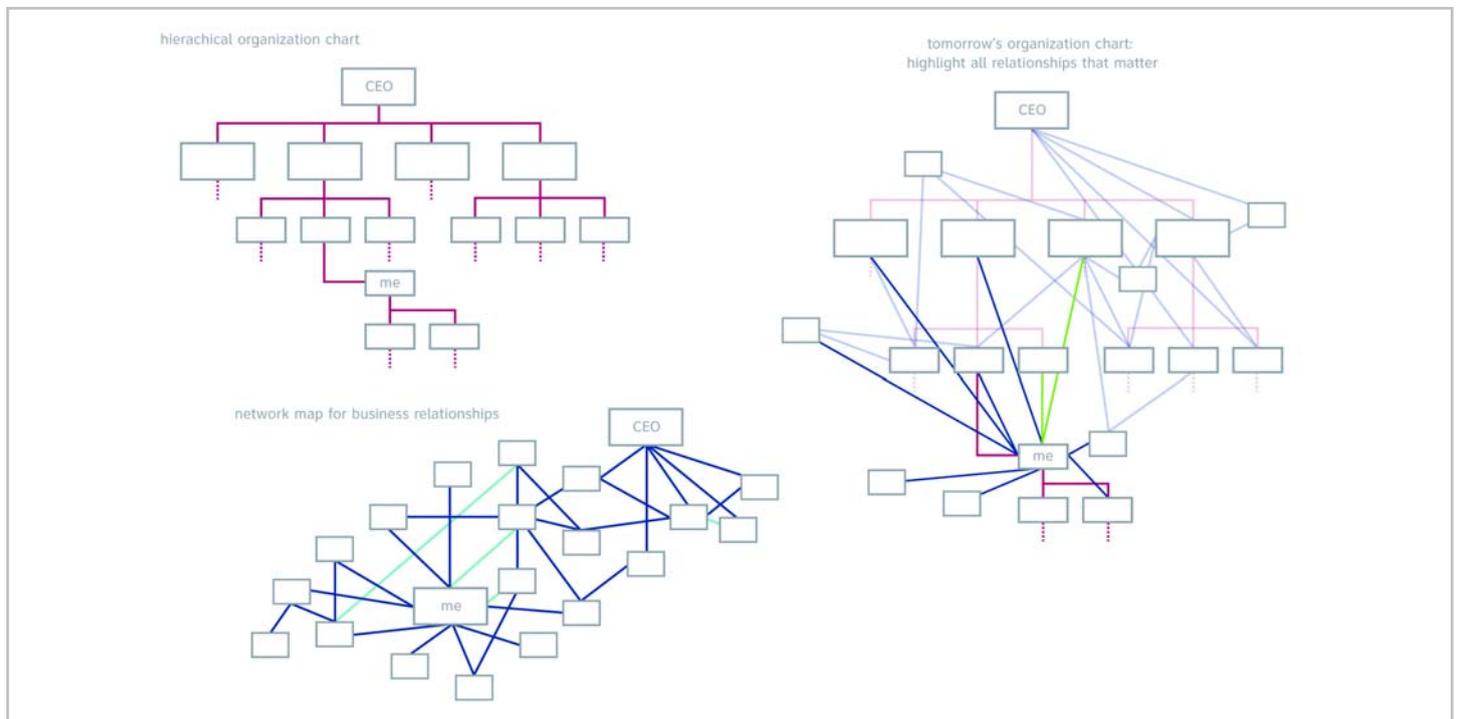

Figure 3: Tomorrow's organization chart

Strengthening of links between individuals and the granting more initiative and delegation is needed to favor innovation and address the permanently evolving market situation (empowerment was the term used in the 90's); it is also needed to welcome the genY employees and sell to genY customers. The corollary being a networking environment - internally and cross corporate boundaries - to allow the enterprise to adopt ad-hoc work methods, behaviors and culture. The actual strict motivation systems, which sometime lead up to competition between different parts of the organization, are becoming controversial. Although designed to support the organization's mission, they are often set-up

independently from other departments, not to say separately and secretly, preventing synergy, raising barriers between teams. An update of corporate roles is entailed, with permeable departments, more focus, definition and self organization around projects, rather than merely a change in the organization chart structure. The organization has to become more fluid, adapting around-the-clock, while working for its own durability. Relationships that matter will be the ones that create value for the company.

Leadership styles versus information

80's	**Retain** information, people need to come and ask.
90's	**Control**, distribute evenly and ensure it is not widely accesible.
00's	**Communicate** the information and translate it according to the audience.
2008	**Share** the information and guide the audience to find it and understand it.
Future	**Encourage** valuable information creation and **leverage it.**

Figure 4: Leadership styles versus information

The organization and the culture will evolve in many areas, three of them deserve to be further explained: impacts on management, knowledge management and IT.

In order to oversee effectively, **managers will need to adapt:**

• Be prepared to the welcome the younger employees, for whom social networking is innate, instant messaging is more operable than email or phone, and multitasking is elementary.

• Act as role models, **lead the adoption of new platforms**, establish an open use policy, guide late adopters toward the right circles and groups to attend

• **Find new metrics to measure productivity** and evaluate employees, that take into account collaboration skills and effectiveness, and offer hints on how to improve

• **Become enterprise representatives** *on the stage,* as they start using the new platforms that put them instantly into contact with a wider audience.

• Ensure their employees' integrity, especially for visibility and collaboration occurring outside the company: this will happen by ensuring that employees fully understand the company's vision, mission and strategy; yet resist the big brother temptation, as the impact of social networking tools' will render the business more transparent.

• Identify and select the employees with the necessary potential; be ready for a faster turnover, as employees are more visible and more frequently solicited

Often a headache for management in multinational companies', **remote/distant management will be facilitated** by the social networking effect and tools, growing the must-have pressure.

The second family who will see structural changes in its role and mission is the Knowledge Management organization. The knowledge management discipline was set-up in the mid-90's to improve organizational efficiency, address critical adaptation and prevent know-how and practice vanishing: although it is not present yet in all corporations, it is seen as a strategic initiative in many. Now that social networking will boost the establishment of links between people, sharing information and using collective thinking, the challenges for Knowledge Managers will change. Once the important areas were identified, their objective was to ensure knowledge is

made explicit, available to the organization, and used to enhance its functioning: hence stimulate each and everyone to adopt daily knowledge management praxis. Since the encouragement to adopt social networking will come from other sources (mainly management and available tools), a new arena opens: **Knowledge Managers will become social networking architects.** Although **with a shepherd style** rather than a one based on compulsion: research together with the potential IT tools, survey their piloting by the business people, lead awareness information and communication. This new role definition offers a more operational footing, and is necessary for the corporation to address the increasingly discontinuous environment changes.

There will be more information to manage, more innovation required, more CRM tools needed – success will come from building communities, even with the customers and external partners. Complementing the managers-evangelists and the knowledge managers-architects, a third group will see its role evolve: the IT group. On the technology side, IT groups will see a structural change from traditional in-house IT to the service oriented architecture with computing in the cloud. It already hits the highly popular CRM tools and will soon impact legacy applications. Complementarity between open source and conventional software alleviates the need for in-house application development; the IT group task will move to choose the right bricks to build consistent systems, there will be **more focus on interfaces.** It will also have the challenge to **make the company's tools and application as powerful and attractive** as those individual users can have at home. Ergonomics, usability and intuitive utilization will be most wanted at application level, as well as for the intranet and the corporate site on the Internet – which too often have become mazes. Last, they will have to work closely with the knowledge manager and **incorporate users into their decision process** – collaboration needs to be there too: adopt practices such as letting the user set-up applications and pilot them (without helpdesk support but supervision from the IT group), efficiently supporting short term initiatives such as innovation contests, allow gizmo to be considered as business tools (for example: reporting via RSS). Just like management sees its control on information moving away, the **IT group will become enablers** and give up more control on which applications are chosen and running. There's also room for the art of putting together smaller applications – yet delivering coherent information and reporting at corporate level.
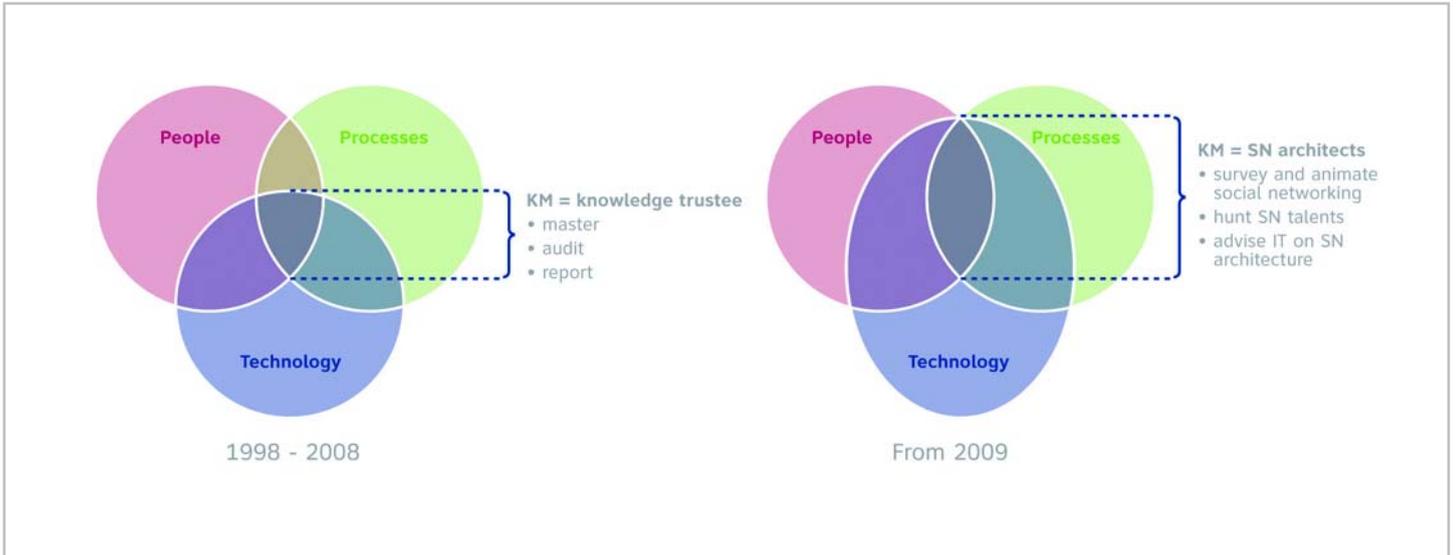
Figure 5: Mutating Knowledge Management

To summarize, the above role changes will be meant to accommodate the advent of an open corporate space, support collaboration and collective intelligence, aid learning behavior, move from the top-down/bottom-up processes to a holistic approach of a more transparent business. As the corporate culture evolves, managers will become social networking evangelists, knowledge mangers will become social networking architects, and IT members will become social networking enablers.

About the authors

With 20 years of experience in senior international marketing and product executive roles in IBM, AT&T and GE, **Cecile Demailly** now works with international companies to fulfill their challenging objectives, within **Early Strategies**, a boutique consulting organization she founded.

Her focus is to bring companies up to speed with the always changing market and enhance or develop new product, marketing and communication plans, in line with the overall strategy. Her especial focus is on innovation path and new trends –such as web 2.0- medium and long term impacts.

With 25 years of expertise in the telecommunications and computing industries, **Martin Silman** has recently taken on the role of Executive Director for **AT&T** responsible for Formula 1 Solutions, Global Analyst Relations & Thought Leadership.

His focus is to help AT&T's customers take advantage of new techniques and technologies in a way that will benefit their business..

Notes

[1] *Web 2.0* is a term describing changing trends in the use of World Wide Web technology and web design that aim to enhance creativity, information sharing, collaboration and functionality of the web. Web2.0 concepts have led to the development and evolution of web-based communities and hosted services, such as social-networking sites, video sharing sites, wikis, blogs, and folksonomies. The term became notable after the first O'Reilly Media Web 2.0 conference in 2004. Although the term suggests a new version of the World Wide Web, it does not refer to an update to any technical specifications, but to changes in the ways software developers and end-users utilize the Web. According to Tim O'Reilly:
"Web 2.0 is the business revolution in the computer industry caused by the move to the Internet as platform, and an attempt to understand the rules for success on that new platform."
Some technology experts, notably Tim Berners-Lee, have questioned whether one can use the term in any meaningful way, since many of the technology components of "Web 2.0" have existed since the early days of the Web.

[2] A **social network** is a social structure made of nodes (which are generally individuals or organizations) that are tied by one or more specific types of interdependency, such as values, visions, ideas, financial exchange, friendship, kinship, dislike, conflict or trade. The resulting graph-based structures are often very complex.
Social network analysis views social relationships in terms of nodes and ties. Nodes are the individual actors within the networks, and ties are the relationships between the actors. There can be many kinds of ties between the nodes. Research in a number of academic fields has shown that social networks operate on many levels, from families up to the level of nations, and play a critical role in determining the way problems are solved, organizations are run, and the degree to which individuals succeed in achieving their goals.
In its simplest form, a social network is a map of all of the relevant ties between the nodes being studied. The network can also be used to determine the social capital of individual actors. These concepts are often displayed in a social network diagram, where nodes are the points and ties are the lines.
For the purpose of this document, the term 'Social Network' refers solely to those computer based applications that allow people to establish 'social networks' online.

[3] **Dunbar's number** was first proposed by British anthropologist Robin Dunbar and is the supposed cognitive limit to the number of individuals with whom any one person can maintain stable social relationships: the kind of relationships that go with knowing who each person is and how each person relates socially to every other person. Proponents assert that group sizes larger than this generally require more restricted rules, laws, and enforced policies and regulations to maintain a stable cohesion. No precise value has been proposed for Dunbar's number, but a commonly cited approximate figure is 150.

[4] **Six degrees of separation** is the theory that anyone on the planet can be connected to any other person on the planet through a chain of acquaintances that has no more than five intermediaries. The theory was first proposed in 1929 by the Hungarian writer Frigyes Karinthy in a short story called "Chains." No one has been able to prove the theory mathematically but in 1967, American sociologist Stanley Milgram devised a new way to test the theory, which he called "the small-world problem." He randomly selected people in the mid-West to send packages to a stranger located in Massachusetts. The senders knew the recipient's name, occupation, and general location. They were instructed to send the package to a person they knew on a first-name basis who they thought was most likely, out of all their friends, to know the target personally. That person would do the same, and so on, until the package was personally delivered to its target recipient. It only took (on average) between five and seven intermediaries to get each package delivered. Milgram's findings were published in Psychology Today and inspired the phrase "six degrees of separation."

[5] Granovetter (1973) argued that within a social network, **weak ties** are more powerful than strong ties. He explained that this was because information was far more likely to be "diffused" through weaker ties. He concluded that weak ties are "indispensable to individuals' opportunities and to their incorporation into communities while strong ties breed local cohesion."

[6] The phrase *The Long Tail* (as a proper noun with capitalized letters) was first coined by Chris Anderson in an October 2004 Wired magazine article to describe the niche strategy of businesses, such as Amazon.com or Netflix, that sell a large number of unique items in relatively small quantities.

[7] Generation Y is the generation following Generation X from 1982 (**Millenials**) to the mid-1990s. The generation is also alternatively defined as the children of the Baby Boomer generation.

[8] **Folksonomy** (also known as collaborative tagging, social classification, social indexing, and social tagging) is the practice and method of collaboratively creating and managing tags to annotate and categorize content. In contrast to traditional subject indexing, metadata is generated not only by experts but also by creators and consumers of the content. Usually, freely chosen keywords are used instead of a controlled vocabulary.

[9] As evidenced in and article by Rachel King published by SAS Special Report. September 11th, 2008.

[10] Kees Winkel argues that 2% of nodes in a social network are all that need to be reached to ensure an idea or marketing initiative successfully reaches a large proportion of the target audience relatively quickly in a PDF published on futurecase.wordpress.com Compare this to the fact that 96% of only teens and pre-teens are now part of a social network and as the post-millenials come into the workplace, change will happen quickly.

[11] 'Groundswell: winning in a world transformed by social technologies' by Charlene Li and Josh Bernoff of Forrester Research ably defines the changing world and how corporate communications need to change in order to be effective in this new world.

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