

Monthly Research Commentary

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The Transition to a Networked Organization

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One of the most important questions we discussed at our recent conference in London on *The Changing Nature of Work* was what it meant to be a 'networked organization'. Of course, just about every firm is heavily networked already – using email, mobility, web sites, portals, VPNs, etc. – and we all know how these technologies have changed businesses globally thus far.

But these capabilities are rightly seen as the building blocks of what could be called 'Networked Enterprise 1.0'. We can now see with increasing clarity that in today's emerging 'Enterprise 2.0' era, *social media* technologies will be used to nurture and support an ever-evolving organization, as firms organically capture, leverage and deploy their *collective intelligence* to better inform their operations and decision-making. By this standard, most firms still have a very long way to go. Nevertheless, we think we can now see how these changes are likely to play out.

One of the frustrations many clients have expressed is that today social media initiatives often add yet another layer of complexity on top of their already too complex organizations. In the 1980s and 1990s, businesses realized that traditional hierarchical models were not sufficient to meet their growing need for coordination across multiple products, geographies, customers and lines of business. In response, matrix management structures emerged, cutting across direct reporting lines. While this often resulted in an order-of-magnitude increase in organizational complexity (and in the number of meetings), it proved indispensable to addressing global business challenges. Email was the key enabling technology.

Similarly, businesses now realize that they need to improve their agility and creativity so that they can more effectively respond to fast-changing business conditions. Social media technologies will be the key to addressing these challenges. In the short term, this may well create another order-of-magnitude increase in organizational complexity, since the outputs of many company communities don't always mesh naturally with more traditional business structures and lines of authority. For example, what exactly is the mandate and authority of a 'sustainability' or 'innovation' community, and how do they relate to the traditional processes of business decision-making? As such overlaps and complexities are resolved, the networked organizational model will emerge.

For us, understanding the resolution process is a key research priority. The three major organizational types – hierarchical, matrix and networked – are certainly not mutually exclusive. Companies will always need strong leadership and effective cross-group cooperation. But going forward, it will be the balance between the three models that shapes the nature and culture of the firm, and this balance will increasingly shift toward the networked model. You can assess the current situation in your own firm by asking a few basic questions:

- How are decisions made: Top down? Committee process? Open, transparent forums?
- Who leads the firm's response to changing events: Individual departments? Company-created teams? Self-selecting web communities?
- How are rewards determined: Individual P&Ls? Shared business goals? Community recognition?

In a truly networked company, decision-making processes will be much more participatory than they are in today's organizations. Web communities will naturally emerge to respond effectively to new company challenges, and the leaders of those communities will enjoy significant career and financial rewards. Today, such communities are still largely subordinate to traditional organizational structures. In the networked firm of the future, it will increasingly be the other way around. The change will be a long-term process, but the overall direction of the Enterprise 2.0 era has been set.

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