

Social Neo-Capital

How Social Media Changes the Process of Value Creation

Michael Mallek and Kathrin Baum

Keywords

Social Capital, Social Media, Return on Investment, Value Creation, Network Economy

Our paper suggests that the process of value creation has changed from a production economy over a knowledge-based economy to today's network economy, which is characterised by tightly interwoven relationships between different actors of the economic market. This shift has made it indispensable for enterprises to open their organisations – not only to increasingly global markets but also to the civil society. Along with this fundamental change, the idea of capital has also been changing. Social Capital is a key success factor that can be understood as the ability to access and use resources embedded in one's network. We demonstrate that individual and collective interests have been converging in the economic system while the traditional understanding of capital remains effective. Social Capital even reinforces this understanding as we show that those enterprises that integrate Social Capital along the entire value chain increase the firm's value significantly. That is to a high degree due to the influence of Social Media, as we will outline. Subsequently, the theoretical foundation of capital is extended to a new concept: Social Neo-Capital. Finally, examples from economic practice clarify the transformation of Social Neo-Capital into economic profit and underline that the inclusion of Social Neo-Capital in the value creation process offers new possibilities to increase profits in a range of branches and increase both, the enterprise's value and society's well-being.

michael.mallek@gmx.de
k.baum@gmx.de

1. *Introduction*

Wyndham Lewis already wrote in 1948 in his famous work *America and Cosmic Man*, “The earth has become a big village” (Lewis 1948: 21). Also other scientists, like the philosopher McLuhan, used similar terms to describe the effect of new technologies that were able to overcome physical distances like telephones and air transport.¹ Today, we still use the picture of a village to explain the merging global world but our focus is put especially on the internet which led from a village to a ‘global village’, surpassing all ideas of Lewis and McLuhan. The globe has been contracted to a ‘village’ in which nearly every person is interconnected with all the other members of the community and in which instantaneous movement of information from every quarter to every point at the same time is possible (cf. Wikipedia 2011a: Global Village). In this ‘village’, people share their car with others in car sharing programs, or they offer their couches to strangers from the internet. We empathise with people thousands of miles away, from other cultures and backgrounds when suffering from or striving for democracy like in North Africa. A new dimension of cooperation and togetherness with the core of society can also be noticed in the global business world. Enterprises are investing millions of dollars in Open Source projects like Linux, working with thousands of professionals, other companies, and even competitors without monetary compensation in a virtual network. As we show in various real-life examples in the last section, enterprises even make societal needs their own main challenge.

We suggest that all these developments are related to an immaterial resource of networks, called Social Capital. We will show that Social Capital, which arises within social relationship and networking communities, leads to corporate success, profits and at the same time societal progress. Successful companies are best in investing in Social Capital and transforming it into profits by creating ‘shared value’ – value that simultaneously benefits customer groups, the company itself, and the society as a whole (cf. Porter/Kramer 2011: 64ff.). The value creation perspective remains individual-based and capitalistic insofar as companies invest and run a business always with the expectation of a surplus return on that investment. As this value creation or capitalisation respectively happens without externalities for society but rather in line with societal progress, we call this rethought capital: Social Neo-Capital.

¹ See McLuhan 1962: *The Gutenberg Galaxy: The making of Typographic Man* and McLuhan 1964: *Understanding Media: The Extension of Man*.

To understand the mechanism between this process of global merging, Social Capital, and economic profit, this paper starts with the description of the changing idea of value creation (section 2). We concentrate on the evolution from classical factory production (section 2.1) into a knowledge-based economy (section 2.2) towards a network economy (section 2.3) based on relationships between different market and societal groups. The second step (section 3) presents the theory of Social Capital, which deals with the subject of values included in social connections and created by them. Section 3.1 summarises and compares the four most important concepts on Social Capital, pointing out two perspectives of its beneficial effect: the group and the individual perspective. The theoretical basis of the mechanism of mobilising Social Capital for value creation in a sense is subject of section 3.2. The last part of this section (3.3) mirrors our new understanding of Social Capital, the so-called Social Neo-Capital, as a synthesis of the different views introduced in the previous sections. The next step of the paper (section 4) is to describe how Social Media influences Social Capital especially by initiating new dimensions of information flow (section 4.1) and its radical transparency (section 4.2). Section 5 illustrates the transformation process of Social Neo-Capital into economic profit: we will respond to innovative processes of input (section 5.1), the new production processes of network economy (section 5.2) and rethought opportunities of output procedures (section 5.3). These parts of value creation will all be clarified by economic examples from practice. Finally, the paper gives an outlook in section 6.

2. The Evolution of Value Creation

2.1 Production Economy

“According to neo-classical thinking, the entire business process can be considered to be a combination of labour and machinery used for the purpose of creating and exploiting goods” (Gutenberg 1951, in: Kuppler 1988: 7).² The quote underlines that neoclassic economics interprets value creation as the pure production of goods. In this understanding, only very few well-educated employees

2 “Erich Gutenberg (1897-1984) was an influential German economist. He is considered the founder of modern German business studies after World War II. Gutenberg used microeconomic to explain the functioning of the enterprise. Therefore he also developed a new production function. With a system of inputs and outputs under management control he explained how a firm could be efficient” (Wikipedia 2011b: Erich Gutenberg).

are necessary for a thriving company, as no special knowledge is needed for the usual production process. Only a few supervisors are responsible for a constant workflow and a small number of managers organise the production process. To maximise profit, much of the emphasis is placed on the value chain efficiency. Enterprises in neoclassical understanding are closed systems,³ so only parts of the value chain are of interest for the company's decision making; it starts with the incoming raw material or partially installed products and ends ultimately in the hands of the customer. This strict interpretation of scope calls for separation of responsibility stages and activities, and therefore enterprises have to be structured in strict hierarchical order of command and control to be profitable manufacturers. To prevent friction losses, misunderstandings and everything else that could foil the principle of purpose limitation, only one direction of communication exists – from the top to the periphery. This pyramidal arrangement of superior and subordinate elements should guarantee that work-procedures run quickly and transparently.

One of the first scientists to work out a theory which offers guidance on how to make work-procedures most efficient was the American mechanical engineer F. W. Taylor. He had noticed natural differences in productivity between workers, depending on various causes, like talent, intelligence, education, and motivation. The knowledge about this different working capacity, together with the findings from many empirical time and motion studies, constitutes the basis of Taylor's plant management: the 'Scientific Management' (cf. Wolf 2003: 77, Rudolph 1994: 12). Taylor's aim was that his scientific work would be implemented in reality. His recommendations, first published in 1911, therefore consist of four main principles (cf. Taylor 1919: 38ff.):

- Strict rules and detailed instructions given by the management to ensure efficiency.
- Personnel selection by systematic tests adjusted to the best workers.
- Dividing manual work from mental work.
- High division of labour in small operation procedures.

To motivate the employees to speed and high quality, Taylor proposed a payment, depending on the individual amount of production. Furthermore, he postulated better production conditions

3 "A closed-system perspective views organisations as relatively independent of environmental influences. The closed-system approach conceives of the organisation as a system of management, technology, personnel, equipment, and materials, but tends to exclude competitors, suppliers, distributors, and governmental regulators. This approach allows managers and organisational theorists to analyse problems by examining the internal structure of a business with little consideration of the external environment" (Heil, K. in: Encyclopedia of Management).

consisting of good lighting and climatic circumstances, as well as breaks for the workers. Factory plants that utilised Taylor’s concept in absolute pure form could even double their production (cf. Wolf 2003: 13). Figure 1 illustrates an enterprise A which grows to A’ by utilising Taylor’s principles. The enterprises in A’s surrounding area are from other branches (highlighted white), like B, or they are much smaller than A’, therefore do not pose any competition to A’. As the surrounding of A has no big influence on the success of A, it is not included in its the value creation process.

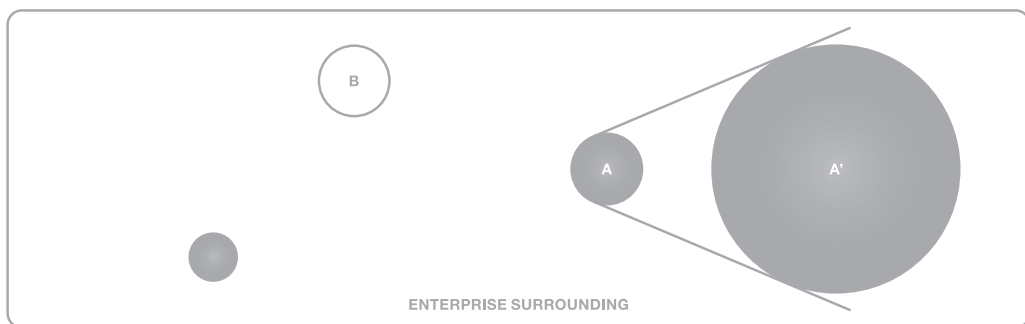


FIGURE 1: ENTERPRISE SURROUNDING (OWN SOURCE)

A well-known example of the perfect realisation of division of labour and assembly line work was the production of the “Model T”, an automobile produced by Henry Ford’s Ford Motor Company from 1908 to 1927. For that reason, the concept of mass production in its pure form is also called “Fordism”. In today’s automotive industry, assembly line work is still relevant to improve productivity. But while this form of corporate structure was seen as the most successful one in the twentieth century, today this generalisation does not have universal validity anymore. The traditional understanding of a profitable enterprise includes the idea that value creation is independent from its surroundings; of course, also neoclassic knows profit is influenced by the amount of demand, prices of raw material. In this respect, the surroundings of an enterprise is of relevance, but there is no cooperation with other actors of the economic system. The enterprise’s value decisively depends on perfect organisation of the production process.

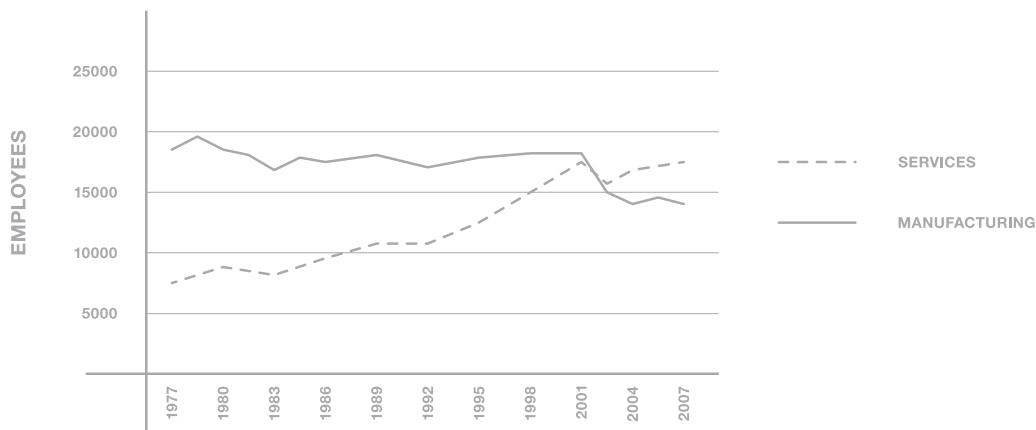


FIGURE 2: SHIFT IN LABOUR FORCE FROM MANUFACTURING TO SERVICES
THE UNITED STATES (1977-2007) (SOURCE: IN: MILLS / SNYDER 2009: 3)

2.2 Knowledge Economy and Human Capital as its Most Important Factor

The effectiveness of Fordism was due to the stable environment of the early twentieth century, characterised by closed markets, modest claim of customers, and little competition. The mechanised production plants needed only very few skilled workers as the simple routine activities could be fulfilled by rather non-skilled, instructed workers (cf. Reihlen 1999: 272 and Laszio 1999: 25).

With the end of the cold war in the final decade of the 20th century, a new understanding of the value of freedom and diversity arose and the conditions organisations were confronted with changed very quickly, and with it, competition increased and economic growth declined (cf. Leibold 2005: 15). Resulting from globalisation, markets started growing together and became more international. Cross-border transactions became the order of the day. Enterprises had to rise to the challenge of tough international competition by flexible adaption and rapid learning (cf. Persch 2003: 1ff.). In addition to this, the emergence of the internet intensified the effect of competitive pressure. Customers are able to compare prices of products offered by different suppliers, and they can share information about the products' quality. Information became easily accessible and cheap (cf. Kotler/Keller 2006: 25). Consequently, mass-produced goods are mostly produced in

the so-called low-wage countries, where the costs of the work force are very low. So in the western countries, the manufacturing industry decreased and the service sector started growing. Currently, about 80% of Americans are employed in the services sector. The number of manufacturing jobs has fallen dramatically over the past several years. From 2000 to 2005, the U.S. lost approximately 17% of manufacturing jobs (dropping from 17.3 million to 14.3 million) (cf. Mills / Snyder 2009: 1).

These dramatic changes in the way we work and the emergence of a globally networked society means that efficiency cannot be achieved by separations of production processes and hierarchical structures anymore. Taylor's and Ford's approaches can no longer cope with the ongoing change in demands of the global economy (cf. Leibold 2005: 15). In 1923, Ford wrote in his book "My Life and Work": "Any customer can have a car painted in any colour that he wants so long as it is black" (Ford, H. 1923, in: Wikipedia 2011c). This motto should not be the direction sign of an enterprise today anymore because the competitive situation has changed. Today, there are plenty of suppliers that offer their services and products to the customer; to be successful, enterprises need to fulfil individual customer wishes. In this so-called New Economy,⁴ customised products are affordable for many people, which is also because also of the easy access to information through the internet. In Taylor's and Ford's time, the free market could not lead to optimal resource allocation, as this is only possible provided that there is absolute information transparency, balanced market power and mobility. Normally, suppliers have better information than consumers. Austrian economist Hayek was already uncomfortable with the world economy. In his essay "The Use of Knowledge in Society", he argued already in 1945 that creating a "rational economic order [...] is a problem of the utilisation of knowledge which is not given to anyone in its totality" (Hayek 1945: 519). The Principal-Agent-Theory deals with the negative consequences of this asymmetric dissemination of information and shows that it leads to collective losses: "The digital technology could end this imbalance of power and information access" (Kotler/Keller 2006: 25). Both the consumer and the supplier have the possibility to gather information on respective contract partners, can compare the different offers and therefore they can analyse the supply and demand situation better. Altogether this results in a better price-performance ration and a more efficient resource allocation.

The activities of many successful companies have mirrored the shift from manufacturing to services. For example, General Electrics (GE) has developed from a \$79 billion firm in 1996 to a \$173 billion firm in 2007. Meanwhile, its overall profit margin increased from 9% to 13%. These

⁴ The New Economy is a term to describe the result of the transition from an industrial/manufacturing-based economy.

figures mirror the development of GE from a producer of electrical goods, like refrigerators and other white goods, to a multinational conglomerate enterprise that operates through very different segments, including the energy sector, the development of special technology for infrastructure and financial services. GE was aware of the new demands of the customers and raised the challenge of the economic shift from the production economy to the knowledge economy. Production of most goods and services of this economy mostly depends on the skills of agents involved in production. The value of companies in the so-called knowledge economy depends on human capital, which is defined as person-bound knowledge in the employee's mind. The most important factor in a knowledge economy's success is not the quantity of production but the quality of the offerings that can only be generated by educated employees, as they are in possession of specialised skills and tacit knowledge. Figure 3 illustrates an enterprise D, which includes much human capital (white triangles). To interact with the company's surroundings, like customers and suppliers, the company borders are open (shown by dotted lines). The hard competition in the knowledge economy is shown in figure 3 by other enterprises, like E, that also bind best-educated employees by contract and with them specific knowledge.

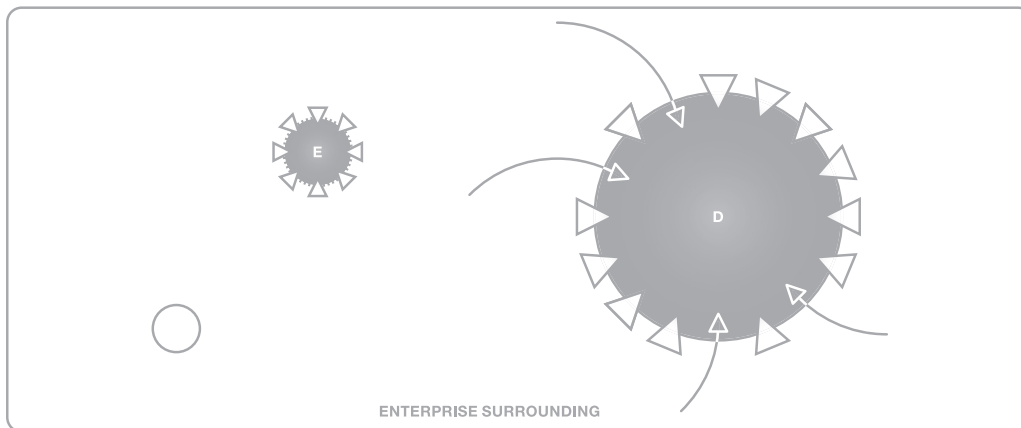


FIGURE 3: SPECIFIC KNOWLEDGE BOUND BY CONTRACT AND COMPETITION IN THE KNOWLEDGE ECONOMY (OWN SOURCE)

In the knowledge economy, employees can be seen as repositories of inventory, as tacit knowledge exists only in people's heads (cf. Mills/Snyder 2009: 10). In knowledge companies, one needs to focus on the production and coordination of specialised knowledge to create sustained competitive advantages. In this context, production and utilisation of knowledge is seen as the central ability of the firm.⁵ The special feature about knowledge is that it can be shared with others and still is not reduced; actually, the opposite happens: it is growing and with it the organisation's success. That is the reason why organisations allow individuals to combine and leverage their knowledge. "The new source of wealth is knowledge, not labor, land or financial capital... the intangible, intellectual assets" (Leibold 2005: 16). The more human capital a company has bound by contract, the more valuable it is.

2.3 Network Economy and its Future-Oriented Value Creation

In the last few years, knowledge, information, and people who know how to use them have made companies successful. But progress never stands still and so knowledge economy has also developed. Today we have reached the age of networking economy, in which the

"walls seem to have collapsed – between nations, between industries, between sectors of the economy, between organisations and symbiosis are becoming the order of the day, as evidence in the increasing incidence of alliances, mergers joint ventures, cross functional project teams and communities of practice" (Leibold 2005: 15).

Enterprises started realising the value of interdependences, rather than differences, and independencies, through initiatives such as simultaneous development networks.⁶

"Every now and then new technologies and ideas are developed that are so profound, so enormous, so comprehensive that they change everything. For instance think of the printing press, electric bulb, the car or the manned flight.

5 For further reading see for example Teece, Pisano and Shuen, 1997.

6 Read more about the change from a bureaucratic organisation to the network economy in *Rethink The Organisation: Identities in Network Organisations – New Directions for Engagement and Cooperation* (cf. Pecher/Rüngeler/Zuber 2010).

It doesn't happen often – but if it happens, the world changes forever” (Kotler/Keller 2006: 7).

What has happened is that the speed and complexity of decision-making have increased as well as the acceleration of technological change. The Internet has developed. It is not a one-way means of communication anymore, like it was at the beginning, when it called pictures of showcases to one's mind. In those days, there was no dynamic information flow. The internet was static and actually not very useful in daily life. Today it is an instrument of interaction. The term Web 2.0 defines an internet that facilitates participatory information sharing, interoperability, and collaboration on the World Wide Web. The Internet has become fast and always up to date; today it is nearly impossible to imagine a business day without this technology, especially for research purposes and communication. Users of the Web 2.0 are able to interact and collaborate with each other, for example by using Social Media, forums and blogs. Information technology facilitates the coordination of complex activities that are required nowadays and helps to make substantiated decisions (cf. Kotler/Keller 2006: 31). Transaction costs have fallen by means of better information and more and more transactions are not executed hierarchically in the enterprises anymore but coordinated in markets or performed electronically. As today almost any information is available within a very short period of time, the demand for pure information and encyclopaedia knowledge will decline soon. In order to be successful, an enterprise of the service sector needs human capital. It requires specialists who develop creative and innovative solutions that are directly adapted to customers. Furthermore, it particularly needs intensive relations and close relations, both with the customers, the suppliers, and the business partners, and with all the other stakeholders that can give input in the production process or that can influence the output process in any way. In this new economic situation, competitive advantages do not only result from property rights any more, they can be understood as effects of social contacts (cf. Pardo del Val/Welbourne 2008: 3). By the end of the 20th century, the motto of efficiency of the old production economy changed from 'ever more in ever shorter periods of time!' to 'ever better and ever more innovative!' Today, in an increasingly networking and integrated world, the motto 'ever closer, ever more together, ever more flexible and all this in real time!' should apply. This is only possible if enterprises become open systems and integrate the resources of their surroundings – in other words, if they become collaborative networks.

Figure 4 shows enterprises in the network economy that are interconnected (shown by grey lines). In the network economy, competition between companies is being increasingly reduced

to a comparison of the ability to manage a collaborative network bringing together groups and individuals for achieving certain ends. Competition, therefore, actually takes place between collaborative networks.

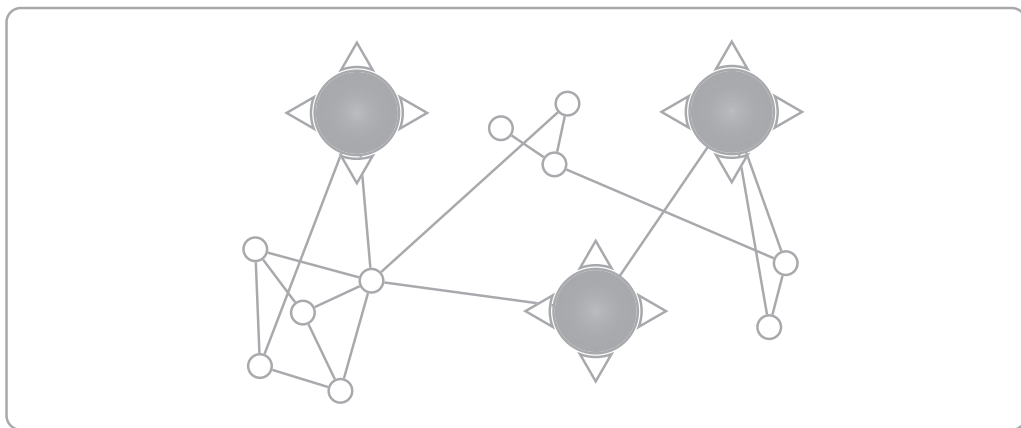


FIGURE 4: INTERCONNECTED ENTERPRISES IN THE NETWORK ECONOMY
(OWN SOURCE)

3. Social Capital Theory

3.1 Two Perspectives on Social Capital

The concept of Social Capital originally grew out of sociology and political science to describe resources that are available to individuals, resulting from their membership in community networks (cf. Kawachi et al. 2010: 3ff.). The term Social Capital has already been defined in 1916 and goes back to the work of Hanifan (cf. Fuchs 2006: 83). In connection with the success of the firm, the issue of Social Capital is relatively new.

“In contrast to financial capital, which resides in people’s bank accounts, or human capital, embodied in individuals’ investment in education and job training, Social Capital is described to exist in the structure and quality of social relationships between individuals” (Ottebjør 2005: 6).

According to results of scientific research, Social Capital plays an important role in the functioning of community life across a variety of domains. For example, it can be shown that it has a positive influence on the prevention of juvenile delinquency, the development of norms of labour market attachment, the unproblematic functioning of democracy and political government and the further development of economic growth. Generally, there are two perspectives on Social Capital that can be identified, related to the level at which return or profit is conceived. In one perspective, the focus is on the use of Social Capital by individuals – how individuals access and use resources embedded in social networks to gain returns, like finding better jobs. In this relation perspective, Social Capital is similar to human capital. Investments can be made by individuals with the expectation to return some benefit or profit. We will explain the process of investment and transformation of Social Capital into economic profit in more detail in section 5. The main points for analysis in this perspective are, according to Lin, “(1) how individuals invest in social relations, and (2) how individuals capture the embedded resources in the relations to generate a return” (Lin 2008: 8). The second perspective on Social Capital focuses on the group perspective, with discussions on “(1) how certain groups develop and maintain more or less social capital as a collective asset, and (2) how such a collective asset enhances group members’ life chances” (Lin 2008: 8). The central interest of this perspective is to explore the elements and processes in the production of the maintenance of the collective fortune; nevertheless, it recognises the need for individuals to interact and network in order to develop payoffs of Social Capital. Another important component of this view is how norms and trust, as well as other values of a group, are necessary in the creation and upholding of the collective asset.

3.2 Different Notions of Social Capital in the Literature

The group perspective is typically traced to one of the following three sources: Pierre Bourdieu, James Coleman and Robert Putnam. They understand Social Capital as resources of collectives. These resources develop within social relations of society and can be used through network connection.

But while Putnam assumed Social Capital is a resource belonging to everybody that participates in society, Bourdieu and Coleman have the opinion that Social Capital is reserved to group members. Especially Bourdieu's Social Capital theory has an excluding effect, as he attributes it to different social classes that use their Social Capital to demarcate their milieu affiliation.

The French sociologist Pierre Bourdieu was probably the first researcher who extended the idea of economic capital to other areas such as culture and social life. His concept of Social Capital must be seen in connection with his theoretical work on the issue of social classes and the connected different forms of social inequality. In the early nineteen-eighties, he developed a theory of capital which suggests four forms of capital: economic, cultural, symbolic and Social Capital. Cultural capital can be understood as cultural products that are embedded in the human mind, such as educational qualifications like academic degrees (institutionalised state) as well as in humanly created objects such as pictures, books or machines (objected state) and finally cultural capital in its third form, the embodied state, consisting of permanent dispositions in the individual person as the so-called habitus, which is the result of the socialisation of a certain social space.

“I developed the concept of ‘habitus’ to incorporate the objective structures of society and the subjective role of agents within it. The habitus is a set of dispositions, reflexes and forms of behaviour people acquire through acting in society. It reflects the different positions people have in society, for example, whether they are brought up in a middle-class environment or in a working-class suburb. It is part of how society produces itself” (Bourdieu 2000: 19).

Symbolic capital conveys the demarcation of different milieus, social classes or groups. It includes specific cultural resources that are exclusively reserved for the members of the milieu. According to Bourdieu, Social Capital consists of institutionalised networks such as a family, a class or a political party – but also of networks held together only by the material or cultural exchanges between their members. It is “the aggregate of the actual or potential resources which are linked to possessions of a durable network of more or less institutionalised relationships of mutual acquaintance and recognition – or in other words to membership of a group – which provides each of its members with the backing of the collective-owned capital, a ‘credential’ which entitles them to credit, in the various senses of the word” (Bourdieu 1986: 248). Therefore Social Capital is a collective good that benefits only the individual belonging to the group. Bourdieu emphasises that the amount

of Social Capital depends on the size of the network of connections that a person can effectively mobilise and on the volume of capital (economic, cultural and symbolic) possessed by each member of the network (cf. Bourdieu 1986: 249). In Bourdieu's theory of social classes, Social Capital is responsible for the process of preserving and reproducing class structures within society, especially through mediating economic capital.

Similar to Bourdieu, the American sociologist James Coleman occupied himself with different social backgrounds of the American population. But his aim was not to explain how social classes develop, but how they influence the success in academic achievement and adolescent behaviour. In his work "Social Capital in the Creation of Human Capital", Coleman (1988) focuses on the mechanisms and the role of Social Capital within the family structure. With Social Capital as a theoretical tool, he brings together two different perspectives of social actions: a social perspective and an economic perspective. In the social perspective, social norms are essential in explaining the individual's actions; in the economic perspective, individuals are seen as self-interested and independently acting, whose foremost ambition is to maximise their utility. Coleman defines Social Capital as

"a variety of entities with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that in its absence would not be possible" (Coleman 1988: 98).

Coleman identifies three forms of Social Capital: obligations and expectations, information channels and norms. Social Capital does not, unlike human capital, exist within the actors themselves, but in the structures of the relations between the actors. Coleman described the same connection between the size of the network and its beneficial effectiveness as Bourdieu did: the bigger a person's network is, the bigger is its room for manoeuvre. But he thought a person is able to influence and enlarge its own Social Capital by providing services to others, because in this way, conversely, consideration can be expected. Bourdieu always highlighted that a person's Social Capital is fixed to his social class. Another factor of Coleman's concept that differs to the French variant is the function of trust. While it is unimportant to Bourdieu, it plays an important role in Coleman's concept. Similar to Putnam's understanding of the concept, he showed that a group within which

there is extensive trustworthiness is able to reach much more benefit than a group with less of these attributes (cf. Ottebjør 2005: 12).

Putnam's understanding of Social Capital has an important difference to Bourdieu's and Coleman's. Although Social Capital develops through social connection and relations within a society, Putnam does not see a value in the social network itself. For him, Social Capital can be seen as traditional civic engagement, mirrored, for example, in the form of voter participation, newspaper reading and civic associations. All three components of Social Capital explained by Putnam are general moral resources of the community – first: trust; second: social norms and obligations; third: social networks of citizens' activity, especially voluntary associations. Especially mutual trust among citizens leads a society to a flourishing associational and democratic life, a conclusion which arose from Putnam's studies about the economic differences of Italy's south and north (cf. Putnam 1993: 6-7). He found out that "the [northern] communities did not become civic simply because they were rich. The historical record strongly suggests precisely the opposite: They have become rich because they were civic" (Swartz et al 2004: 253, in: Putnam 1993). Putnam argues on a societal perspective, looking upon Social Capital as a collective asset, available to everybody. This is what makes the distinct difference between his opinion and the others presented in this paper. Despite all the differences shown between the three theories of Bourdieu, Putnam and Coleman, it can be seen that they all root in the same thing. They all point to the importance of social networks of different types and sources that lead to enterprise and beneficial outcomes.

The other comprehension of Social Capital can be much different to the group perspective approach of Bourdieu, Coleman and Putnam, which regards Social Capital as a collective or public good to employ or deploy in the broad context of improving or building social integration and solidarity. The other approach is more in line with liberal thinkers such as Adam Smith and John Stuart Mill and takes the individual perspective. However, this perspective does not ignore the economic status of the collective (e.g. wealth, prosperity etc. of a nation state) but rather regards it as being determined by the aggregation of the individuals' economic states within the collective. The core hypothesis of the individual perspective understanding of Social Capital, of which the sociologist Lin is its greatest representative, is: "One major factor to the economic status is the individual's social capital which is the access to and use of resources embedded in its social network" (Lin 2001: 9). The premise behind the notion of Social Capital according to Lin is rather simple and straightforward: investment in social relations with expected returns (cf. Lin 2001: 6). Thus the very core notion of Lin's Social Capital theory is therefore no different to that of classical theory:

investments with the motive of capturing surplus value and enhancement of collective economic status by enhancing those of individuals within that collective. Nan Lin therefore calls his theory of Social Capital “a form of “neo-capital theory” (Lin 2001: 8).

3.3 *The Mechanism of Social Capital Mobilisation*

What is the nature of returns on investments in social networks and how can Social Capital be built and capitalised? Before answering these questions, one must know that the individual approach is based on the comprehension of economy and value creation described as network economy in section 2.3. We then must take a look into what kind of resources may be embedded in networks, how one can invest in order to build up Social Capital, and how Social Capital is capitalised, in other words transformed into profits.

Contacts in a network can have access to and power over the same pool of resources, resources that are alike or differ from each other. This differentiation is crucial as motives for network investments can either be to get access to additional sources that are not already part of one’s pool of resources (instrumental motives) or to maintain and secure an already possessed pool of resources, or accessible resources, respectively (expressive motives). Second, a resource can be embedded in

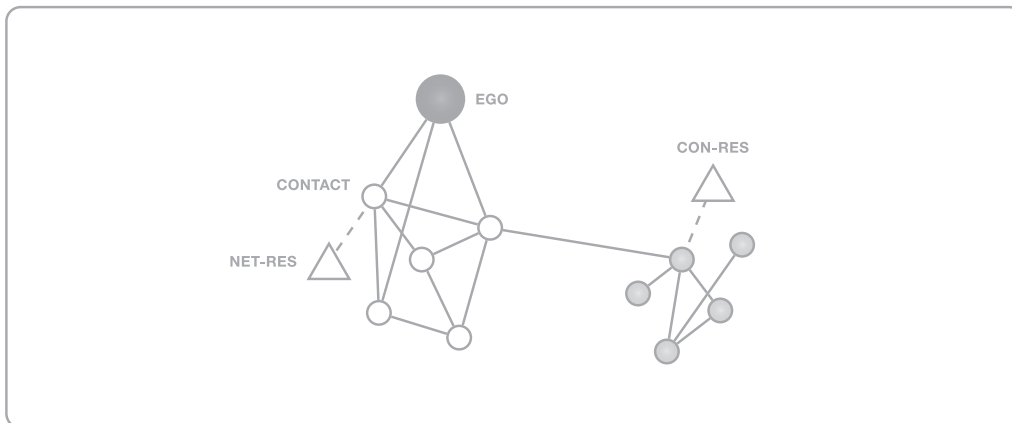


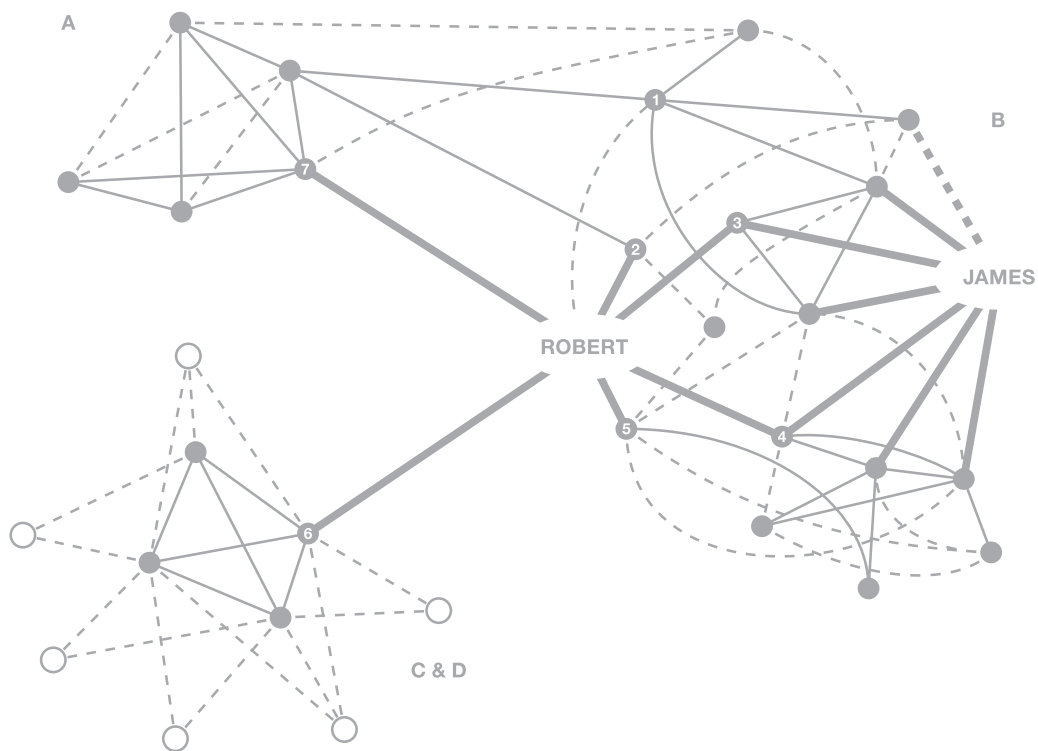
FIGURE 5: EMBEDDED RESOURCES (OWN SOURCE)

one's ego-network (network resources) and thus represents accessible resources, or it can lie outside of the ego-network and therefore has to be mobilised through a contact (contact resources) as shown in figure 5. The yellow contact on the right periphery of the ego-network serves as a "helper" to the resource of the green contact. Finally, though Social Capital as the access and use of resources embedded in a social network must be regarded as an immaterial asset, the resources can be both tangible (e.g. when machines are shared in a syndicate) and intangible.

To show how one can actively build, thus invest, and capitalise Social Capital, we first need to take a look into what forces influence one's Social Capital in the first place. Every individual, company, institution etc. in society is integrated in a social network to at least a minimum degree, and as diverse perspectives and studies on Social Capital may be, it is agreed that the ability to build a network depends heavily on the given position in a network and the structure of that network – in sum, the social structure. The social structure creates competitive advantages in pursuing certain ends and thus better connected people enjoy higher returns (cf. Lin 2001: 32). Two types of variations define what it means to be "better" connected: structure and position. Structure is characterised by many variations, such as economy, technology, and participation in the social, cultural, and political arenas. We discussed three factors for these variations and their impacts in the group perspective on Social Capital. Position, on the other hand, refers to the characteristics of ego which occupy certain positions within a structure and is expressed in power (e.g. position in a hierarchy, authority etc.), wealth and reputation (cf. Lin 2001: 21). The core mechanism of mobilising Social Capital lies within the significance and flow of information. The importance of information becomes clear in the absence of such as Hayek describes it:

"The economic problem of society is ... not merely a problem of how to allocate 'given' resources – if 'given' is taken to mean given to a single mind which deliberately solves the problem set by these data. ... it is a problem of the utilisation of knowledge which is not given to anyone in its totality" (Hayek 1945: 519).

Social networks can provide for such relevant information on available goods, sellers, buyers, and products. Yet the paradox situation is that we typically have the strongest relationships to contacts with the least valuable information and visa versa. Strong contacts (displayed in fig. 6 as solid lines) usually belong to the same group and thus tend to have the same sources of information, which makes them more redundant.



DENSITY TABLE

GROUP A	85			
GROUP B	5	25		
GROUP C	0	1	100	
GROUP D	0	0	29	0

FIGURE 6: POSITIONAL VARIATIONS AS REASONS FOR INEQUALITY IN
SOCIAL CAPITAL (SOURCE: BURT 2001: 33)

Figure 6 visualises positional variations as reasons for inequality in Social Capital. In other words, why some people are more enabled to access and use resources embedded in a social network than others. Both Robert and James have six strong ties (solid lines) and one weak tie (dotted lines). Both

share the same network and have the same overall volume (direct and indirect ties) of connections, therefore there are no structural differences, but Robert has certain significant positional advantages. Whereas James is only directly connected to members of group B, most likely homogeneous contacts, Robert is also directly connected with group A and C, contacts who are likely to have access to different resource pools and can therefore be essential for instrumental actions. The positional differences hold to be significant for accessing and using embedded resources. For one, Robert has fewer redundant contacts connecting him with members already indirectly connected to. Furthermore, Robert is a broker in the network as he is the network bridge that connects James with group C. If that relationship were broken, there would be no connection between group B and C. Robert also has a higher betweenness score as he brokers more indirect connections than James. Figure 1 shows that almost half of indirect connections run through him, which is above average (cf. Burt 2001: 33ff.).

To conclude, Robert is more directly connected to heterogeneous contacts. The information he gets from direct contacts contains fewer redundant bits of information. Positioned at the crossroads of different groups, Robert is quick to learn about activities and important information of all three groups, and he controls the information flow to a high degree since he is a network bridge or indirect contact to many in the network. These facts give him a disproportionate say in whose interests are served when the contacts come together and makes him a 'tertiusgaudens' (literally, 'the third who benefits') as he brokers information flow between others. Additionally, having a network position that yields such benefits, Robert is perceived as very attractive as a contact and is likely to be a candidate discussed for inclusion in new opportunities. Burt calls an individual in a network like Robert an "entrepreneur in the literal sense of the word – a person who adds value by brokering the connection between others" (Burt 2001: 35). The core hypothesis therefore is: the better connected an individual, the more entrepreneurial opportunities he is able to exploit. A successful entrepreneur is successful in building network bridges yielding entrepreneurial opportunities by connecting different heterogeneous groups and contacts. In essence, investing in Social Capital is building and maintaining relationships strategically. We now outlined strategic measures of Social Capital that will serve for the evaluation of the investments and leave detailed answers on tactical measures on how to establish and maintain relationships to customer relationship management literature.

3.4 The Synthetical Understanding of Social Capital – The Social Neo-Capital

The different approaches to Social Capital, from a group perspective (e.g. Bourdieu, Coleman and Putnam) versus from an individual relational perspective, seem to entail a major discrepancy. The group perspective approach requires closure in social relations and social networks (Bourdieu 1986, Coleman 1990), whereas the relational perspective benefits from open networks. More explicitly, Coleman puts emphasis on the creation of collective Social Capital through a moral community and it is closure, ergo excluding outsiders, that maintains and enhances trust, norms, authority, sanctions, etc. The key idea is that networks with closure – that is to say, networks in which everyone is connected such that no one can escape the notice of others, which in operational terms usually means a dense network – are the source of Social Capital (cf. Burt 2001: 37). Bourdieu, with a stronger class perspective, also emphasises the importance of closure as membership in the group is based on a clear demarcation (e.g. nobility, title, family) to preserve the group's dominant position and reproduce group solidarity. However, close networks are relatively beneficial to preserve or maintain resources (expressive motives), but to obtain additional resources (instrumental motives), open networks promise to have a relative advantage due to the previously described effect of network bridges. Most scholars agree that to some degree, Social Capital can not be clearly distinguished from one perspective to the other but must be seen from a group as well as an individual perspective since institutionalised social relations with embedded resources benefit the group both collectively and individually (cf. Lin 2001: 8ff.).

We believe that a new business focus on Social Capital cannot only resolve the dilemma between companies' economic success and negative externalities for society but will also leverage value creation to new heights. Social Capital sets the scientific groundwork for Michael E. Porter's theory of shared value. Porter believes that a new comprehension of economic value will "give rise to the next major transformation of business thinking" and will "unleash the next wave of global growth" by moving beyond the trade-off between providing societal benefits and tempering it with economic success; instead, creating economic value in a way that also creates value for society leads to the principle of shared value. "Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center" (Porter/Kramer 2011: 64 ff.). As we have outlined various approaches to Social Capital with their diverse hypotheses, we come to the conclusion that in their core they can be integrated into one idea: Social Neo-Capital. The boundaries between group

perspective and individual perspective are becoming increasingly obsolete as network economy is spreading and networks are intertwining. Whereas big global enterprises such as General Motors, Ford, General Electric and Standard Oil used to pursue total control of the whole value creation process by vertical integration, value creation is now taking place increasingly in more open virtual networks. In those networks, companies are just integral parts. Competition thus is taking place less between companies but rather between networks, and the companies with the best network succeed (cf. Kotler/Jain/Maesincee 2002: 18ff.). The concept of Social Neo-Capital arises with the hypotheses that every individual or organisation has a personal network in which it has access to embedded resources (micro-network). These personal networks are again interconnected and part of a greater network (macro-network). Social Neo-Capital expresses the ability to use and access resources embedded in these networks.

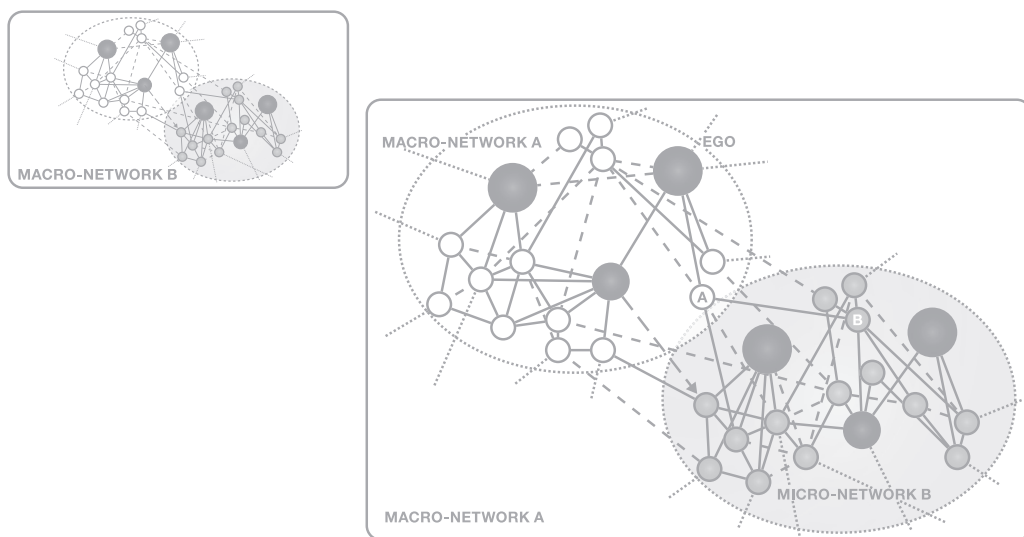


FIGURE 7: MACRO- AND MICRO-NETWORKS (OWN SOURCE)

More precisely, companies are embedded in macro-networks (white rectangle in figure 7). These can be regarded as national or transnational societies or, in the broadest sense, the global society, with common institutions such as formal ones like common trade and civil law, common regulators

such as antitrust division and the exchange supervisory authority but also informal institutions such as press and other media, and, not to be underestimated, moral values. As Porter mentions, “strategy theory holds that to be successful, a company must create a distinctive value proposition that meets the needs of a chosen set of customers“ and he continues ...

“however, companies have overlooked opportunities to meet fundamental societal needs and misunderstood how societal harms and weaknesses affect value chains... managers have focused most of their attention on the industry, or the particular business in which the firm competes [...] [and] failed to grasp the importance of the broader business environment surrounding their major operations“ (Porter/Kramer 2011: 66-67).

Expanding the business focus means expanding one’s market perception beyond the embattled markets of typical target groups and embracing new opportunities. A vast number of opportunities are uncovered only by thinking about business in shared value creation. Shared value, for one, is grounded in interdependencies of businesses and macro-networks.

“Social harms or weaknesses frequently create internal costs for firms – such as wasted energy, or raw materials, costly accidents, and the need for remedial training to compensate for inadequacies in education” (Porter/Kramer 2011: 65).

Studies on development prove that it is not the pool of natural resources but the efficiency and complexity of cooperation on which a nation’s wealth and prosperity is based. Generating negative externalities means shrinking one’s market. The opposite proves to be fruitful as an example of Coca Cola shows. The Coca Cola Corp. faces a beverage market with a high degree of market rivalry with little possible market growth. Coca Cola Corp. saw that it could only expand by actively building up new markets and started to invest in developing countries, helping to develop local structures in cooperation with NGOs and local administrations. The investment is on a very indirect, collective perspective. Nonetheless, it is surely not altruistic. The Coca Cola Corp. first creates the circumstances for people in the new markets to be able to buy Coke before selling it to them, generating a surplus on the investment. For instance, Coca Cola Corp. at first secures a water supply sufficient for their bottling plant and the local water needs.

4. Social Media

4.1 The Impact of Social Media on Social Neo-Capital

As we have outlined the concept of Social Neo-Capital, we will now describe what impact Social Media has on Social Capital and how it reinforces the realisation of the Social Neo-Capital concept in practice. Defining Social Media is not a trivial task. Quite obviously, people associate Social Media with Facebook, Twitter and blogs; however, the true meaning is grasped not by its instruments but by its functions and characteristics. There is something more to the word 'social' than just enabling interpersonal interaction or communication. Social Media, in our understanding, is not just a technological development but has actually influenced communication, economy and society. We believe this development in its various facets can be traced down to two major phenomena: User Generated Content (UGC) and Open Source.

Technological progress has made it possible for people to easily and economically publicise content to an audience of millions by providing them with cheap software and services. Today millions of people publicise their thoughts, their creative work, or their advice on the Internet and together they have an audience bigger than any other mass media. The phenomenon extends from users publicising books as amateur writers through print-on-demand services like lulu.com; users writing, maintaining and sharing the world's biggest and most up-to-date encyclopaedia that is Wikipedia.org; sharing all kinds of videos on youtube.com, of which many amateur videos are watched by millions; discussing all kinds of subjects by writing blog articles and comments, and much more. On the other hand, technological developments have made it possible for millions of people to interact, collaborate, create and share value with each other at marginal transaction costs and often without formal administration. One of the most impressive examples is the open source project Linux on which thousands of individuals, groups and businesses work together without direct monetary compensation. Whereas Open Source used to be a non-profit project of wildly mixed together programmers working on the project besides their job, now companies like IBM, Hewlett-Packard and Sun Microsystems have joined Open Source projects like Linux, investing millions of dollars but still with no direct monetary compensation (cf. Vickery/Wunsch-Vincent 2007, Blumauer/Pellegrini 2009).

Why do people and even businesses create something of value without the prospect of monetary compensation? According to the frequent Wall Street Journal contributors Hayes and Malone,

the reasons lie both in intrinsic motivations (e.g. fun, experience and learning from generating content) and extrinsic motivations. Extrinsic motivation results from expecting a return for one's given value – an exchange of values (cf. Hayes/Malone 2009: 150). The whole economy is based on the principle of 'do ut des' (lat.) – I give so that you give. Money was introduced to facilitate the exchange of goods and services. There is something dramatically new in the New Economy where people create and share value in Social Media. This is not to say that the principle of reciprocity has been replaced. Users in Social Media still expect an exchange for their input. What has shifted is how they expect the exchange. Money has proved to be an invaluable intermediary exchange vehicle people trust in. In Social Media, something even more abstract and intangible replaces money as such an intermediary – i.e. Social Neo-Capital. In Social Media, network economy has realised its fullest potential. The reasons lie explicitly in a few principles harnessing network economy and Social Neo-Capital.

4.2 New Dimensions of Information Flow

What distinguishes the Internet from other media is the dimension of connectivity. Online content is interconnected with each other through hyperlinks that create a net of millions of interconnected web pages. Social Media like blogs, Twitter and Facebook have leveraged this connectivity to new heights. Whereas in the "read-only" Internet of the early days in which only a fraction of all Internet users were able to produce, connect and pass on information, with Social Media, now any user can do so. Information aggregation and search engine technology have made it possible to easily find information enabling the flow of information even into highly fragmented niches relevant only to small interest groups. We are facing a never before seen accessible variety and mass of information which leads to a dramatic change in market transparency, possibilities for market research and communication (cf. Anderson 2009: 63ff.). As essential information about the market become more easily accessible, companies are in a better situation to understand and anticipate customer needs. How Social Media can be used to make statements about future trends, public opinion, chances and risks will be explained in more detail in section 5.1. But it should be noted that according to Peter Gloor, a scientist from MIT, people who have a huge network are more successful than people without these connections. He claims: "If you want to be successful, don't be a star, be a galaxy" (Gloor 2011: Swiss Cyber Storm).

4.3 Radical Transparency

This new mass and variety of information and authors leads to a new dimension of transparency. Information is shared on any possible topic. Product reviews often reach an audience of thousands or even millions. Thus there is a clear shift in information power from powerful individuals or groups like providers to the masses, to minorities, or to the consumer. In Social Media, everyone gets a say. We see this radical transparency in dramatic examples like Wikileaks, dellhell (an unsatisfied customer reaches an audience of millions and activates thousands of other unsatisfied customers to assert their claim) and the public revelation of plagiarism and corruption but also in less medial examples in every-day life when a friend tells us about his or her positive or negative experience with a company, or forwards us a blog or online newspaper article on a politician.

The new exchange intermediary is a social asset such as social recognition, trust, reputation or social debt like a sense of duty to return a received favour. All these social assets are expected to build Social Neo-Capital and thus help to reach certain ends. Reciprocity in this system is often much more understood as an indirect change of values in a way Max Weber understood social interaction as “a mutually coordinated and adjusted ego-behaviour [...] The social relationship may exist solely in the chance of social reciprocal behaviour” (Weber 1980: 13). Or as Lin describes it: “Unlike economic exchange, where reciprocal and symmetric transactions are expected in the short or long term, social exchange may not entail such expectation“ (Lin 2001: 19). What is expected is that the recipient and the surrounding social network acknowledge the asymmetric transactions that create social debt for the recipient (A) and social credit for the one who creates and shares the value (B). The acknowledgement is crucial for A to maintain his relationship to B as B is only willing to share value if public recognition in the network will spread his reputation and thus increase his Social Capital (cf. Lin 2001: 19).

5. The Transformation Process of Social Capital

5.1 Input Processes in the Network Economy

Now, as Social Capital has been shown in its different scientific versions and in our perspective that can be seen as a combination of the group and the individual perspective, we want to show

how this capital can be transformed into economic profit. As it is shown in section 4, Social Media can be seen as a storage place for Social Neo-Capital. It facilitates the connection of people, which is prerequisite for Social Neo-Capital. On the other hand, it collects and stores the Social Capital of different groups. These resources now can be used to create value to the firm in an absolutely new way.

As shown in section 2.2, the flow of information is the most important factor in the mechanism of mobilising Social Capital. The easy access to information of nowadays has changed the marked situation of asymmetric power between contract partners and provides a collective betterment. Information also offers the possibility of expanding the traditional idea of business. Therefore the large number of opportunities beyond the embattled markets of typical target groups need to be taken into account and the idea of shared value creation needs to be transformed into reality. To get an idea about future markets, which are determined by global social requirements, the normal market investigation doesn't work any more. Companies need to get into direct contact with their stakeholders. There were many scientific approaches presented that showed the importance of stakeholder dialogues, mainly focusing on moral arguments. Although demonstrating the sustainable effects of stakeholder orientation, the simple and simultaneously convincing reason to make these efforts to take care of stakeholder interests has not been fulfilled. Stakeholders are likely to know their needs of tomorrow best themselves. By using modern Social Media technologies, the problems of time exposure and financing that always accompanied stakeholder dialogues can be solved. It is not difficult any more to organise a huge number of people that have interests in the company's decision-making processes. Facebook and other social networks show the possibility of handling millions of users. The more people the better, because all their needs, information and creative ideas must be known to create innovative new products and services. For example, IBM and Siemens have recognised the need for shared value solutions. They recognised the global megatrends as climate change, water shortage, urbanisation, demographic development and aging societies. IBM is working on a project called 'smarter planet', while Siemens is developing products for smarter cities currently being tested in Ludwigshafen. The energy company E.ON also uses new technologies for communication with its stakeholders. The increased public awareness of energy issues, such as nuclear energy, makes it very important to explain the companies' position and make decision-making transparent. E.ON also gets input by their sometimes hard critics. In 2010, E.ON launched a microsite (eontalkingenergy.com) and a sponsor channel on YouTube that provides a platform for conversations to take place on key energy-related issues. E.ON moderators

reply to comments to ensure a two-way dialogue. Companies that do not consider their stakeholders' opinions will have the same unpleasant experience that Kryptonite had. The American company had some security problems with a bicycle lock. But instead of announcing it and stopping its production, the company tried to hide the fault. By now, this is the most outstanding example of stakeholders' influence through Web 2.0. A customer posted a video which showed how to pick the expensive locks with a biro. At the beginning, Kryptonite tried to ignore the film but as the video got thousands of clicks within such a short period of time, they had to start an exchange operation with millions of dollars in costs. This occurrence shows the importance of stakeholder consideration, as today they have power and the possibility to get their rights simply through the free market and supported through their connection. But it is not only the stakeholder dialogue that gives input for research and development. Gloor claims that Social Media allows the prediction of the future (cf. Gloor 2009). His thesis is based on the assumption that tomorrow people do what they say today – provided they do not lie. Gloor calls his method of trend forecast “dynamic social network analysis”. The renowned scientists Nicholas A. Christakis and James H. Fowler presented compelling evidence for the strong influence of social networks on people's lives. They showed the profound power of the social context on one's tastes, health, wealth, happiness, beliefs, even weight, as they explain how social networks form and how they operate. For example, people smoke because their friends smoke and they quit smoking because their friends do so (cf. Christakis/Fowler 2009: 7ff.). Gloor utilises the influence social networks exert on the members for his trend forecast: more precisely, he analyses so-called swarm movements. Gloor illustrates this figuratively: While in Paris, he and his family were looking for a good restaurant. The first day, they followed the stream of tourists to Montmartre in the city centre. The food was very expensive and acceptable, but not really of high quality. This was the intelligence of the mass. The next day, they asked the concierge where to go. He recommended an excellent restaurant, with delicious food but even more expensive. This is what Gloor calls the intelligence of the experts. In the end, Gloor and his family followed a group of locals and they arrived at a nice restaurant with cheap prices and very good dishes. On this third day, the family used the intelligence of the swarm. A swarm is a group of individuals that pursues the same target and is decentrally organised, like ants or bees. Swarm intelligence can be described as collective behaviour of self-organised systems, natural or artificial (cf. Bonabeau et al. 1999: 1ff.). The tool Gloor developed filters out information from the Internet, by combining data from different Social Media, like Facebook, Twitter and Wikipedia, with the weighting of the several information sources differing depending on the topic of the forecast-question. For

example, if Gloor wants to know how political long term trends are. To work out forecasts on the presidential elections, web information is much too slow, so swarm intelligence is needed. For this reason, Internet forums and Internet blogs are scanned. Experts are needed to make propositions on stock market trends, so online news, Wikipedia and email correspondence are used as the information foundation. Gloor was able to show that social networks contain things most people do not even know that can be known. Answers to questions like: "Is a meteorite going to fall on the earth, tomorrow?" cannot be given, but it is possible to prognosticate economic development, political sentiments or other trends, as they already exist as dormant and hidden unknown knowns in society. These unknown knowns can be understood as Social Neo-Capital, which only needs to be discovered to benefit companies and economic markets, as well as individuals and groups.

5.2 Production Processes in the Network Economy

Companies do not seek to build up a value creation system of contacts strictly bounded by contracts. Production processes are increasingly carried out in more open collaborative networks encompassing different stakeholders such as suppliers, customers, society and even competitors. In addition, vertical integration has evolved into virtual integration as described in section 2.3. Thinking of value creation in an open network of members not bound by contract is still unconventional but a set of companies proves how this can lead successfully ahead of competition. When Goldcorp, a Canadian gold mining company, was at the brink of bankruptcy in 2000, CEO Rob McEwen knew that it would take a miracle to save his company. Inspired by the open source project Linux, he took all his courage to make a step no one had ever made in the industry. In fact, the industry believed it was suicidal to share the heart of a mining firm. Goldcorp published its geological data on the Web for all to see and challenged the world to do the prospecting, announcing \$575,000 in prize money for the best methods and estimates. 1,000 virtual prospectors from 50 countries participated. A network of geologists, graduate students, management consultants, mathematicians and many other professions came up with capabilities and results the industry had never experienced before. The virtual network around Goldcorp identified 110 targets, of which more than 80% yielded substantial quantities of gold. The return on the investment of a half million dollars proved to be well worth it. By 2007, gold worth well over \$3 billion had been found. Exploration time has decreased by 2 to 3 years, generating a dramatic cut in costs in four years.

The under-performing \$100 million company Goldcorp has risen to a \$9 billion cutting-edge best performer (cf. Tapscott/Williams 2006: 10ff.).

Facebook recently published all the instructions and specifications of its newly self-developed datacenter and servers for all to see. What is new is that the technology was first developed to completion in a traditional way by technicians hired or contracted by Facebook and then opened up to be transformed into an Open Source project for further improvements. Although Facebook owner Mark Zuckerberg would be well able to make profits by selling the technology, he published he is expecting greater benefits than those of the sale. The future holds whether he was right and the project will be accepted by the Open Source community. Facebook made a major effort of developing a technology that is said to be cutting-edge. One would think the 'greatest networker of all' knows how to achieve the acceptance and contributions of the Open Source community. Another shining example of value creation in open networks is the enterprise Threadless. It started as a platform for t-shirt designers and became a highly profitable medium-sized business. At Threadless, designers upload t-shirt designs for all to see and rate. The winning designs will then be realised and the t-shirts will be sold on the platform. As the design processes are completely "outsourced" to the community, Threadless has major cost advantages. On the other hand, the designers, although receiving no wage, earn social recognition and are able to see their design worn by others. Moreover, they can buy their own t-shirt at a price much lower than they would have to pay without Threadless' economies of scale.

5.3 Output Processes in Network Economy

Marketing is experiencing major changes triggered by Social Media. The approach of influencing customers through promotion is becoming more and more obsolete. Instead, people inform themselves about products and services through transparent informational sites like price comparison platforms and rather rely on trust building information from peers. Word-of-mouth marketing and Public Relations therefore become the focus in marketing. Customers or other stakeholders are to be incorporated as the major promotional driver. However, an approach of trying to establish strong relationships to every customer alike can hardly be effective. Strong relationships require high involvement bilaterally and a high frequency of contact. It stands to reason that not every customer will be willing nor able to have a strong relationship to all providers he interacts with. Instead, a company should rather identify highly influential people and try to establish a strong

relationship to them. The marketing researchers Iyengar and Van den Bulte from the Wharton Business School show that opinion leaders and their social networks can be a critical success factor for promotions. They further show that opinion leaders are not necessarily high volume users of the respective product or service. In fact, opinion leaders do not have to be customers at all. To identify them, once more companies have to tap different networks. Instead of identifying false self-reported opinion leaders by personal surveys, surveys should rather try to identify true opinion leaders by asking the prospect for referrals and thus activate network dynamics (cf. Iyengar et al. 2011: 17ff.).

Threadless, on the other hand, does not have to do any promotion at all as their customers are “prosumers”. These prosumers are involved in the value creation process and automatically feel the desire to obtain the output. Another form of prosumers are lead-users. Lead-users are activated by social rather than monetary motivations. For instance, they get free samples of products first before product launch to try them themselves and to pass their experiences on to their social network, which in turn grants the lead-users social acknowledgement. Companies, on the other hand, receive customer feedback and social influence into the social networks of customers.

6. Summary and Outlook

The main objective of this paper has been to show the eminent role of networks in today’s value creation. We believe that Social Neo-Capital, which on the one hand arises within social networks and on the other hand can be understood as the network itself, is able to increase the value of enterprises, if it is included in all processes of operation. Section two served to create a basic understanding of the development of value creation. We showed the shift from the production economy, where simple workers were seen as factors of production that could be replaced by others without any greater difficulties, to the knowledge-based economy. Unlike the production economy, this type of economy is based on specialised knowledge. Therefore human capital is the most valuable property of enterprises, the most important ingredient to foster success. In the last part of section two, we suggested that the development of economy has proceeded and that the concept of knowledge economy needed to be enlarged into the idea of a network economy. The main features of this new economy are comprehensive networking, opening of the organisation, cooperation with other participants of the economic system and a real revolution in the perception of value creation. Section three then dealt with the Social Capital theory. The four best-known and

most influential concepts of Social Capital, the work of Bourdieu, Coleman, Putnam and Nan Lin, were illustrated and the similarities and differences were emphasised. Based on this study of the scientific literature, we conceptualised a new understanding of Social Capital – the idea of Social Neo-Capital. The enormous influence of Social Media on both the creation of Social Neo-Capital and the possibilities for the transformation process of Social Neo-Capital into economic profit has been examined in section four. The focus has been especially put on the new dimension of information flow and the radical transparency resulting from Social Media. The actual transformation process and the illustration of Social Neo-Capital inclusion in the value creation has been the main component of section five. In this part of the paper, we turned to economic practise and described, using examples of enterprises from different branches, how Social Neo-Capital can be integrated in the processes of input, production and output. Enterprises striving for sustainable success need to think beyond the traditional value chain. They are increasingly facing a competition between open and virtual networks in which the enterprise's function goes back to the root of the entrepreneur in its very literal sense – a person or organisation that adds value by brokering the connection between others. The extent of success of doing so is expressed in Social Neo-Capital and profit as capitalised Social Neo-Capital.

Social Media not only reinforces the network economy facilitating relationships but it has also increasingly revealed responsibilities in complex economic organisations, providing for market transparency and promoting communication between all different stakeholders. All these boost the importance of Social Neo-Capital and internalise what has long been externalised by companies at the expense of society's well-being. We are still rather at the beginning of the network economy and there is a lot of progress yet to come. Successful companies already focus on shared value benefiting the individual as well as the collective with a longer-term orientation. They invest in their own Social Capital as well as in the Social Capital of society, which to them is nothing else than the broader network they are embedded in. We showed that doing so is not some altruistic behaviour at the expense of competitiveness. Instead, practical cases show that such investments can be highly profitable for companies and should rather be regarded as straightforward investment with expected surplus return – therefore Social Neo-Capital.

As we extrapolate the historic trend of the value creation system to an ever more open network economy, it stands to reason that it will not remain just an alternative way of doing business but a conventional one that cannot be ignored. In Social Media we see more than technology. It is a phenomenon that changes the way we create value and will bring about the tipping point for

the network economy. Social Neo-Capital investments may for now be an approach to build up a competitive advantage. After having reached the tipping point for the network economy, it may distinguish which players stay in the market and which ones have to go. Successful companies will work in cooperative networks; they establish them, manage and make use of them strategically and for mutual and globally sustainable benefit. It stands to reason that companies that hang on to obsolete value creation approaches with a narrow business perspective will lack Social Neo-Capital and will eventually lose sight of entrepreneurial opportunities and risks that can only be clearly and duly seen and grasped with the help of a network.

References

- Anderson, C. (2009): *The Long Tail: Nischenprodukte statt Massenmarkt – Das Geschäft der Zukunft*, aktualisierte und erweiterte Ausgabe, München: Deutscher Taschenbuch Verlag.
- Blumauer, A. / Pellegrini, T. (2009): *Social Semantic Web: Web 2.0 – Was nun?*, Berlin / Heidelberg: Springer.
- Bonabeau, E. / Dorigo, M. / Theraulaz, G. (1999): *Swarm Intelligence: From Natural to Artificial Systems*, New York: Oxford University Press.
- Bourdieu, P. (1997): *The Forms of Capital*, in: Halsey, A. H. / Lauder, H. / Brown, P. / Stuart Wells, A. (Eds.): *Education: Culture, Economy, and Society*, New York: Oxford University Press, 46–59.
- Bourdieu, P. (2000): *The Politics of Protest: An interview by Kevin Ovenden*, in: *Socialist Review* No. 242, 18–20.
- Bourdieu, P. (1985): *The Social Space and the Genesis of Groups*, in: *Social Science Information*, Vol. 24 / No. 2, 195–220.
- Burt, R. (2001): *Structural Holes Versus Network Closure as Social Capital*, in: Lin, N. / Cook, K. / Burt, R. (Eds.): *Social Capital: Theory and Research. Sociology and Economics: Controversy and Integration series*, New York: Aldine de Gruyter, 31-56.
- Coleman, J. S. (1988): *Social Capital in the Creation of Human Capital*, in: *The American Journal of Sociology*, Vol. 94, Supplement: *Organisations and Institutions: Sociological and Economic Approaches to the Analysis of Social Structure*, 95–120.
- Christakis, N. A. / Fowler, J. H. (2009): *Connected: The Surprising Power of Our Social Networks and How They Shape Our Lives*, New York: Little, Brown and Company: Hachette Book Group.

- Fuchs, M. (2006): *Sozialkapital, Vertrauen und Wissenstransfer in Unternehmen*, Wiesbaden: Deutscher Universitäts-Verlag.
- Gloor, P. A. (2009): *Dabei sein um jeden Preis*, talk at Internet Summit Austria 2009, 29.09.2009 Wien: Österreichische Akademie der Wissenschaften (ÖAW). URL: <http://www.youtube.com/watch?v=sUBKHvbOC9w&playnext=1&list=PL5CCA4A05D8CBC112> (accessed: 10.01.2014).
- Gloor, P. A. (2011): *Collective Prediction in Digital Social Networks*, talk at Swiss Cyber Storm 3: International IT Security Conference, 12.-15. May 2011, Rapperswil (Switzerland). URL: <https://www.swisscyberstorm.com/speakers/gloor#video> (accessed: 10.01.2014).
- Haase Svendsen, G. L. / Svendsen, G. T. (2003): *On the wealth of nations: Bourdieueconomics and Social Capital*, in: *Theory and Society*, Vol. 32 / No. 5/6, Special Issue on The Sociology of Symbolic Power: A Special Issue in Memory of Pierre Bourdieu, 607–631. URL: <http://www9.georgetown.edu/faculty/irvinem/theory/svendsen-bourdieueconomics-capital-theorysociety-2003.pdf> (accessed: 10.01.2014).
- Hayek, F. A. (1945): *The Use of Knowledge in Society*, *American Economic Review*, Vol. 35 / No. 4, American Economic Association: 519–530.
- Heil, K. (2011): *Open and Closed Systems*, in: *Management Encyclopedia*. URL: <http://www.enotes.com/management-encyclopedia/open-closed-systems> (accessed: 10.01.2014).
- Iyengar, R. / Van den Bulte, C. / Eichert, J. / West, B. / Valente, T. W. (2011): *How Social Networks and Opinion Leaders Affect The Adoption of New Products*: in *GfK Marketing Intelligence Review*, Vol. 3 / No. 1, 16–25.
- Kawachi, I. / Subramania, S. V. / Kim, D. (2010): *Social Capital and Health*, New York: Springer.
- Kotler, P. / Keller, K. L. (2006): *Marketing Management*, 12th edition, New Jersey: Pearson Prentice Hall.
- Kotler, P. / Jain, D. C. / Maesincee, S. (2001): *Marketing der Zukunft: Mit Sense und Response zu mehr Wachstum und Gewinn*, Frankfurt a. M.: Campus Verlag.
- Kuppler, B. (1988): *Kapital im Wandel: Kontinuität und Wandel der kirchlichen Sozialverkündigung am Beispiel des gewandelten Verständnisses von "Kapital"*, Baden-Baden: Nomos.
- Lasio, E. (1999): *Total Responsibility Management: Unternehmen in umfassender Verantwortung führen lernen*, in: Papeh, A. / Siewers, R. (Eds.): *Wissen im Wandel: Die lernende Organisation im 21. Jahrhundert*, Wien / Frankfurt a. M.: Wirtschaftsverlag Carl Ueberreuter, 23–34.
- Leibold, M. / Probst, G. (2005): *Strategic Management in the Knowledge Economy: New Approaches and Business Applications*, Erlangen: Publicis.

- Lewis, W. (1949): *America and Cosmic Man*, New York: Doubleday & Company.
- Lin, N. (2001): *Social Capital: A Theory of Social Structure and Action*, New York: Cambridge University Press.
- McLuhan, M. (1962): *The Gutenberg Galaxy: The Making of Typographic Man*, Toronto / Buffalo / London: University of Toronto Press.
- McLuhan, M. (1964): *Understanding Media: The Extension of Man*, Cambridge / London: MIT Press.
- Mills, P. K. / Snyder, K. M. (2009): *Knowledge Service Management – Organizing Around Internal Markets*, Berlin: Springer Verlag.
- Ottebjer, L. (2005): Bourdieu, Coleman and Putnam on Social Capital: Applications in Literature and Implications for Public Health Policy and Practice, Stockholm: Karolilinska Institut. URL: <http://ki.se/content/1/c6/04/38/49/Linda%20Ottebjer.pdf> (accessed: 10.01.2014).
- Pardo del Val, M. / Welbourne, T. W. (2008): *Relational Capital: Strategic Advantages for Small and Medium-Size Enterprises (SMEs) Negotiation and Collaboration*, Los Angeles: Center for Effective Organisations. URL: http://ceo.usc.edu/pdf/t08_13.pdf (accessed: 10.01.2014).
- Pecher, E. / Rüngeler, L. / Zuber, J. (2010): Identities in Network Organisations: New Directions for Engagement and Cooperation, in: Brink, A. / Rohrman, D. (Eds.): *Rethink – The Organisation*, Bayreuth, S. 11-29.
- Persch P. (2003): Die Bewertung von Humankapital: eine kritische Analyse, in: Hummel, T. R. / Wagner, D. / Zander, E. (Eds.): *Hochschulschriften zum Personalwesen*, Bd. 36, München / Mering: Rainer Hampp Verlag.
- Porter, M. E. / Kramer, M. R. (2011): The Big Idea: Creating Shared Value, in: *Harvard Business Review* Jan/Feb, 2011.
- Putnam, R. D. (1995): Bowling Alone: America's Declining Social Capital, in: *Journal of Democracy* Vol. 6 / No. 1, 64-78.
- Putnam, R. D. (1993): *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton: Princeton University Press.
- Reihlen, M. (1999): Moderne, Postmoderne und heterarchische Organisation, in: Schreyögg, G. (Ed.): *Organisation und Postmoderne*, Wiesbaden: Gabler, 265–303.
- Rudolph, F. (1994): *Klassiker des Managements: Von der Manufaktur zum modernen Großunternehmen*, Wiesbaden: Gabler.

- Siisiäinen, M. (2000): The Concepts of Social Capital: Bourdieu vs. Putnam, presented at ISTR Fourth International Conference "The Third Sector: For What and for Whom?" Trinity College, Dublin, Ireland. URL: <http://www.istr.org/conferences/dublin/workingpapers/siisiainen.pdf> (accessed: 10.01.2014).
- Swartz, D. L. / Zolberg, V. L. (2004): *After Bourdieu: Influence, Critique, Elaboration*, Dordrecht: Kluwer Academic Publishers.
- Tapscott, D. / Williams, A. D. (2006): *Wikinomics: How Mass Collaboration Changes Everything*, New York: Portfolio.
- Taylor, F. W. (1919): *Die Grundsätze wissenschaftlicher Betriebsführung*, übersetzt von Roesler, R., München / Berlin: Oldenbourg Verlag.
- Teece, D. J. / Pisano G. / Shuen, A. (1997): Dynamic Capabilities and Strategic Management, in: *Strategic Management Journal*, Vol. 18 / No. 7., 509-533, URL: <http://faculty.fuqua.duke.edu/~charlesw/s591/Bocconi-Duke/Papers/C10/TeecePisanoShuenSMJ.pdf> (accessed: 10.01.2014).
- Vickery, G. / Wunsch-Vincent, S. / Organisation for Economic Cooperation and Development (OECD) (2007): *Participative Web and User-created Content: Web 2.0, Wikis and Social Networking*.
- Weber, M. (1980): *Wirtschaft und Gesellschaft: Grundriß der verstehenden Soziologie* / Max Weber, Tübingen: Mohr.
- Wikipedia (2011a): Global village (term), URL: [http://en.Wikipedia.org/Wiki/Global_village_\(term\)](http://en.Wikipedia.org/Wiki/Global_village_(term)) (accessed: 10.01.2014).
- Wikipedia (2011b): Erich Gutenberg, URL: http://en.Wikipedia.org/Wiki/Erich_Gutenberg (accessed: 10.01.2014).
- Wikipedia (2011c): Henry Ford, URL: http://en.Wikipedia.org/Wiki/Henry_Ford (accessed: 10.01.2014).
- Wolf, J. (2003): *Organisation, Management, Unternehmensführung: Theorie und Praxisbeispiele und Kritik*, Wiesbaden: Gabler.