



# Social Capital Value Add

Michael Cayley

Value Based Management for the Networked Age

As the volume of transactions like the acquisition of YouTube, the write down of Skype, the investment in Facebook and many lower profile deals increases, clearly there is a need for corporate managers and investors to better understand the drivers of value. A June 23, 2008 blog post by leading tech blogger Michael Arrington entitled "[Modeling the Real Market Value of Social Networks](#)" has received more than 200 comments underscoring the search for answers.

Why introduce Social Capital Value Add (SCVA) when brand valuation and other schools of value-based management such as Economic Value Added<sup>1</sup> (generically known as [economic profit](#)) are already well known and do not require delving into entirely new areas of theory and complexity?

We have run out of short answers to neatly explain this point of inflection for business. Arrington's deal-driven set of weighted valuation comparables may be useful for discussion about a limited set of social network software applications, but how useful can it be as a guide into the so-called "[Enterprise 2.0](#)" era?

If you believe that the idea in this electronic document will live or die in the next few moments while you decide what to do with it, you need to take a step back.

Like a deer in the headlights, your point of view may be suffering from what Marshall McLuhan might describe as a narcotic numbness.<sup>1</sup>

Perhaps you are only considering this document's broadcast qualities. Maybe you are stuck on its slogan-like title, poignant pull-out quotes, memorable visual images or quick & easy bullet points.

I hate to get all "[meta](#)" on you, but you are clearly not considering the structural factors that have led this idea to you.

Remember! This is a ChangeThis manifesto. That means two things that are vital to understanding the business environment we all work in:

**1. You are looking at a new media copy of “Introducing Social Capital Value Add”.**

It is physical evidence that this idea has replicated. Replication is a major feat of survival.

Everything involved in this replication is evidence of the persistence of this idea.

It is evidence that this idea may have attributes that will enable it to survive even before it has a snappy visual image like “the Long Tail” or a top 10 list format that you can flip through in less than two minutes.

**2. This idea has come to you through a trusted source.** A friend, mentor, colleague or other mediator to whom you have granted access to your attention has elected this idea as worthwhile for you.

They are the source of replication.

*This idea is persisting primarily through a convergence of new media and social networks.*

This simple bit of reasoning is critical insight to anyone who is interested in spreading ideas. Understanding how and why messages are transmitted (particularly electronically) from one person to another is a source of power and value. This is true if you are a preacher, politician, teacher or blogger. It is also true for corporations.

SCVA is designed to make this simple bit of reasoning an intrinsic part of corporate motivation.

It is a response to the shortcomings of the more remedial examinations of social media and social networking that have taken place in the popular media and self-referencing blogosphere over the last few years.

Understanding how and why messages are transmitted (particularly electronically) from one person to another is a source of power and value.

[Send this message to every C-level executive, board member and investor that trusts you.](#)

The corporation needs to evolve.

Every corporation is exposed to an entirely new form of risk that each has a fiduciary responsibility to mitigate.

Sometime in 2004, when broadband internet access in the United States became more prevalent than connections with less capacity, there was a “[strategic inflection point](#)”<sup>2</sup> that has changed how corporations may create and preserve value.

Social Capital Value Add is proposed as a guide to investors and corporate managers in their efforts to understand the new risks brought about by these changes, to identify corporations that are more or less qualified to deal with these risks, and to track specific performance in these areas relative to other companies, history and projections.

The marketing/communications mix is completely different than it was before 2004. Broadcast’s monopoly on attention is dead. The symbolic brand, which has been the fastest growing source of corporate value for the last quarter century has reached its pinnacle. It is being absorbed and replaced by [memetic brand](#). Technologies have evolved and mapped so tightly to the way humans transact, form relationships and create self-identity that it is time for business management to link the pioneering academic studies of social capital and social network analysis (SNA) to value based management and the priorities of marketers.

The transition required is no less abrupt than [that moment when the search of Dorothy, the Tin Man, Scarecrow and Lion reaches confrontation with the Great Oz façade](#) and the curtain is pulled back to reveal a mere mortal. The corporation is at risk of being the “humbug” caught shouting into the loudspeakers and pulling at the mechanistic levers of the past.

## THE GREAT OZ FACADE: THE SHORTCOMINGS OF SYMBOLS

On August 9, 1995, Netscape—the company founded by twenty-something Marc Andreessen that introduced the first graphical Internet browser—went public at \$28 a share and closed that day trading at \$58.25.<sup>4</sup> By [November of 1998 the company managed a successful sale to America Online Inc. at a valuation of \\$4.2-billion.](#)<sup>5</sup> On October 24, 2007 [Microsoft bought a 1.6 per cent stake in Facebook for \\$240-million](#), placing a \$15-billion valuation on the online social network application company that launched in a Harvard dorm room in 2004. Facebook had estimated annual revenues of around \$100-million at that point.<sup>6</sup> At age 23, Facebook’s founder and CEO Mark Zuckerberg has become the poster boy for the next generation of continuous, fast-moving innovation in communications technology. Meanwhile, Andreessen is behind [Ning](#), his own entry into the social network application market.

As symbols, these two innovators exemplify extraordinary corporate value creation. Much like the term, “[Web 2.0](#),” coined by [O’Reilly Media](#) for a 2004 technology conference, they are *de facto* brands that have emerged to represent very complex shifts in the business environment. Recognizing symbols like these, taunting and teasing them for meaning, is the preoccupation of the vast majority of the material that has been published about social media and social networks over the last four years.

Focusing management on delivering results against meaningful performance measures in today’s business environment is not as trivial.

SCVA is intended to provoke new insights and management practices that may be applied to a wide range of confusing phenomena that challenge today’s corporations.

Popular book and blog author Seth Godin has observed a class of a few million “Digerati” who are dedicated to “using the learning tools built into the Net to get smarter, faster” (Godin, 2005) and he himself evangelizes marketing methods aligned with SCVA. However Godin also notes the minority



status of these examples. He describes a [new digital divide](#) separating such early adopters from the rest of business investors and managers.

SCVA is an attempt to appeal to the sensibilities of the early majority, shift attention away from brand in business circles and bring attention and investment to radically new methods of value creation. There is not much here that will impress the Digerati.

The supporting arguments may even be familiar. Thomas Friedman has attempted to drive bottom-up awareness and mass adoption of these new methods of value creation with a gigantic metaphor and educational effort targeted at individuals in *The World is Flat*. Malcolm Gladwell picks up on associated tactical marketing communications dynamics in *The Tipping Point* and [Duncan Watts](#) is provocative at the level of product/idea positioning and design.

Now, SCVA would like to facilitate this [crossing of the chasm](#) by placing the typically unseen structural sources of corporate control in the networked age directly on the boardroom table, using the carrot of increases in corporate value and the stick of performance metrics (along with a Wizard of Oz metaphor to keep the marketing folks awake).

Focusing management on delivering results against meaningful performance measures in today's business environment is not trivial.

In 1988, a [beer lover](#) named [John Murphy](#) and his team conducted the world's first brand valuation for RHM Group in the UK<sup>7</sup>, a food company fighting off a hostile takeover bid. A year later they were hired by Grand Met to conduct a valuation of the Pillsbury brand portfolio as part of a \$5.2 billion takeover bid. "It was the wave of brand acquisitions in the late 1980s that exposed the hidden value in highly branded companies and brought brand valuation to the fore."<sup>8</sup>

In the context of Microsoft's \$45-billion hostile takeover bid for Yahoo!, the time and money that will be required to develop SCVA and apply its associated valuation method seems reasonable. Using the SCVA argument, Yahoo's board may present a plan to refocus its business on the assets that originally made it a leader. It could outline how a merger with Microsoft would dilute the quality of its future earnings and perhaps encumber any structural assets it has to compete with Google, i.e. social networks that are maximized for social capital. Microsoft, on the other hand, may be able to justify a higher bid.

Companies like Google and Amazon have brand valuations among the 100 most valuable in the world, overtaking decades-old brands with a fraction of the time and money invested. By any existing definition, the premium valuations paid for Facebook, MySpace, YouTube and many other companies including eBay's US\$2.6 billion acquisition of Skype (since written down by US\$900-million, an interesting move worth further study), are not attributable to the traditional notion of brand.

The vast majority of corporations do not understand how to tap into the extraordinary value creation dynamics represented by MySpace and Google. Nor do they understand how the business factors lifting MySpace and Google are exposing their sacred cash cows to new risks.

This ChangeThis manifesto is a call for investment in understanding.



SCVA is a [spin-out](#)<sup>9</sup> of brand management. It is designed to bring talent and resources to the relatively unexplored structural value drivers of social network throughout the corporate ecosystem. It will distinguish new scaled up forms of social capital that are attributable to broad-band empowered individuals within the traditional boundaries of corporate [goodwill](#).

Symbolic gestures and frenetic time-starved attention will not accomplish the SCVA mission to *empower investors and management with the framework to differentiate more valuable corporate assets (i.e. social networks maximized for social capital) from less valuable ones, and, in so doing, enable the establishment of measurable corporate goals and objectives.*

SCVA is based upon years of observation, research and scholarship from what I consider some of the best business minds of our time. With an authentic commitment to succeed in the networked era, SCVA can help any business accomplish its mission.

Consider the following four points, which are the four main sections of my eBook on the topic, *Introducing Social Capital Value Add*.

### **1. Yellow Brick Road “On Ramps”: Social Capital, SNA & the Corporation**

SCVA adapts Duke University Professor Nan Lin’s<sup>10</sup> “structuralist” definition of social capital, as “a concept, rooted in social networks and social relations, and must be measured relative to its root” (Lin, 1999, pp.35) and draws upon the work of [Brian Uzzi](#) from the [Kellogg Graduate School of Management](#) to provide a compelling case for the adoption of SCVA by investors and managers who are interested in “increases (in) economic effectiveness along a number of dimensions which are crucial to competitiveness in a global economy, [including] organizational learning, risk-sharing, and speed-to-market.”<sup>11</sup>

## 2. We're Off to See BE the Wizard: The Rise of the Individual as Medium

With some prompting from [Marshall McLuhan](#), SCVA pushes beyond the typically campaign-driven goals and objectives that dominate contemporary social media discourse<sup>12</sup> to focus on understanding the effects of new technology and new media. McLuhan urges us to look for “new scales” of activity that are introduced into human affairs by these extensions of ourselves. The intrinsic elements of social capital are a useful framework for bringing into focus the new environment that business faces, including *new scales of information flow, social influence, social credentials and individual identity and recognition*.

## 3. “Pay no attention to that man behind the curtain”: Brand and Social Capital

The strategic [shift from the broadcast paradigm to the Individual as Medium, examined through Burt's Structural Holes theory](#) of the social structure of competition, brings to light implications throughout the corporate ecosystem. Examining how Structural Holes theory builds upon the work of [Mark Granovetter's “Strength of Weak Ties”](#) idea launched twenty years earlier, it “captures the causal agent directly and thus provides a stronger foundation for theory and clearer guide for empirical research.”<sup>13</sup> Understanding the relative merit of “Structural Holes” and “Strength of Weak Ties” is a great blueprint for opening up thinking about the relative ideas of brand and social capital (i.e., explicit content vs. network structural assets; The Oz vs. The Yellow Brick Road)

## 4. Over the Rainbow: The SCVA valuation method

The goal of the SCVA valuation method is to place a dollar value on a company's most promising social capital, calculated as net present value (NPV), or today's value of future earnings that a company's SC<sup>x</sup> (scaled up forms of social capital) is accountable for. This number will become the best top-line measure of how SC<sup>x</sup> is driving a company's economic performance. As with all valuation methods, SCVA is a snapshot based on context at a point in time. With this benchmark of the overall worth of a company's SC<sup>x</sup>, investors and managers will be able to compare the company to its competitors, its history and to track its actual performance against projections.

SCVA's valuation approach is a relative of brand valuation technique championed by Interbrand and economic profit advanced by Stern Stewart & Co.'s trademarked formula of Economic Value Added, both of which are derivatives of the overall practice of [value based management](#).<sup>14</sup> The three components of the SCVA formula are Financial Analysis, SC<sup>x</sup> Factor and the SC<sup>x</sup> Inventory.

## 1. Financial Analysis

Human capital is the primary source of competitive intangible earnings for today's corporations. So a major challenge for SCVA is to propose a consistent approach that highlights only the portion of human activity behind SC<sup>x</sup>, a new driver of corporate growth and value that deserves particular management attention.

Ideally, SC<sup>x</sup> will be the fastest growing segment of earnings. Its unique role in B2B businesses will require unique management and it is essential to the efforts of all companies defending brands established during the broadcast era (like 'Dan Rather' or 'Dell,') or launching relatively new brands (like "Agent Provocateur" who, when counted in [July of 2007 for a Times Online article](#), had received 360 million views over five years since releasing this [Kyle Minogue video](#)).

## 2. SC<sup>x</sup> Factor (SC<sup>x</sup>F)

Brand valuation makes adjustments to account for cash flows that are attributable to certain legal intangible assets such as copyrights, patents and trademarks. Next, brand valuation technique relies on the development of a proprietary "role of brand" factor to determine what percentage of intangible earnings are generated by the brand, based upon survey work studying the brands and categories examined. The survey work is an estimate of the minds of buyers as they reflect upon their decision made at the time of purchase.

SCVA, on the other hand, relies on a series of audits and ratios to make its determinations.

### *Digital Footprint Audit*

This is a customized search of the entire internet to identify every piece of content that contains a reference to the corporation being valuated. Is this possible? A September 13, 2006 report entitled, “The Forrester Wave™: Brand Monitoring, Q3 2006” evaluates seven leading vendors who may be capable of performing this audit, including Biz360, Brandimensions, Cymfony, Factiva, MotiveQuest, Nielsen BuzzMetrics, and Umbria. I would add Radian6 as a notable addition to this group. The outcome of the DF Audit is the Total Digital Footprint (TDF).

### *Social Identity Audit*

This is an analysis of the Digital Footprint results to distinguish all of the content that is attributed to an individual identity and creates a list of all associated identities. The SI factor.

### *Social Engagement Audit*

This is a collection and analysis of the recorded correspondence that the corporation has with individual identities. This includes email, on the Web and through subscriptions, billing, warranty registrations, administration and all customer lists. The SE factor.

### *Social Capital Opportunity*

Identities discovered during the Social Identity Audit are then searched for matching identities from the Social Engagement Audit. These matches provide the sum Social Capital Opportunity (SCO).

SC×F does not delve into the qualities of the social capital or the associated earnings that it is identifying (SC× Inventory does). It relies on two basic assumptions:

- i.* An account of a company’s total digital footprint (i.e. its entire digital existence) is equal to an account of a company’s total value added earnings.
- ii.* The portion of a company’s web presence that is a product of meaningful social interactions correlates to the portion of value added earnings that are subjected to these interactions.

Whether portions of SC<sup>x</sup> are positively applied to develop earnings or are a negative drag on earnings is not determined by SC<sup>x</sup>F. For example, let us use a Google search for “Wal-Mart” as a bad proxy for the company’s digital footprint. It returns more than 55 million web pages. A Google search for “Agent Provocateur” returns less than 2.5 million web pages. For the most part, Wal-Mart is a business that was built prior to 2004. Wal-Mart’s value added earnings may prove to be highly exposed to SC<sup>x</sup>F and, in the absence of strategies to focus on this exposure, may experience growing risks. Agent Provocateur has adopted methods and tactics designed to leverage SC<sup>x</sup>. Its business may also be highly exposed to SC<sup>x</sup>F. However, this exposure could be a stable source of high margin, and rapid growth. SC<sup>x</sup>F simply illustrates the relative exposure that any company has to SC<sup>x</sup> in a way that is consistent, meaningful over time, and powerful for investors and executive management.

### **3. SC<sup>x</sup> Inventory (SC<sup>x</sup>I)**

Using the Wal-Mart/Agent Provocateur example cited above, we have noted that SC<sup>x</sup>F demonstrates that both companies, indeed all companies, will have a portion of their value added earnings exposed to the effects of SC<sup>x</sup>. The question that SC<sup>x</sup>I addresses is the relative risk of these SC<sup>x</sup> exposed earnings materializing over the projection period. In deriving net present value of forecasted earnings, the standard practice, accepted by finance professionals and rooted in financial theory, is the development of a discount rate that represents the relative risk profile of earnings. In this case, we want to determine the relative risk to value added earnings attributable to SC<sup>x</sup>.

In very practical terms, SC<sup>x</sup>I can be envisioned as a vertical specialization or extension of the talent management practiced by many leading firms such as GE, EDS and many banks and consulting companies.<sup>15</sup> SAP already integrates talent inventory management and “visualization capabilities to enhance and extend the SAP(R) ERP Human Capital Management (SAP ERP HCM) application”.<sup>16</sup> The difference is that SC<sup>x</sup>I will specifically track SC<sup>x</sup> resources available through connections among both employees and assets outside the traditional boundaries of the corporation (vendors, consumers, resellers, analysts, media, investors, etc).

## **Follow the Yellow Brick Road: The need for new structural management methods**

“There’s less to Facebook and other social networks than meets the eye.”

“Silicon Valley’s craze for the ‘social graph’ ... is overdone.”

“For bigger companies such as Google, the (social) graph is simply the web of links among its many users.”<sup>17</sup>

From the [October 18th, 2007 issue of \*The Economist\*](#).

## **HOW SHOULD A GLOBAL INVESTOR OR SENIOR BUSINESS EXECUTIVE EVALUATE THIS INFORMATION?**

Fortunately, pioneers have been labouring in the field of social capital since as early as 1980<sup>18</sup> (Bourdieu). The lineage of social network analysis can be traced back to three main traditions (sociometric/graph theorist, clique formation, structure of community relations) with roots in the 1930s, eventually brought together again at Harvard in the 1960s and 1970s, when contemporary social network analysis was forged.<sup>19</sup>

“Introducing Social Capital Value Add” is not an attempt to review or even proclaim a command of these existing literatures; it is designed to build bridges between these knowledge clusters, value-based corporate management and the priorities of marketers.

So, in the time-honored tradition of the Internet that “proved to the world that making something free as a driver would make a huge difference in making it a standard”<sup>20</sup> please [follow this link to get your full e-book version of “Introducing Social Capital Value Add”](#).

The e-book contains over 200 hyperlinks to enable you to quickly explore areas that may be foreign to your typical area of expertise.



## FOOTNOTES

1. The formula for calculating EVA is as follows:  $EVA = \text{Net Operating Profit After Taxes (NOPAT)} - (\text{Capital} * \text{Cost of Capital})$ , February 11, 2008.
2. "It is this continuous embrace of our own technology in daily use that puts us in the Narcissus role of subliminal awareness and numbness ... We have to numb our central nervous system when it is extended and exposed, or we will die. Thus the age of anxiety and of electric media is also the age of the unconscious and of apathy. But it is strikingly the age of consciousness of the unconscious, in addition. With our central nervous system strategically numbed, the tasks of conscious awareness and order are transferred ... the electric age gave us the means of instant, total field-awareness. With such awareness, the subliminal life, private and social, has been hoicked (sic) up into full view, with the result that we have 'social consciousness' presented to us as a cause ..." (McLuhan 1964, pp. 46-47)
3. "a time in the life of a business when its fundamentals are about to change. That change can mean an opportunity to rise to new heights. But it may just as likely signal the beginning of the end." Grove, Andy S., [Only the Paranoid Survive](#), Preface, 1996, Dec. 2007
4. Paul Festa, "Key Dates in Browser History," [CNET News.com](#) 13 Oct. 2004, Dec. 2007
5. Steve Lohr and John Markoff, "Deal is Concluded On Netscape Sale to America Online," [The New York Times](#) 25 September 1998, Dec. 2007.
6. Associated Press, "Microsoft Invests \$240 million in Facebook," [www.msnbc.com](#) 24 Oct. 2007, Dec. 2007.
7. [Interbrand Corporation History: 1980s](#).
8. Yates, Jane, "[Brand Valuation and its Applications](#)" Spring, 1999, July 10, 2007.
9. "Spin out refers to a type of spin off where a company "splits off" sections of itself as a separate business. The common definition of spin out is when a division of a company or organization becomes an independent business. The "spin out" company takes assets, intellectual property, technology, and/or existing products from the parent organization. Many times the management team of the new company are from the same parent organization. Often, a spin-out offers the opportunity for a division to be backed by the company but not be affected by the parent company's image or history, giving potential to grow existing ideas that had been languishing in an old environment and help them grow in a new environment." [www.wikipedia.org](#), February 8, 2008.
10. Lin's research spans Asian and Western cultures and is of personal interest. My own early interests in the application of social networks in marketing began with my study (1994) of the cultural and economic success factors of network marketing companies (such as Avon, AMWAY and Mary Kay) in Asia completed before living and working in China from 1995 to 2000.
11. Uzzi, Brian, "The Sources and Consequences of Embeddedness for the Economic Performance of Organizations: The Network Effect," [American Sociological Review](#) (opens PDF), Ms. #94-289, pp. 1
12. "Although one might have predicted that this rumor (or that social media campaign or another viral video contest!) succeeded largely because of its inherent cleverness (something that should stay constant over time) or the greed of Internet citizens (something that should stay constant or perhaps increase), such explanations provide little insight into why this rumor fluctuates." Berger, Jonah and Heath, Chip, "[Idea Habitats: How the Prevalence of Environmental Cues Influences the Success of Ideas](#)", 2005, Cognitive Science, 29, pp.195-221.
13. Burt, Ronald S., *Structural Holes: The Social Structure of Competition*, (Harvard University Press; Cambridge, Massachusetts, 1992) pp.27-28
14. "Value based management is the management approach that ensures that corporations are run consistently on value. (normally: maximizing shareholder value)," [www.valuedbasedmanagement.net](#) February 13, 2008.
15. "Talent on Demand: Applying Supply Chain Management to People," [Knowledge@Wharton](#), Human Resources, February 20, 2008, March 3, 2008.
16. "SAP to Resell Nakisa's Talent Visualization Software," [www.sap.sys-con.com](#), Dec.11, 2007, March 3, 2008.
17. "Internet Companies: Social Graph-iti," [The Economist](#) print edition, October 18, 2007.
18. Lin, Nan, "Building a Network Theory of Social Capital" ©1999 INSA, *Connections* 22(1): 28-51, see pp.28-31 for compact history of social capital.
19. Scott, John, *Social Network Analysis, A Handbook*, Second Edition, (Sage Publications Ltd, London, 2000) pp.7. See Chapter 2, pp.7-37 for history of development of Social Network Analysis.
20. Larry Roberts in reference to the adoption of Transmission Control Protocol, a standard that has enabled the internet, which was orchestrated by Bob Kahn and Vint Cerf. "An Oral History of the Internet, How the Web Was Won", Vanity Fair, July 2008, p. 104.



**WHAT'S WITH THE DOG?**  
Get more details [here](#).

## ABOUT THE AUTHOR

Michael Cayley (BPR, APMCP, MBA) is an entrepreneur, consultant and former CEO. He is the author of "Introducing Social Capital Value Add" and he hosts the blogs [Social Capital Value Add](#) and [Memetic Brand](#). He greets possibilities with a [Beginner's Mind](#). You should [connect with him](#). His professional profile is [here](#).

## AUTHOR ACKNOWLEDGEMENTS

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