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The Social Capital Scramble

Why the business of building online forums for networking is booming in bad times.
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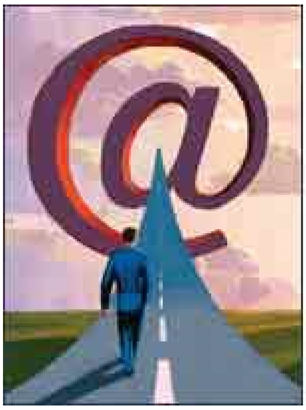

The familiar expression “misery loves company” is taking on new meaning in the economic downturn. Gripped by job jitters, millions of corporate managers are rushing onto online social networks in a scramble to build their social capital.

It may, in truth, be more anxiety than misery. But make no mistake, the soaring popularity of sites like LinkedIn and Facebook are transforming the nature of business networking.

A year ago, the networking site LinkedIn had been operating for five years and was cash-flow positive, yet the site had little brand profile and definitely no sex appeal. Some dismissed it as “Facebook for losers”—a site for boring corporate suits collecting professional contacts while plotting their next career moves. Facebook, by contrast, was the more compelling site for enjoyable social networking.

That was before the financial collapse. Now LinkedIn doesn’t seem so boring. For many corporate executives, it has become an indispensable online tool for building social capital. While fretting about your career may not be cool, many managers have no choice.

The Game-Changers

LinkedIn and other social networking sites, like Plaxo and Xing, have made a virtue of necessity. And business is booming in bad times. LinkedIn now boasts more than 35millionmembers. Facebook, for its part, counts more than 200 million.

According to the Nielsen research firm, LinkedIn posted year-over-year (YOY) audience growth (measured by unique visitors) of 123 percent for the month of September 2008. In the United States alone, YOY growth was 193 percent for the same period. When the financial crisis hit in September 2008, LinkedIn’s membership shot up by 25 percent in a single month to 28 million. As the economic crisis deepened, the site’s sign-ups clocked in at the amazing rate of a new member every second. Most of the new sign-ups, not surprisingly, were from the financial sector.

“Financial services is one of our fastest-growing sectors,” Dan Nye, LinkedIn’s CEO, told the Financial Times in late October. “Clearly, people are joining as they are thinking about their employment situation. People are also getting advice from their network, reference- checking vendors or searching for candidates to fill positions.”

There is a direct link between the economic downturn and soaring membership on networking sites. A LinkedIn survey in the fall of 2008 revealed that 42 percent of the network’s members felt their job security had been affected by the economic crisis, while 13 percent said it was too soon to tell. In short, more than half of LinkedIn’s worldwide members were anxious about the future. Indeed, recruitment sites like Monster, CareerBuilder and Yahoo’s Hot jobs have also been reporting visitor growth rates of more than 40 percent.

It may be doom and gloom out there, but LinkedIn is doing booming business. Its owners completed $22.7million in financing in the fall of 2008 despite the collapsed market, pegging the site’s market cap at $1 billion, and brought in investors including SAP, Goldman Sachs, McGraw-Hill and Bessemer Venture Partners. On the technical front, LinkedIn was also jazzing up its site to give it more appeal as a social platform and adding useful plug-in features, such as one that allowed members to sync with e-mail address books like Outlook and Gmail.

LinkedIn's business model eschews membership fees. There is no charge to join. The site leverages network effects to monetize its membership in two main ways. First, it offers premium services (from $20 to $200 per month) to members who wish to post CV information request introductions and contact other members. Second, and more lucratively, it charges business- to-business fees to employers and headhunters who use LinkedIn as a database.

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LinkedIn isn't the only online social networking site booming in bust times. Xing, a so-called small world site based in Germany, counts more than 8 million members. While those 8million represent only a fraction of LinkedIn's membership base, many pay a monthly fee of roughly $6. Xing also hosts groups, such as a "Greater IBM Connection" group of some 17,000- strong. The site has been growing largely through acquisitions. It has bought, for example, sites eConozco and Neurona in Spain and Cember in Turkey.

Plaxo, which, like LinkedIn was launched with Silicon Valley startup equity from Sequoia Capital, turned its address-book site into a full-blown social networking platform that looked like it might rival LinkedIn. When Comcast, the cable TV giant, bought Plaxo for $175 million in early 2008, the site counted some 20 million members. Plaxo claims to host more than 40 million address books, though it faces tough competition from Facebook on the consumer end and LinkedIn on the business end of the social networking space.

Another new social networking site, Meet The Boss, is restricted to "c-level" executives in financial services like banking. Launched in September 2008, right in the middle of the meltdown, its timing could not have been better. Based in England, Meet The Boss members connect and discuss top-level management issues via video conferences, IM, email and SMS. The site, which is free, generates revenues from advertising, and also features interactive webcast interviews with Fortune 500 CEOs and industry thought leaders.

Meet The Boss has taken a velvetrope approach to its "small world" business model. Its first 20,000 members were invited to join, and the site plans to keep a ceiling of 50,000 on the total membership, which is restricted to CEOs, CIOs and other top-layer executives at financial firms such as Barclays, ABN Amro, J.P. Morgan Chase, Citi, HSBC, Visa, Goldman Sachs and Wachovia. The site's owners claim to have turned away about two-thirds of applicants and routinely screen out the recruiters, marketers, consultants and journalists who hover around other sites like LinkedIn and Facebook.

Virtual Visibility

The surging popularity of online social networking has profound implications for the way corporate managers are managing their careers. In the past, building social capital involved getting out and meeting people, building contacts, staying in touch with potential allies, and lots of face-to-face lunches. While these rituals may not be entirely out of fashion, building social capital is rapidly shifting to the virtual world online.

As the *New York Times* noted after the financial collapse:"If you've been joining social networking sites and never taking the time to complete your profile—or if you've been hitting the delete button when friends and colleagues invite you to connect on a new online platform, now is a good time to start paying more attention."

Not only are laid-off investment bankers rushing onto social networking sites, but employees and professionals from virtually every sector of the economy are becoming more alert to the advantages of building and maintaining social capital online.

Social capital is no different from economic capital invested to produce a financial return. According to a formal definition, social capital is an investment in social relations with expected returns. As sociologist Nin Lan puts it in his book, Social Capital: "Individuals engage in interactions and networking in order to produce profits."

How can these "profits" be recognized and measured? According to neo-capital theory, they take the form of *information, influence, social credentials and recognition*. In other words, social capital procures competitive advantages conferred by privileged access to resources located in social networks.

One of those resources, of course, is *information* about career opportunities. Some people get jobs through family members or close friends, thus enjoying the benefits of nepotism or cronyism. Most employees, however, cannot count on the benefits of close ties. No matter, it has been amply demonstrated that the most effective way of finding a new job is through "weak tie" contacts in your social network.

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The “strength of weak ties” theory was famously elaborated by sociologist Mark Granovetter. He defined “weak ties” as social relationships characterized by infrequent contact, an absence of emotional closeness and no history of reciprocal favors. In professional parlance, you might say “people in your extended network.” Granovetter found that we rely on weak- tie connections much more often than we think. Most intelligent job-seekers don’t turn to close friends or family for jobs, unless they are expecting to benefit from the advantages of cronyism or nepotism. Most turn to their extended network.

Some contend that talented executives never have to worry about job prospects because “top talent always lands.” And yet a recent psychographic survey of LinkedIn members by Anderson Analytics revealed that even savvy networkers and seasoned executives are signing up to build their social capital. Using a total sample size of more than 65,000 LinkedIn connections to segment users, Anderson came up with four primary categories: Savvy Networkers, Senior Executives, Late Adopters and Exploring Options.

Savvy Networkers: This category represents 9million, or 30 percent of total LinkedIn members. They are experienced online social networkers with an average of 61 connections each. They are also likely to be active on other social networking sites such as Facebook. Their average personal income is $93,500 and many use the word “consultant” in their job description. They tend to use LinkedIn for a wide variety of purposes beyond job hunting. They are more likely to turn to the Web for news than to CNN or MSNBC. Nearly 70 percent of Savvy Networkers read blogs and 9 percent keep their own blog.

Senior Executives: Some 8.4million, or 28 percent of LinkedIn members, are in this category, where members have titles such as owner, partner, executive or associate. Their average personal income is $104,000. Less tech savvy than the first category, senior executives tend to use LinkedIn to connect with existing corporate networks, not to forge new relationships. Already in key power jobs, many join LinkedIn because they’ve been invited by a colleague and then connect with other colleagues they know. With an average of 32 connections, senior executives are decidedly more restrictive than savvy networkers. Nearly 65 percent are male, and they tend to get news from sources like Fox News before the Web.

Late Adopters: This group counts 6.6 million members, or 22 percent of total LinkedIn users. With a relatively low personal income of $88,000, late adopters tend to have titles like teacher, medical professional or lawyer. Comparatively conservative, they are reluctant online networkers who generally joined only after receiving numerous connection requests from co-workers. Cautious about how they use the site, they tend to connect only to close friends and colleagues and have an average of only 23 connections. Late adopters tend to get their news from sources like CNN.

For many, there’s nothing more irritating than when a new contact comes back to you almost immediately with an inappropriately forward request.

Exploring Options: This category counts 6.1million, or 20 percent of total LinkedIn users. This is the group that is most actively using the site for job hunting, and they often use other sites like CareerBuilder. Their relatively low personal income of $87,600 may explain why they are more proactively looking to switch jobs. Members of this group are tech savvy and tend to use social networking sites for both social and professional reasons. More than half, or 52 percent, are women and the average number of connections is 34.

Share, Don’t Sell

With so many people stampeding onto online social networks like Facebook, delicate matters of proper etiquette and good form can be a source of tension, especially as social and business networking become increasingly blurred. Most experts caution novice online social networkers that, even on professional sites like LinkedIn, old-fashioned networking rules apply. *The New York Times* offers the following advice: “Build your reputation as a giver, rather than as someone who is always asking for favors.” Indeed, for many there’s nothing more irritating than when a new contact comes back to you almost immediately with an inappropriately forward request for a favor. It’s generally more advisable to go into social networking as a giver, not a taker—and gradually build relationships according to reciprocated favors. Online social networking is governed by a culture of sharing, not selling.

One recurring question is whether the virtual world is governed by unique values, codes and laws of conduct. This often seems to be the case, but in truth, tension with real-world values is often inevitable. What happens, for example, when people start invading Facebook—where “friend” values are embedded in the site’s social etiquette— to network for career reasons? It’s easy to see how a tension between social instincts and professional calculations could create some social conflict. And yet Facebook is increasingly cluttered with self-promoters, career artists and marketing entrepreneurs. Can these people really be considered friends, even when defined as weak ties? Just how many Facebook friends can we reasonably have?

Anthropologists tell us that it's impossible to maintain stable social relationships with more than 150 people. This is widely known as "Dunbar's Number," named after British anthropologist Robin Dunbar, who argued that the necessary ritual of "social grooming" breaks down in groups whose membership exceeds roughly 150.Maintaining a professional network of more than 150 connections on LinkedIn might be plausible, but it would appear to be impossible to maintain social relations with more than 150 different people on sites like Facebook. And yet many Facebook profiles feature friend lists that not only surpass that figure, but are double, triple and quadruple it. Some Facebook friend lists reach the thousands.

It's a safe bet that, if the economic downturn grinds on, we will witness a growing trend towards blurred lines between non rational instincts to connect socially and rational calculations to build social capital for professional reasons. If so, it may put further strain on the notion of an online friend. We may find ourselves asking more frequently that old question, "What are friends for?"

Professor Soumitra Dutta, Roland Berger Chaired Professor of Business and Technology, and **Dr. Matthew Fraser,** senior research fellow at INSEAD, coauthored *Throwing Sheep in the Boardroom: How Online Social NetworkingWill Change Your Life,Work andWorld.*