

Mutation of Capital in the Information Age: Insights from the Music Industry

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The question this paper addresses is whether more variety in meaning of capital could increase the value of capital as one of the factors of production.

Motivation for paper come from;
“There’s Nothing Like the Real Thing” - Vincent Kenny

A third-order cybernetics problematizes, therefore, both the selfhood (subjectivity) of the observer and also the relationship of this subjectivity to any observed system...

As Boxer & Kenny (1990: 5) put it: “Businesses have a tendency to ignore things. It’s their way of keeping life simple. After a while they forget what they are ignoring, so that when things start going wrong, they find it difficult to change because they get stuck within what they know.....

Based on a case study from the music industry, the authors have tried to determine whether the extensive use of technology, relationship, knowledge and emotions can be used as a resource for value production in today's economy?

Two different thoughts come from two of the probably most important economists in the last century: John Maynard Keynes and Milton Friedman.

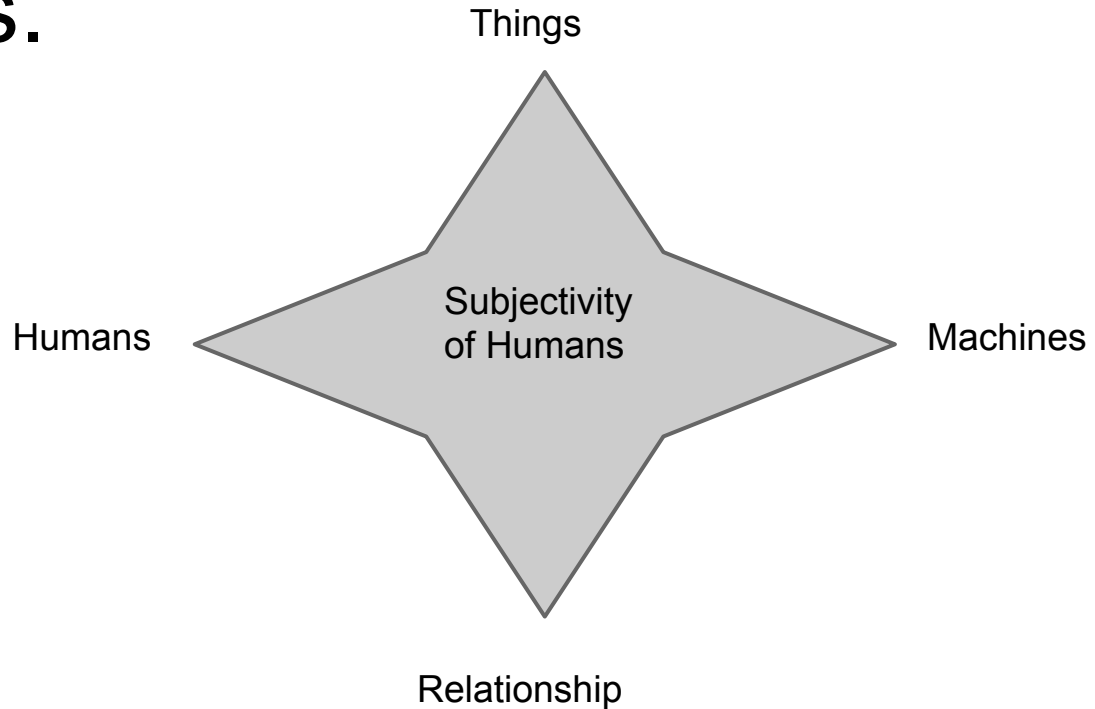
"Thus if the animal spirits are dimmed and the spontaneous optimism falters, leaving us to depend on nothing but a mathematical expectation, enterprise will fade and die;"

"The Social Responsibility of Business is to Increase its Profits"



Tangible and intangible aspects of business operations are not opposite, they are complementary phenomenon. To put them in such constellation could give us much broader and better framework for analyzing, researching and measuring the success of companies.

Complex system with dynamical relationships.



Problem !!!

In order to provide a better picture, we made a brief analysis of the Forbes top ten most innovative companies today whose information can be found on the NASDAQ.

Table 1.

Company	Market Cap (20.09.2013)	Total Assets	Assets Report Date	Ratio Assets / Market Cap	Average Assets / Market Cap	Actual Difference in mlrd. USD
	In mlrd.	In mlrd.			26,63%	767,406
Salesforce.com	31,814	5,528	1.31.2013	17,38%		26,285
Amazon.com	142,575	32,555	12.31.2012	22,83%		110,020
Intuitive Surgical	14,691	4,059	12.31.2012	27,63%		10,632
Apple	429,083	176,064	9.29.2012	41,03%		253,019
Google	299,182	93,798	12.31.2012	31,35%		205,384
Monsanto	56,973	20,224	8.31.2012	35,50%		36,749
Celgene	61,082	11,734	12.31.2012	19,21%		49,348
InfoSys	27,718	8,539	3.31.2013	30,81%		19,179
FMC Technologies	13,539	5,902	12.31.2012	43,60%		7,636
Starbucks	57,369	8,219	9.30.2012	14,33%		49,150

Google profit in 2012
aprox 10 B USD

based on
intersubje
ctivity of a
buyer and
a seller.

Nidec, which is on the list, is excluded because it's a holding company.

Source: www.nasdaq.com, data retrieved on 20.09.2013; <http://www.forbes.com/special-features/innovative-companies.html>, data retrieved on 20.09.2013;

Currently the only existing measurement of the company value is what somebody is willing to pay for the company.

Shapiro and Varian defined term **information delay** as an important factor in the network economy. What they say is that information could increase or reduce its value according to amount of delay in time.

Smaller delay – higher value, bigger delay – smaller value.

Using information of market value, as a measurement and evaluation tools of company activities, we are addressing one problem – **delay of information, and value of this information, as a delay from the moment when some activity is done and that activity reflected in share price could be quite long.**

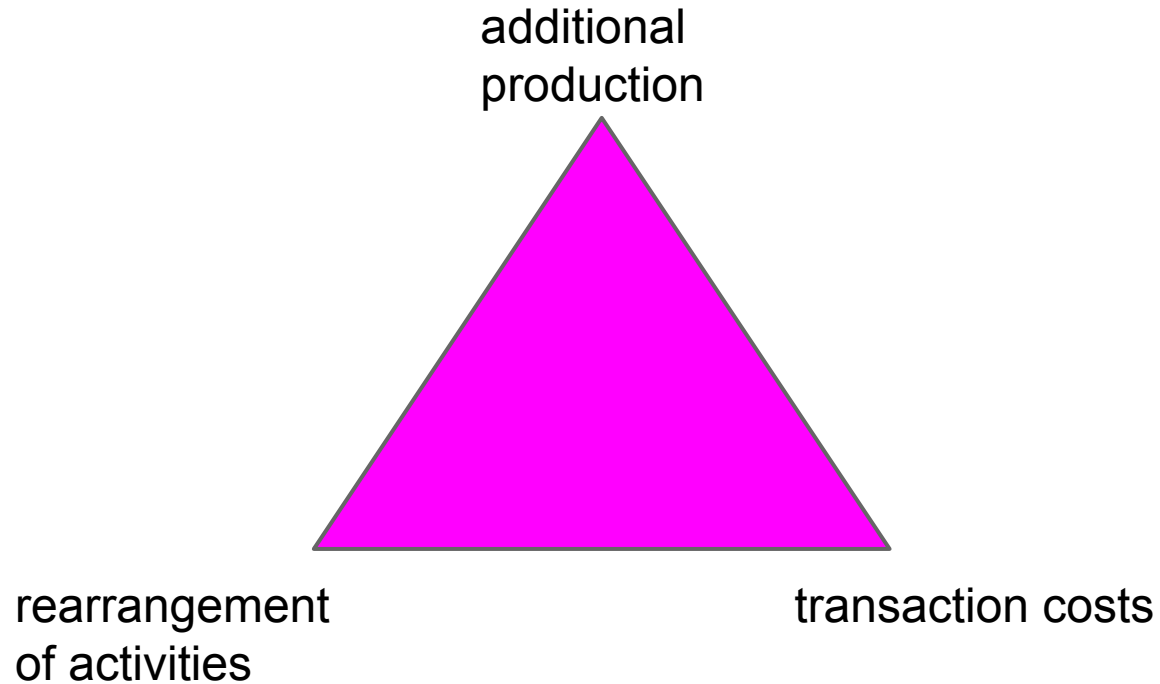
About “Whole”

*“System analysis of a business enterprise encompasses men, machines, buildings, inflow of raw materials, outflow of finished products, monetary values, **goodwill and other imponderables it may give definite answer and practical advice.**” – Ludwig Von Bertalanffy*

Ronald Coase, is calling economists to **look the economy as a whole system as an object of study**, how one part is related to another, how they are interrelated and how they actually work together.

Norbert Wiener proposed the lesson that any **organism is held together by possession of means for acquisition, use, retention and transmission of information** and that the means of communication are the most important and most effective.

Roland Cose call for analysis and comparison



...the costs of transactions are less than the value of what is gained.

New factors of production

Rearrangement of activities leads to new relationships which could give new meanings, and meanings define new properties which are then analysed and applied in complex system of dynamic relationships that could lead to new factors of production.

*...“sometimes regarded as **mutations into different economic system**”...*

...such developments did not replace capitalist principles fully, but modified the essence of it,

Wolfgang Hofkirchner

Build trust, not control ! Gary Hamel

It is much cheaper to build a trust, then a system for controlling employee's activities.

Along with not investing money on the control equipment the quality of working atmosphere is being increased which then leads to better working results and lower costs.

- So company assets are decreased and liability is increased but we still have better results.
- It is completely opposite to classical capital formula where capital is assets minus liabilities.

Mutation of capital

Those are things which are intangible, but they are not labour, nor land, so only what they could be is capital, according to classical factors of production.

A kind of a new mutated capital, which heavily depends on information instead on tangible matter.

Such a transition of meaning of capital resulted in change of properties of the capital.

Value theories

theory of **value chain** by **Michael Porter** who explains how company produce value by executing the steps of activities in order, where total added value is more than sum of the independent steps or activities.

John Sviokla and Jeffry Rayport developed a concept called Virtual Value Chain, in which, along Porters value chain, an organization should add activities which should produce value out of using information. Again, the sum of total value is higher than the sum of independent steps. **For those activities object is information, or bits, or something intangible that is gathered, organized, selected, synthesized and distributed.**

Stake Holders Theory, written by **R. Edward Freeman**, Along resources based view and market based view this theory adds socio- political view. To produce maximum value, companies or their directors have to include all three views in organizing their operations and steering organization system. This theory focuses on relationship inside the system where one company operates by expanding the view outside of legal definition.

Theory	System view
Value Chain	Whole
Virtual Value Chain	Tangible and Intangible
Stakeholders theory	Dynamic Relationship

If we look at the relationship of tangible and intangible as a system, and then use this system as a means of production, then whatever we produce and enter the economic system has intangible and tangible in it.

So it is important to look at them as one, not as separate entities, and even more important, we have to focus on how it is produced and what are the relations in that process.

Therefore, several questions need to be addressed:

- **How we use technology available to produce value?**
- **How organization is driven by emotions?**
- **How we use relationship to produce value?**
- **How we apply knowledge in this process?**

Music Industry example

If we compare two companies, A and B, both owning a catalogue of 10,000 songs in similar genre and with similar popularity,

- and company A is not interested in using technology to promote and sell them digitally, corporate culture is not driven by positive experience and emotional attachment to the music they have in catalogue, they are not interested in exploring value of relationship they have built over the years, and they are not acquiring new knowledge how to conduct the business in digital environment,
- while company B is doing opposite, using technology, driven by positive experience and emotions, using relationship to the maximum and developing knowledge.

It is not hard to answer to question which one will have higher market value.

So, how then do we have to look at music industry?

- it is defined that the Music **industrial system** involves aesthetic and industrial production embedded in **economic production functions** and intermediaries that support different phases. They also stated that production of music is **more number of intersecting networks where ideas circulate among firms and individuals than linear activities**. (Power, D.; Hallencreutz, D.,)
- we are witnessing is a major development in the music system or environment of the music organization companies in the last 20 years. Good summary of those developments are underlined by Knowles;
 - *democratization of the tools for production,*
 - *democratization and diversification of the means for distribution,*
 - *the rise of social networking sites connecting producers and consumers and listeners with shared tastes,*
 - *the infinite catalogue and 'The Long Tail',*
 - *an exponential increase in the availability of 'free music' through illegal file sharing,*
 - *the arrival of large capacity of portable media devices.*

- change in the environment of music system, gave us a lot of variety,
- organization has to develop new set of business functions which will respond to such a variety. (*Ross Ashby's "Law of requisite variety" applies , who claims that in order to control variety , variety is necessary.)*
- If the system keeps to be ruled by only 3 companies, regarding the General system theory, it is a matter of the day when it will be destroyed. (*"if only few or competing pair are left, conflicts become devastating to the point of mutual destruction"*)
- But if the new production factors are developed as a response to the increasing variety in surrounding music system, then music system could manage its existence much better.
- Variety should come as an output from analyzing complex system of dynamic relations of tangible and intangible

Case study

use of technology	emotions	relationship	knowledge
<p>podcast, Ajax technology, Web site, produce even better music by using available technology, Skype ... re edited just for purpose of playing it in their own DJ sets,</p>	<p>passion for the original house music, popularity of the web site encouraged Eli and his partner, positive feedback as high emotional driver, produce only the music, without being worried about business operations, both of them shared the same emotions for such a musical format and style (disco re-edits released 2009)</p>	<p>relations with fans and similar music organization started to develop, relationship built through their web site was a foundation for promotion of their music, their friends were starting a record label (Air Drop), relationship with Wolf and Lamb, 2009 Airdrop organized a tour for Soul Clap in Europe, big appearance - relationship with resident DJ, 2011 Soul Clap and Wolf and Lamb together done DJ Kicks, for compilations they have selected the artists they were working with,</p>	<p>good knowledge about the music, their music production skills have developed, deep knowledge about old disco records, been asked to play tracks from those podcasts and that kind of music which was not usually played in clubs in Europe, knowledge and style of DJ-ing they developed in US, deep knowledge of rare and forgotten records</p>

Case study

- in 2011 they had about 120 international gigs around the globe
- Interviewer asked – is it important to keep all of these 4 factors in balance, to keep the system growing (if you do not develop one of the factors, could the whole system be affected)
 - Eli answered positively and added that he experienced that a lot of musicians were not able to keep up with growth just because of not developing it in a balanced way.
- To conclude, in the interview Eli was asked about approximate number of gigs in 2011 and 2012, and did Soul Clap along with using technology, relationship, emotion and knowledge do some major financial investment in their business operations.
 - He completely agreed that building such an extensive business operations was done only by using those four factors without financial investment, and that they could even make more money out of gig as demand is bigger but also price per gig rises, but they are very aware of the risk of misbalancing those factors because of extensive touring.
 - income they have generated opened up the new business opportunity which can grow even further.
- Conclusion ; *"It is still business, we have to remember it is business, but embracing intangibles along, such as passion, love and fun, and not focusing on business side so much."* **Eli Goldstein**

Almost there ...

The question this paper addresses is whether more variety in meaning of capital could increase the value of capital as one of the factors of production.

- ***It is still business, we have to remember it is business, but embracing intangibles along, such as passion, love and fun, and not focusing on business side so much.*** Eli Goldstein

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Conclusion

It doesn't matter who is better,
What counts is relationship as a matter.

It's not about your technology toys,
It's about how it's used by your girls and boys.

It's not about knowledge you could buy,
It's about how it could be applied.

It's not about profit giving you a positive drive,
It's about how your people smile.

And when your profits start to dry,
Give this poem another try.