International Journal of Hospitality Management 49 (2015) 40–46

Contents lists available at ScienceDirect

International Journal of Hospitality Management

journal homepage: www.elsevier.com/locate/ijhosman

Effects of social media on firm value for U.S. restaurant companies

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ARTICLE INFO

Article history:
Received 28 June 2013
Received in revised form 19 April 2015
Accepted 13 May 2015

Keywords:
Social media
Firm value
U.S. restaurants

ABSTRACT

This study explores a relationship between a restaurant firm's social media activity and firm value. Although social media have become significant in restaurateurs' communications with existing and potential customers, the actual financial consequences thereof seem unclear, and little empirical evidence is available. This study's findings suggest a positive and linear effect of restaurant firms' activities in social media on firm value (Tobin's q) after controlling for several firm characteristics.

1. Introduction

Social media have grown rapidly and, in recent years, their impacts on society and the business world have become significant. In 2014, Facebook reached 1.28-billion monthly active users while both Twitter and LinkedIn reached 255- and 187-million monthly active users, respectively, worldwide (Bennett, 2014). Also, 93% of marketers use social media for their business (Bennett, 2013). The restaurant industry is one that heavily uses social media for business purposes.

Social media are known as the most prominent vehicles for advertisement and promotions in the restaurant industry. According to a study by Ipsos MediaCT on behalf of Groupon and the National Restaurant Association (eMarketer, 2013), social media are restaurateurs' most-used marketing tactics. Among respondents in the study, 80% of restaurants used social media as their advertisements and promotions; this is 17% higher than the next most popular tactic, email. In responding to the growing significance of social media roles in the restaurant business, in the third quarter of 2011 the National Restaurant Association (NRA) started to publish *The Restaurant Social Media Index* ranking for 100 U.S. restaurant brands in terms of their activity levels in social media.

Needles and Thompson (2013, p. 6) explanation for such active adoption of social media in the restaurant industry is that "restaurants' tight cost structure may mean that social media – a low-cost marketing tool – would be a natural fit for restaurant marketing." Especially for small business operators in the restaurant industry, social media provide low-cost advertising to increase market share and boost restaurant sales (Needles and Thompson, 2013). This is highlighted by the NRA's 2013 Forecast (National Restaurant Association, 2013) report that more than seven in ten eating-and drinking place establishments are single-unit operations and that 93% of eating- and- drinking place businesses have fewer than 50 employees.

Despite heavy adoption of social media and the importance of that to the restaurant business, the restaurant industry has been criticized for not understanding how beneficial social media are to it (DiPietro et al., 2012). Although the ultimate goal of restaurants' participation in social media should be to maximize firm value, such impacts have not been fully explored in either hospitality literature, or general financial economics literature. For restaurant industries, for instance, evidence is mostly anecdotal on how social media influences restaurant diners' purchasing behaviors, or on perceived impacts of social media on operations and revenues (e.g., Needles and Thompson, 2013) rather than on actual financial performance to evaluate the return on their social media investment. This problem with empirical examinations may exist due to the difficulty of measuring social media impacts. Perhaps the cause of this lack may rest in the relative brevity of the history of social media in the corporate context as a medium of communication with existing and potential customers, compared to other traditional communication media such as newspaper – and magazine – articles and television – and radio – advertisements.

Given social media significance in contemporary business, and the gap in the hospitality and financial economics literature, the current study explores the impact of social media on restaurant firms' value. More specifically, based on the resource-based view,

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http://dx.doi.org/10.1016/j.ijhm.2015.05.006
0278-4319/

the current study proposes a positive effect of social media activity on firm value in a linear manner. These days various internal and external stakeholders of a firm, including investors and consumers, can learn a great deal about a firm from rich contents through social media websites (Chen and Xie 2008; Chen et al., 2012; Gu et al., 2012), therefore, the social media has become a critical resource to firms although it is available basically to all firms. Just as firms can manage their brand quite differently from each other, managing the social media in an efficient and effective manner can be a differentiating factor for firms. Especially, considering word-of-mouth (WOM) and electronic WOM (eWOM) as critical factors for the restaurant business (Jeong and Jang, 2011; Lewis and Chambers, 2000; Litvin et al., 2008; Pantelidis, 2010) and also the social media as restaurateurs' most-used marketing tools these days (eMarketer, 2013), the well-managed social media should add value to restaurant firms. Findings of the current study will not only provide implications for the financial economics literature regarding the social media, but also for the restaurant executives in their developing and managing social media strategy.

This study next reviews relevant literature and discusses methodology including data, study variables and model. Presentation of analysis results follows, then discussion thereof. The study concludes by outlining limitations, and offering suggestions for future research.

2. Literature review

2.1. Theoretical background

Business literature has researched social media noticeably from marketing capabilities' point of view. It is because companies actively have adopted social media for an effective marketing strategy (e.g., Gelb and Sundaram, 2002; Kim and Ko, 2012). The phenomenon indicates importance of social media in the market place and many survey results support positive impact of social media on a brand or a company (e.g., Universal Mccann, 2008).

While the topic has been gained researchers' attention, how to measure effectiveness of social media and its return has long been of a debate both in market place and academia, and the contention seems to becoming fiercer (Fisher, 2009). Some measure the organizational performance with management teams' assessment of their organization's relative performance compared to their competitors (e.g., Rapp et al., 2010). Hoffman and Fodor (2010) emphasized importance of customer behaviors such as the number of visits to a company's social media site, time spend with that site, and the valance of comments on that site in calculating the return on investment of social media marketing. While numerous methods and philosophy exist in measuring return on investment in social media and related discussions are important, examining the impact of social media on a company's financial performance is critical at least for two reasons. First, marketers need to justify the cost involved in social media regardless of size of the cost, and second, corporate strategies including areas of marketing ultimately aim to maximize financial performance. Nevertheless, financial consequences often are excluded from prior research. Even the generic relationship between social media activities and financial performance has not gained enough attention despite its importance.

As frequently adopted by previous related research, this study has theoretical underpinnings of the financial consequences of social media strategy with the resource-based view. The resource-based view sees a firm as a unique bundle of resources, and capabilities rooted from the resources are claimed to lead to superior performance (Day, 1994; Eisenhardt and Martin, 2000; Teece et al., 1997; Wu, 2007, 2010). This study views social media as a firm-specific capability that positively influences a firm's performance.

Firms actively use social media in the belief that those are effective marketing tools. From a marketing perspective, prior research identifies at least two significant sources of competitive advantage when a company successfully implements social media strategy. First, a company can communicate with customers without restriction in time (e.g., Kim and Ko, 2012). Social media build a platform that allows customers instantly to report satisfaction or dissatisfaction with services or products. Therefore, a firm quicker than ever before can understand areas that excelled or need improvements. At the same time, however, a company should note that managing consumers' feedback in social media is crucial and it can even destroy a business when poorly managed (Gelb and Sundaram, 2002). Pantelidis (2010) points, for example, to the case of Casa Flamenco, a restaurant in Australia, which had to close the business by responding rudely to a customer's constructive criticism. Lee et al. (2012) introduce Starbuck's practice that it uses social media not only as tools for direct communication with its customers, but also as windows to obtain first-hand suggestions and criticisms from those customers. Accordingly, many companies, across industries from travel – to investment – related, assign employees who monitor customer reviews posted on social media to manage customer feedback (Alden, 2012; Huang et al., 2010).

Second, social media allow companies to have higher predictability to win or lose for new products. Social media have become a rich and critical source of marketing information on customers' experiences of their products or services, thus help companies to learn their current and future performance (Gelb and Sundaram, 2002). It is worth emphasizing that ensuring good quality of service or product precedes generations of good electronic word of mouth, otherwise, customers will punish the company rather than reward it (Pantelidis, 2010). Interactive social media communications between companies and customers, as well as among customers, provide platforms to exchange information and ideas. When implemented successfully, such practice effectively may reduce customers' misunderstandings of companies or brands, and may elevate brand value (Kim and Ko, 2012). Above evidences imply that, when and only when appropriately used, social media would bring higher financial performance. Although majority of restaurants utilize social media, the way they use it varies, therefore, its impact on firm performance diverges.

2.2. Social media and financial performance

Social media literature focusing on the financial performance aspect has evolved, from examination of the direct association of online review and a firm's financial performance, to more complex forms of investigation by considering various other factors – such as product and consumer characteristics – as moderators. Extant literature has examined relationships with two kinds of performance measurement: (1) customers' purchase intentions, and (2) firms' sales. As the current study examines impact of social media on a firm's financial performances, understanding how related literature has evolved and how this study advances the literature is imperative.

Considering social media's important role as a marketing tactic, investigation on the relationship between social media and customers' purchase intentions is a natural result. Such investigation has been made under different contexts including hotels (Sparks and Browning, 2011), festival (Lee et al., 2012), and travel blogs (Huang et al., 2010). Aspects of social media researched varies as well, which include impact of reviews with negative valence on purchase intention (Sparks and Browning, 2011), emotions perceived from a social media site on visit intention (Lee et al., 2012), and finding factors that affect purchase intention among bloggers' advertising memory, brand attitude and involvement level on a blog (Huang et al., 2010).