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Business performance and social media: Love or hate?

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Abstract The social media space has become a common place for communication, networking, and content sharing. Many companies seek marketing and business opportunities via these platforms. However, the link between resources generated from these sites and business performance remains largely unexploited. Both managers and financial advisors can profit from the lessons learned in this study. We conceptualize four channels by which social media impacts financial, operational, and corporate social performance: social capital, customers' revealed preferences, social marketing, and social corporate networking. An empirical test of our framework shows that 'followers' and 'likes' positively influence a firm's share value, but only after a critical mass of followers is attained. Our estimates suggest that Twitter is a more powerful tool to enhance business performance than Facebook.

1. The value of social chatter

In 2010, American Express conceived and promoted the first Small Business Saturday, an American shopping holiday held on the Saturday after Thanksgiving. The advertising campaign for Small Business Saturday involved mainly social media, generating more than 1 million Facebook 'like' registrations and nearly 30,000 tweets. After the campaign, 40% of the general public was aware of Small Business Saturday and revenues for small businesses jumped 28% (Markowitz, 2013). Three years later, Small Business Saturday drove sales of $5.5 billion and became a global initiative (Umunna, 2013). Since then, American Express share prices have surged 74%. In July 2012, multiple re-tweets of a user impersonating a Russian minister caused crude oil futures to bounce up over $1 (The Economist, 2013). A few months later, in October 2012, Google halted trading of its shares after a leak of the company's earnings report went viral (Efrati, 2012). These incidents exemplify how interactions through weak social network ties, such as social media platforms Facebook and Twitter, can have a strong influence on business activities (Granovetter, 1973; Jansen, Zhang, Sobel, & Chowdury, 2009). This provides a

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conceptual and empirical framework for the relationship between social media and business performance.

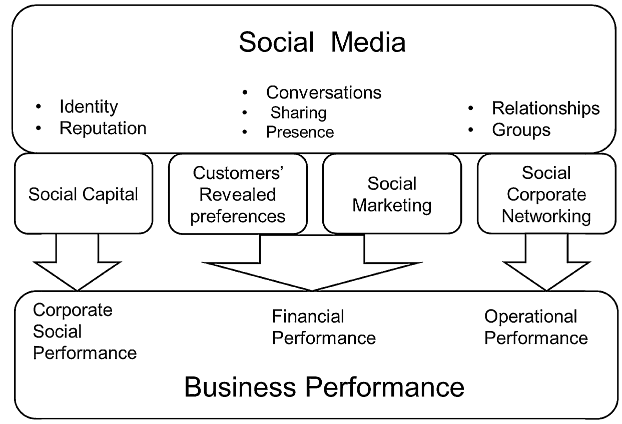
Social consumers are dexterous, willing to pay and participate. Their preferences are broadcast and magnified by social media, with increasing connections to corporations and brands (Berthon, Pitt, McCarthy, & Kates, 2007; Hanna, Rohm, & Crittenden, 2011; Parent, Plangger & Bal, 2011). Thus, social media has become a high corporate priority; the vast majority of traded companies are actively present on some kind of social platform. Companies are only now starting to realize the business implications and nature of this new user-generated content. Along with the challenges and opportunities that social media offers, there is a significant degree of uncertainty among managers with respect to allocating effort and budget to social media (DesAutels, 2011; Kaplan & Haenlein, 2010; Weinberg & Pehlivan, 2011). As a result, practitioners often find themselves on social media quicksand, undertaking decisions without a clear understanding of the effects of social media on business performance.

This article contributes to reducing the social media guesswork for practitioners. First, we conceptualize the mechanisms by which social media impacts business performance. Social media has a broad impact on all spheres of business performance, such as finance, operations, and corporate social performance. Drawing from the review of previous work in this subject, we identify four distinct channels: corporate social responsibility, marketing, corporate networking, and customers' revealed preferences. Second, we construct an empirical model based on customers' revealed preferences to quantify the influence of social media on the share value of traded firms. We found a positive influence of social media on business performance, but only after a critical threshold of followers is reached.

2. From social media resources to business performance capabilities

Resource- and capability-based views argue that a firm's business performance is determined by its effectiveness at converting resources (e.g., assets, knowledge, processes) into capabilities (e.g., customer links, sales abilities, reputation placement) to achieve a competitive advantage (Barney, 1991; Day, 1994). Social media consists of seven functional resources: identity, conversations, sharing, presence, relationships, reputation, and groups (Kietzmann, Hermkens, McCarthy, & Silvestre, 2011). The conceptual framework in Figure 1 identifies the channels by which social media resources are transformed into business performance capabilities. Business performance focuses on financial, operational, and corporate social performance capabilities (Carroll, 1979; Venkatraman & Ramanujam, 1986). Financial performance indicators generally include sales level and growth, profitability, and stock price, whereas operational performance focuses on share position, new product introduction, product quality, operating efficiency, and customer satisfaction. Corporate social performance (CSP) depends largely on the firm's ability to establish honest relations with society, with special attention to reputation and brand.

Figure 1. Social media and business performance channels



Social media affects business performance through four channels: social capital, revealed preferences, social marketing, and social corporate networking. Each channel funnels a set of social media resources into a business performance domain. These social media performance channels are neither mutually exclusive nor all simultaneously present. They are constructs that allow us to unravel the specific performance domain affected by social media and implications for firms.

2.1. Social capital

The social capital channel represents the extent to which social media affects firms' relationships with society. Identity and reputation resources are transformed into CSP capabilities through the social capital channel. The firm's social capital (i.e., trustworthy relations through corporate identity and reputation) is modeled through activity on platforms like Wikipedia, blogs, and search engines. Although companies are now less constrained by a single social order, corporations face unrecorded