Social media, business capabilities and performance: A review of literature

Mohammedhussen Mama Irbo* and Abdulnasir Abdulmelike Mohammed

Department of Management, College of Business and Economics, Madda Walabu University, Ethiopia.

Received 22 May, 2019; Accepted 19 November, 2019

Information communication technology has plenty of benefits to society. Social media being the product of information technology have become an essential tool for marketers at a very minimum investment. Social media have a positive impact on companies as well as customers. In today’s circumstances, customers judge companies based on their online presence, hence they can innovate and simultaneously create a strong social presence by always catering to their customers’ needs and concerns. Social media are used in day to day activities of several companies, including beginners of micro and small enterprises, medium and large sized business organizations. The purpose of this research is to explore and to analyze to what extent social media have an impact on organizational capabilities and business performance using the review of related literature as a method of this research. It was found out from the review of literature that social media increase the capabilities and performances of a business to a large extent.

Key words: Social media, social networking, business capabilities, business Performance.

INTRODUCTION

The development of social media is popularly used in today’s business activities at all levels in terms of size, ranging from micro and small enterprises to medium and large-sized companies (Andriole, 2010; Bell and Loane, 2010). Current technologies have become known to enable business network cooperation among different businesses by serving as efficient tools (Bell and Loane, 2010) and the applications market is flourishing (Dutta, 2012). The companies which are already tied to one another with the help of current technologies are able to enjoy competitive advantages and outperform their competitors by the use of the latest social media platforms. These help them register benefits of lowering cost and improving efficiencies (Harris and Rea, 2009). These would enable one to have a better understanding of the role of social media for the performances of a business (Wetzstein et al., 2011).

The impact of social media on business performances may be due to the effects of social media on management (Birkinshaw and Crainer, 2010), or due to the effects of social media on governance (De Hertog et al., 2011), or still due to the effects of social media on knowledge management (Schneckenberg, 2009), or its effect on strategic competitiveness (Liu and Liu, 2009).

*Corresponding author. E-mail: mmohammedhussen@yahoo.com.

Author(s) agree that this article remain permanently open access under the terms of the Creative Commons Attribution License 4.0 International License.
The direct relationships between social media and business performances will indicate and support the use of Enterprise 2.0. This is a new business environment which enables business organizations to look at their benefits if they integrate social media suites into their day to day activities. Even though social media are extensively used here and there, little is known whether the technologies of social media have any specific impact on business performances (Denyer et al., 2011).

Even though social media have been recognized as the most powerful medium in business practice, there is a lack of understanding in terms of what social media benefits the organization (Parveen, 2012). Some reports argue against the use of social media inside companies as it is blamed for reducing the productivity of employees for long periods of time online and chatting unacceptably. Moreover, social media are considered as time wasters and security traps by some (Turban et al., 2011). The aim of this study was, therefore, to assess the extent to which businesses use social media tools in their business process in order to get connected with their customers and to analyze the impact of social media on the capabilities and performances of businesses (Bughin, 2009, 2011).

RESEARCH METHODS

The research questions in this paper are “to what extent do businesses use social media tools in their business process in order to get connected with their customers? ‘What are the impacts of social media on business performance and capabilities?’ To answer the research questions, the researchers have gone through the existing literature. The review was based on common search engines/databases (Google scholar and Science direct) and keywords such as “Social Media”, “Social Networking”, “Business Capabilities” and “Business Performance” using combination of “or” and “and”. The study reviewed 39 relevant articles and other research on social media and business performances. The data obtained from such reviews studies were analyzed in order to bring issues into the surface so the results generated from the research can help arrive at some conclusions which may be used by interested individuals or organizations.

LITERATURE REVIEW

According to Hartshorn (2010), social media is a new version of networking which individuals make use of it with the help of internet as a medium in the 21st century. It reaches large numbers of people all over the world without the limitation of distance. Hence, it has become a highly effective tool for businesses to communicate with customers. Social media is a catchphrase that describes technology that facilitates interactive information, user-created content and collaboration (Elefant, 2011). Examples of social networks include Wikipedia (for reference), Facebook (for social activity), YouTube (for video sharing), and TripAdvisor (for travel networks).

According to Kaplan and Haenlein (2010), social media is defined as “a group of Internet-based applications built on the ideological and technological foundations of Web 2.0”. It allowed the production and exchange of the content generated by users. Web 2.0 is the software that is doing social purpose the value of whom is generated by the volumes of the people who make use of it in creating and sharing content collaboratively. The presence of an exact definition of the concept of social media would help realize a comprehensive list of tools that fall into this category. But the emphasis given to collaboration assisted the common consensus on the tools that belong to the Web 2.0 generation of Web development. Among these are weblogs, wikis, RSS technologies, social networks, mashups, podcasts, folksonomies, or virtual worlds.

The ways people communicate with one another have changed as a result of Social Media. In spite of the fact that social networking existed right from the onset of humanity, with the advancement of technology the concept of social networking has become similar to other innovations and it is sophisticated increasingly in today’s world (Edosomwan et al., 2011). Social networking is the base of understanding of social media and it is impossible to learn about social media before understanding social networking. To make things simple, social media is the kind of communicating with the help of electronic media in which interested individuals generate and transfer information in the form of texts, pictures, audio and videos online. In fact, the telegraph was used to transmit messages over a long distance in the 1700s. This now has developed into the reality in which users communicate using networking tools such as Google buzz which help users to link, share photos, messages, videos and their views on a specific issue in “conversations” and “visible in the user’s inbox” (Ritholz, 2010).

SOCIAL MEDIA FUNCTIONALITIES

Kietzmann et al. (2011) contributed the base which helps to analyze the impact of Web 2.0 instruments on business by differentiating the seven functional elements which are used as building blocks of a Web 2.0 tool. According to Kietzman et al. (2011), the seven functional building blocks of Web 2.0 and their impacts on the capabilities of businesses are:

1) Identity: this is the extent to which users reveal
themselves and has the impact in the sense that the company’s capacity to monitor the privacy of data and gives tools for branding at a personal level and help promoting one self.

2) **Conversation:** is the extent at which users make use of the tool to interact and assist the company to be able to control and monitor communication and to determine sufficient moments for beginning conversations.

3) **Sharing:** is the extent to which users exchange, distribute, and receive content and assist the company to be able to administrate content and determine the items which may have the potential for viruses.

4) **Presence:** is the extent to which users are aware of the presence of one another and enable the company to create and manage the context by analyzing user availability and location.

5) **Relationship:** is the extent to which users relate to one another and enable a company ability to administer the relationship with the network by examining how strong is the relations and the patterns of communication.

6) **Reputation:** is the extent to which people who use social media are aware of the social standing of other social media users and enable the company to identify a measure that evaluates how strong the sentiment of others is.

7) **Group:** is the extent to which users form communities but the problem is identifying the rules which guide membership and criteria for becoming a member of the group.

Networked business institutions enjoyed a competitive advantage as a result of the introduction of Web 2.0. This refers to companies which could effectively use social media instruments for making two-way communications, collaboration, and the process of business enhanced (Bradbury, 2010). Moreover, organizations are categorized into three on the basis of the type of network they are engaged in. They are organizations internally networked; organizations which are networked externally and organizations which are mixed in terms of the network (Bughin, 2011). Web 2.0 provides several benefits to networked businesses and other organizations such as lower costs, innovations and fast development of products. The analysis and quantification of the impacts of web 2.0 have been made with the help of several models which have been developed for this purpose (Andriole, 2010; Birkinshaw and Crainer, 2009; Bughin, 2011; Dutta, 2012).

It was assumed by Van Heck and Vervest (2007) that different sets of Web 2.0 functionalities in unity form an environment of capabilities that help the networking of businesses, the effects of network and increased performance. The authors assume that such effect of network and greater performance can only be possible if Networked Business Operating Logic is developed by the network. The connection between different actors can be carried out easily as well as linkages between business owners and the network processes and the available data can take place with the help of this logic. Surprisingly, the logic supports the network to be smart. This is because it creates the process of businesses to be able to rapidly pick, plug, and play to achieve a specific objective rapidly for instance, to respond to customer order. It is argued that the existence of Networked Business Operation Logic is mandatory if one wants to use web 2.0 resources effectively. The Web 2.0 ecosystem logic encompasses the abilities to connect many actors in an organization, supports business processes, and the flow of information to create network effects which would improve the effectiveness of business. These clearly indicate that a set of Web 2.0 tools help to improve the business process and its performance but require adequate business capabilities.

### SOCIAL MEDIA VERUS TRADITIONAL MEDIA

User participation in social media marked the difference between social media and traditional media. Both social and traditional media are used to reach customers; with social media as the only media that allows customers to take part and disseminate their opinions. Research on social media shows that approximately 50% of adults who use the internet participate in social networking which indicates that this number has a significant implication on businesses. Marketing companies use customized data mining software that enables them to keep track of consumer behavior, spending pattern and satisfaction ratings. These findings are used to measure the effectiveness of marketing campaigns in terms of return on investment (ROI) and other performance indicators (Kasavana, 2008).

### THE IMPACT OF SOCIAL MEDIA ON BUSINESS CAPABILITIES

Business capabilities play a great role in better performances of businesses. Andriole (2010) identifies six factors (business capabilities) that are influenced by using Web 2.0 tools, and ultimately affect business performance as indicated in Table 1.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAPABILITIES</td>
<td>The impact of social media on business performance</td>
</tr>
<tr>
<td>THE IMPACT OF SOCIAL MEDIA ON BUSINESS</td>
<td></td>
</tr>
</tbody>
</table>

These six factors relate to organizational capabilities, influenced by social media use. Based on the resource-based view of the firm, the use of social media technology resources may enhance organizational capabilities, and, ultimately, business performance. Martin and Serban (2013) conducted research on the impact of social media on business performance and found out that the study company uses a set of six tools to support all business processes among the 120 employees, the customers, and service providers. Interviews clearly indicate that together, the six tools form the social media ecosystem
Table 1. The six functional building blocks of social media and their impacts on business capabilities.

<table>
<thead>
<tr>
<th>S/N</th>
<th>Business capabilities</th>
<th>Impacts on business capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Collaboration and communication</td>
<td>Web 2.0 tools provide the capacity to enable organizations to communicate and collaborate within and among themselves making companies to rapidly internationalize and globalize in their operations (Bell and Loane, 2010). The four indicators related to “collaboration and communication” include the capacity to: (1) integrate discussions, (2) address many people in a fast manner, (3) coordinate programs and tasks, and (4) check communication streams.</td>
</tr>
<tr>
<td>2</td>
<td>Rapid application development</td>
<td>Web 2.0 tools help “application development” by coordinating the services of third-party and adding technologies which already exist and applications into new businesses. The tools help experts, customers, suppliers and the employees of the company in a similar manner in the efforts of developing a product which would help them speed. The involvement of customers in the product development process would significantly reduce the rate of failure (Bell and Loane, 2010). The three indicators are (1) the modification and fast developments of application, (2) easy support of an application, and (3) the capacity to improve modelling requirements.</td>
</tr>
<tr>
<td>3</td>
<td>Customer relationship management (CRM)</td>
<td>Web 2.0 tools support the reshipping of the conventional CRM processes, changing them into CRM 2.0, by tracing and giving solutions to customer service problems, using forums, wikis and others web 2.0 tools. The four indicators are the capability (1) of mining the data of customers in an effective manner, (2) of reaching several customers, (3) of asking feedback from customers, and (4) of communicating with customers effectively. The exchange of ideas among experts enhanced by the content produced by users and mass co-creation are the base of innovation, (Bell and Loane 2010). Web 2.0 tools contribute towards making innovation to be known among the public. It helps innovations which are created faster to be available on the market by enabling around the clock, communicating experts in the field all over boundaries in the world (Schneckenberg, 2009). Measures of innovation are the capacity of (1) grouping innovation, (2) improving the rate of success, (3) increasing the activities of innovation, and (4) producing efficiency in innovation.</td>
</tr>
<tr>
<td>4</td>
<td>Innovation</td>
<td>It affects training processes as users need to be the center of information and there is a transition of companies toward data sharing, the content generated by the user, and the experience. This makes training activities not limited to a limited place or a specific time frame: “webinars take place all over the world and blogs, forums, wikis, and podcasts may enhance the training experience”. The impact of social media on training is measured as the capability to (1) support traditional training, (2) modify training content, (3) support asynchronous training, and (4) codify and distribute training content.</td>
</tr>
<tr>
<td>5</td>
<td>Training</td>
<td>Web 2.0 tools could improve knowledge management processes, the creation of knowledge, and knowledge exchange (Schneckenberg, 2009). Web 2.0 tools have two focuses on internal and external focuses. The internal focus could raise knowledge transfer between employees. The external one focuses on the two-way communications taking place between customers and suppliers. Knowledge management is measured as the capabilities to (1) Share, (2) Retrieve, (3) Organize, and (4) Leverage knowledge.</td>
</tr>
<tr>
<td>6</td>
<td>Knowledge management</td>
<td>That enables the study company to run and coordinate its intra and inter-organizational business processes. All business processes in the study company are supported and coordination among processes is fully based on the wide set of functionalities offered by these tools.</td>
</tr>
</tbody>
</table>

that enables the study company to run and coordinate its infrastructure, and social media) are peculiar to the business, which rival cannot easily imitate. The specific mix of resources will create the basis for business competitive advantage and greater performance. The differences between resources and capabilities show that resources are the basic units of analyses, capabilities; on the other hand, are repeated outlines of action while using resources to create something of value, produce products, or provide value to a market for the business organization (Barney, 1991).

According to KPMG International (2011), the adoption of social media is widespread for businesses in the emerging markets of China, India and Brazil who on
average are 20 to 30 percent more likely to use social media than counterparts in the UK, Australia, Germany or Canada. This may be attributed to the emerging markets' lower dependence on 'legacy systems' that – in more established markets – tends to bind organizations to their long-established channel strategies, as well as the rapidly declining cost of internet access and devices in the developing world. Emerging markets seem to be quickly finding that social networks offer yet another opportunity to leapfrog the competition in the developed markets.

KPMG International further indicated that the majority of businesses use social media to enhance their relationships with their customers. But more than half are also expanding their use of social media to drive innovation in their products and services and for recruitment. Companies are finding a wide variety of business uses for social media. Clearly, social media is rapidly moving up the boardroom agenda, regardless of an industry group or ownership structure. There seems to be little doubt that social media is widely seen as a viable and effective business tool.

Social media is also applied to marketing. Social media marketing consists of the attempt to use social media to persuade consumers that one's company, products and/or services are worthwhile. Social media marketing is marketing using online communities, social networks, blog marketing and more (Kaplan and Haenlein, 2010). Social networking websites allow individuals to interact with one another and build relationships. Social networking sites like Twitter, Facebook, Google Plus, YouTube and blogs allow individual followers to "retweet" or "repost" comments made by the product being promoted (Bajpai et al., 2012).

Dutta (2012) indicates that social media are changing the way we do business and how leaders are perceived, from lower to the higher management level. Interestingly, even though the best businesses are creating comprehensive strategies in this area, research suggests that few corporate leaders have a social media presence and that those who do not use it strategically. But in today's world, leaders must use social media for three reasons:

1) They provide a low-cost, highly accessible platform on which a personal brand can be built, and also communicate our identity within and outside the company.
2) They allow engaging rapidly and simultaneously with peers, employees, customers, and the broader public in order to leverage relationships, show commitment to a cause, and demonstrate a capacity for reflection.
3) Third, they give an opportunity to learn from instant information and unvarnished feedback.

Similarly, Hunt (2010) investigates the important role of social media in the recruitment of employees amongst companies. He further claims that in addition to socializing, social media could be used in hiring and introducing some information about the companies. He also mentions that business organizations which do not embrace social media such as 'Facebook, LinkedIn, and Twitter' for recruitment purposes may lose competent candidates. Kaplan and Haenlein (2010) have the opinion that to identify the challenges and opportunities of social media, the concept of Social Media is top of the agenda for many business executives today.

According to Singh and Sinha (2017), the following are the major benefits of social media for business:

1) Improved customer insights: The business gets a better understanding of their customers and they can always share their insights as they are aware that the company is listening to them.
2) Better customer service: Social media allows businesses to respond to customers’ grievances, questions and concerns almost instantaneously.
3) Cost efficient: using social media is the most cost-efficient way to market and promote the business.
4) Connectivity: The business will always be connecting to the customers in terms of changing preferences, lifestyles and resources and adapt to the changing interest of the consumers using social media.
5) Establishing Brand Awareness: it is possible to increase the brand awareness among customers as businesses can create awareness by building company image social media.
6) Sales: increased exposure to social media drives traffic into companies. This, in turn, converts the potential customers to actual customers.

According to Starkov and Mechoso (2008), social networking websites generate many special roles in the hospitality industry. The websites give a platform for calculating the rating system which can generate, monitor, and evaluate the image and reputation of the businesses in the hospitality industry. The credibility of information generated by consumers is perceived as high compared to the information released by the hospitality entity.

Kasavana and Teodosic (2010) found out that the participation of hospitality companies in social networking resulted in a cost-effective way of communicating and engaging with potential customers. The businesses get direct access to active users with the help of websites with no need to acquire additional hardware and software. A social networking site that is easily accessible, straightforward, and appealing enables participants to become engaged in unique ways.

A research conducted on “Analyzing the Effects of Social Media on the Hospitality Industry” by Seth (2012) using a careful review of the literature on the use of social media among businesses shows that debate was made on how customers perceive social media in relation to marketing and brand formulation and management. The result indicated that the majority of hotel bookings are
made over the internet. Moreover, the number of reservations made via hotel owned websites has also increased briskly. Hotel branded websites went up from having 75% of internet reservations in 2005 to 81% in 2006 (Mintel International Group, 2007). Lanz et al. (2010) indicate that interactive marketing comprised 21% of all marketing expenditure by 2014, and social media represented 3 to 6% of the interactive marketing expenditure. Kasavana (2008) recommended that in order for better business outcomes companies need to continually use social media for monitoring, analyzing and evaluating customer reviews.

Singh and Sinha (2017) conducted research on The Impact of Social Media on Business Growth and Performance in India in which they concluded that many companies use Social media. Moreover, they use traditional media in order to market their products as well as to be connected to their customers. They further concluded that different from traditional media social media have the ability to reach out to many customers as well as be able to entertain customers’ specific needs in a better way. These show that social media helps businesses do their job in an effective and efficient manner today and can have the ability to bring out innovative strategies which could assist companies to operate fast that used to be very monotonous.

Social media offer different values to firms, such as enhanced brand popularity (de Vries et al., 2012), facilitating word-of-mouth communication (Chen et al., 2011), increasing sales (Agnihotri et al., 2012), and sharing information in a business context (Lu and Hsiao, 2010).

Aula (2010) focuses on the problems associated with social media to the reputation of business organizations. He indicates the most popular and interesting social media services based on the corporate perspectives which include Facebook, MySpace, and Twitter. However, he states that social media propagates the scope of reputation risks and increases risk dynamics.

CONCLUSIONS

Social media have a positive impact on business growth and performance. From the review of available literatures, it can be concluded that social media enable companies to reach out to more customers and cater to their specific needs better. For instance, for the majority of recruiters, LinkedIn, Twitter, Facebook, and employee referrals have officially surpassed traditional job boards as the preferred way to acquire talent for business organizations. Today’s leaders must embrace social media for three reasons. First, they provide a low-cost, highly accessible platform on which a personal brand can be built, and also communicates our identity within and outside the company. Second, they allow engaging rapidly and simultaneously with peers, employees, customers, and the broader public in order to leverage relationships, show commitment to a cause, and demonstrate a capacity for reflection. Third, they give an opportunity to learn from instant information and unvarnished feedback. Companies that are at the maturity stage in the product lifecycle can adopt social media to extend their business survival if they fail to do so, they are undoubtedly going downhill in the coming years.

The main limitation of this study was that it is conducted from the perspective of secondary data analysis based on the literature reviews. Since no primary data were collected from any of source, this study may not be able to indicate any quantifiable or tangible gains that they enjoy from choosing social media over traditional marketing methods.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

REFERENCES


KPMG INTERNATIONAL (2011). Going Social. How businesses are making the most of social media, KPMG INTERNATIONAL, 2011 KPMG International Cooperative, Publication number: 111139


