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A Firm's Activity in Social Media and Its Relationship with Corporate Reputation and Firm Performance

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Abstract

There is growing debate about whether companies' investments in social media really pay off. This research attempts to contribute to this discussion by investigating the relationship between a firm's social media activity and two outcomes, namely, company reputation and firm financial performance. Two propositions are developed based on theory and tested with a sample of 59 companies. The findings suggest that a firm's social media activity is only partially linked with its financial performance and is not linked with corporate reputation. The implications of the research suggest that little is known about the relationships between a firm's social media activity and corporate reputation and financial outcomes.

Keywords: Social media activity, corporate reputation, firm performance

1 Introduction

Currently, no company can say it is not affected by social media. Even if a company is not active in social media, communication about its brands still occurs in those channels

(Kietzmann et al., 2011). Social media has caused consumers to be more demanding; therefore, one-way communication from companies to consumers is no longer sufficient (Trainor, 2012). Instead, the importance of communication and conversation with consumers is emphasized (Jones et al., 2009) as consumers want companies to listen to them as well as engage with and respond to them (Kietzmann et al., 2011). Consumers want to participate, interact, and create value by themselves. As a matter of fact, it can be said that power has shifted from companies to consumers (Bunting & Lipski, 2000).

For this reason, many companies have increased their social media activity. Furthermore, the financial crisis led companies to seek more cost-effective marketing methods, and social media has become a good channel for this (Kirtiř & Karahan, 2011). Despite that, there are still many companies who do not sufficiently understand social media and so just ignore it (Kietzmann et al., 2011.) Therefore, it is important to determine if it is beneficial for a company to be active in social media and what the advantages are of being active.

Literature about the subject is growing, but there is still little scholarly evidence that addresses how the utilization of social media influences company performance. Prior evidence has suggested that social media is important from a public relations (PR) and reputation point of view (Aula, 2010; Firestein, 2006) whereas others have linked it to overall equity value (Luo et al., 2010). Nevertheless, little research has been conducted on how a company's appearance and activity in social media affect reputation and firm performance. Hence, this study aims to fill this gap in the literature by examining the relationship between social media activity and three variables, namely, corporate reputation, firm performance, and firm size (control variable). This study analyzes the relationships between the constructs but does not propose or discuss the direction of these effects or, in other words, the causal linkages between the variables.

2 Literature Review

Social media is defined in various ways, but all the definitions share the idea that it is a way to connect and interact with other people using various communication techniques through online media (Kietzmann et al., 2011; Kirtiř & Karahan, 2011; Ryan & Jones, 2009, p.152). While traditional media is focused on delivering a message (outbound marketing), social media is user-driven (inbound marketing) and includes, for example, building relationships and conversing with an audience (Drury, 2008). Social media consists of various channels and platforms that allow communication, networking, and sharing of content and information (Bowman et al., 2012; Kietzmann et al., 2011).

Social media has been classified into six categories based on two key elements: media research (social presence, media richness) and social processes (self-presentation, self-disclosure) (Kaplan & Haenlein, 2010). The greater the social presence/media richness, the greater the social influence of users on the behavior of other users. The greater the self-presentation/self-disclosure, the more willing people are to talk about and reveal aspects of themselves to others. The six categories based on these elements are blogs, social networking sites, virtual social worlds, collaborative projects, content communities, and virtual game worlds (Kaplan & Haenlein, 2010). In this study, we focus on social networking sites (Facebook, LinkedIn), content communities (YouTube), and one form of blogging, namely, microblogging (Twitter) as these are the

most widely adopted social media tools among companies. On social networking sites, users can create profiles, share information, including photos, videos, audio files, and blogs, and ask friends to join or connect to their profiles (Kaplan & Haenlein, 2010).

Facebook is to date the largest and most popular social media channel (Funk, 2011, 54; Bodnar & Cohen, 2012, p.127) where users find and add friends and contacts to share content through personal profiles (Berthon, 2012). LinkedIn is a business-networking tool that is more focused on networking (Kietzmann, 2011) with other professionals or companies. On the consumer side, LinkedIn is not used for finding customers (Funk, 2011, p.63), but on the business-to-business side, it is used for acquiring customers, gathering market information, and recruiting, for instance (Bodnar & Cohen, 2012, p. 97).

Content communities allow people to share content with other users who can comment on it. Content communities include, for example, YouTube for sharing videos and Flickr for sharing photos. Considering the 100 million videos that YouTube serves up each day, it is easy to understand the wide accessibility of content communities (Kaplan & Haenlein, 2010). More recently, YouTube has also been used as a channel for publishing video blogs (Biel & Gatica-Perez, 2013).

The most popular microblogging service is Twitter, which allows people to send and read short messages of 140 characters or less from their profile to users who follow them (Berthon, 2012). It is also possible to add links to other pages or send direct messages to other users by including a username in a post (in the form of @username) (Funk, 2011, p. 57).

Social media has become a tool for companies to communicate and engage with customers at lower cost and more effectively than traditional channels (Kaplan & Haenlain, 2010). At the present, social media is increasingly being seen as a tool for creating and maintaining customer relationships and, for this reason, has also become an important tool for CRM (Trainor, 2012). Customers can no longer be seen simply as objects for a sale but instead must be considered as decision makers with their own needs and the option to choose what and where they are buying. Just as the entire web has turned into a social web, the customer has also turned into a social customer, standing at the center of the business ecosystem (Greenberg, 2010). These social customers also have social needs and by filling them companies can build long lasting and meaningful relationships with their customers. The idea of social customers significantly affects companies and drives the need for social CRM (Greenberg, 2010), which can be considered a CRM strategy that emphasizes customer relationship communication via new communication technologies.

2.1 Social Media and Corporate Reputation

Corporate reputation refers to how stakeholders perceive a company and how the company responds to those perceptions (Williams, 2005). A strong corporate reputation provides a competitive advantage to a company and is very difficult for others to imitate (Hall, 1993). The more a company differentiates itself from its competitors, the stronger its reputation and the greater its reputational capital (Fombrun, 1996, p.392). Hence, reputation can be seen as an intangible and strategic asset of a company (Eberl & Schwaiger, 2005). Earlier studies have shown that company reputation is positively linked with customer loyalty (Keh, 2009), attractiveness of company offerings

(Fombrun & Van Riel, 2003, p. 8), employee commitment and job satisfaction (Alniacik, 2011; Helm, 2011), reduction of transaction (Walsh, 2006) and operating costs ((Fombrun, 1996, p.75), and firm performance (Eberl & Schwaiger, 2005; Carmeli & Tishler, 2005).

In traditional media, corporate reputation is seen as the interaction between a company's communicative actions and stakeholders' reactions. Accordingly, when a company communicates through their marketing channels, for example, their reputation depends on how stakeholders perceive the message and react to it (Bunting & Lipski, 2000). In the social media era, it is not enough merely to communicate a message to consumers; instead, companies must engage consumers in conversation through social media (Jones et al., 2009).

In the social media era, companies have lost the power to control discussion about them, which makes it more difficult to influence reputation (Aula, 2010). Social media has enhanced customers' need to be active and, at the same time, is what enables companies to address these needs. Customers want to participate, interact, and create value on their own, and social media provides an opportunity for companies to enable that through participation and interaction with customers. This participation leads to greater involvement with and commitment to a company, which has been suggested to increase customer satisfaction (Trainor, 2012), which, again, has been proven in earlier research to lead to better corporate reputation (Carmeli & Tishler, 2005). Therefore, a positive relationship between a firm's social media activity and its corporate reputation can be proposed:

Proposition 1: A firm's social media activity and corporate reputation have a positive relationship.

2.2 Social Media and Firm Performance

Many companies are interested in learning how to benefit financially from social media. To justify investment, it is essential to determine the financial value of social media (Luo et al., 2013; Gilfoil & Jobs, 2012). The use of social media has expanded exponentially among both consumers and corporations, but still only a small amount of money earmarked for marketing is dedicated to social media. One reason for this is the difficulty of measuring the value of investments in social media marketing (Gilfoil & Jobs, 2012). Despite the difficulty of measuring the value of social media, many researchers have attempted to measure its return on investment (ROI). However, the value of a customer to a firm is not only the amount of money they spend, but also the influence they have on other people's opinions by spreading their thoughts through social media; the actual value of a customer is based on far more than their spending (Fisher, 2009).

Measuring and calculating social media ROI begins with measuring costs and then attempting to determine the return on sales. When dealing with social media, however, this is insufficient. Companies should also consider which marketing objectives are met by social media utilization. These can be, for example, brand engagement, providing knowledge about new products, or delivering information to customers. Hence, returns are not always financial (Hoffman & Fodor, 2010) or recognized in the short-term.

Nevertheless, several studies have examined the relationship between social media and financial figures (Schniederjans, 2013; Trainor, 2012; Yu et al., 2012). Luo et al. (2013) suggested that social media has strong predictive power of a firm's future equity value. Their research revealed that through positive blog posts, consumers' trust and advocacy can be improved, leading to higher firm value. Naturally, negative blog posts can instead harm reputations, leading to weaker firm performance (Luo et al., 2013). Schniederjans (2013) studied the relationship between firm performance and social media from the perspective of impression management and found a partial positive connection between the use of social media and financial performance, depending on the impression management strategy used. Yu et al. (2012) argued that social media has a stronger impact on firm stock performance than conventional media does. Additionally, compared to other media, effects from social media occur much faster. Furthermore, the harmful effects from negative opinions and ideas occur more quickly than the beneficial effects from positive opinions and ideas. Therefore, negative publicity in social media in particular can rapidly affect firm performance (Luo et al., 2013).

Social media has fostered customers who are more willing to participate in company activity, which may also increase commitment to the company. It has been suggested that customers' higher involvement and commitment to a company increase satisfaction and loyalty (Trainor, 2012), which, in earlier studies, was revealed to have a positive impact on firm equity value (Anderson et al., 2004, Luo et al., 2010).

Proposition 2: *Social media activity and firm performance have a positive relationship.*

3 Methodology

Three data collection procedures were used in this study. First, self-gathered data on companies' social media activity were collected from selected companies' social media channels between March 2014 and April 2014. Social media channels selected for this research were Facebook, Twitter, LinkedIn, and YouTube. Data consisted of number of likes, talks, and activity (Facebook); number of followers, tweets, and activity (Twitter); number of followers and activity (LinkedIn); and number of subscribers, views, and videos (YouTube). The channels were chosen because they are the most popular social media channels currently used by firms.

The amount of activity depends on the duration a given social media channel was utilized by a company. Activity was evaluated by the amount of activity such as Facebook posts a company made on their page during 2013 so it could be compared among companies. Detailed classification and measurement of activity is shown in Table 1.

Activity on Facebook	Scale
No Facebook page	1
Facebook page but no activity	2
Less than 50 posts a year	3
50-100 posts a year	4
100-500 posts a year	5
More than 500 posts a year	6
Amount of likes on posts	
No Facebook page	1
Less than 10 likes /post	2
10-50 likes /post	3
50-100 likes /post	4
100-1000 likes /post	5
More than 1000 likes /post	6
Activity on Twitter	
No Twitter account	1
An account but no tweets	2
Less than every other day	3
Max once a day	4
1-2 tweets a day	5
Many tweets a day	6
Activity on LinkedIn	
No LinkedIn profile	1
Profile but no activity	2
Profile but no regular activity	3
1-5 posts a month	4
5-15 posts a month	5
More than 15 posts a month	6

Table 1: Classification of Social Media Activity

Some companies did not have a profile on Facebook for the whole of 2013. For these companies, the number of posts used for analysis was calculated by dividing the number of posts by the number of months the company had a Facebook presence and multiplying the result by 12 for a whole year average.

Second, corporate reputation data were obtained from a market research firm. The data are from a 2013 survey that measured the reputation and responsibility of Finnish companies (see Appendix Figure 1). The survey had 9,802 respondents from different age, gender, and regional groups in Finland and examined 59 companies that operate in the country. These same 59 companies were chosen as the sample for this research in order to have comparable data about reputation. The companies operate in seven different industries: food, retail, service, finance, energy, industry, and ICT. The reputation index covers different dimensions. The survey questions evaluated perceptions of five different fields: overall evaluation of reputation, impression about the company, trust, financial success, and the quality of products and services. The

questions were divided into three dimensions so that questions dealing with overall evaluation of reputation explained overall reputation; questions dealing with impression of the company and trust explained relationship and emotional attraction; and questions dealing with financial success and quality of the products and services explained competence and rational attraction.

Third, data on firm performance and size (used as a control variable) were gathered from secondary sources, i.e., companies' annual reports. The data included revenue, profits, and the number of personnel in the companies for financial year 2013. If financial data from 2013 were not available, data from 2012 were used. Net profit was used to indicate firm performance and revenue, and number of personnel was used to indicate company size.

The relationships between the study constructs were analyzed with two-tailed Pearson's correlation.

4 Results

The largest share was in the food and industry groups with 13 companies (22 %) in each. The second largest group was energy with nine companies (15.3 %). The next largest group was finance with eight companies (13.6 %) followed by service and retail with six companies (10.2 %) each. The smallest group was ICT with four companies (6.8 %). Most companies were B2C (75%).

Of the 59 companies, almost all had a LinkedIn page (97%) and YouTube channel (83%). Approximately three out of four had a Facebook presence (76%) and Twitter account (73%). The ICT and service sectors were the most active on social media. All companies in the ICT sector participated in all four types of social media (Facebook, Twitter, LinkedIn, and YouTube). In addition, all companies in the service sector participated in all four types of social media, with the exception of two companies that did not have Twitter accounts. Energy and retail were the most inactive sectors, with 33% of companies having no Facebook, Twitter, or YouTube accounts. In the retail sector, 83% of companies had no Twitter account.

A majority of the numeric data were not classified but used directly as ratio variables. On Facebook, a majority of the companies (49%) made 50 to 100 posts during 2013 (Table 2).

Activity on Facebook	N	%
No Facebook page	14	23.7
Facebook page but no activity	0	0
Less than 50 posts a year	2	3.4
50-100 posts a year	29	49.2
100-500 posts a year	11	18.6
More than 500 posts a year	3	5.1
Activity on Twitter		
No Twitter account	18	30.5
An account but no tweets	2	3.4

Less than every other day	6	10.2
Max once a day	13	22.0
1-2 tweets a day	5	8.5
Many tweets a day	15	25.4
Activity on LinkedIn		
No LinkedIn profile	5	8.5
Profile but no activity	11	18.6
Profile but no regular activity	9	15.3
1-5 posts a month	19	32.2
5-15 posts a month	11	18.6
More than 15 posts a month	4	6.8

Table 2: Firms' Social Media Activity

Every company with a Facebook profile had at least some activity, and only two companies (3.4%) made fewer than 50 posts during the year. One-fourth (25%) of the companies tweeted multiple times per day. On LinkedIn, the largest group, 19 companies (32.2%), made one to five posts per month. Social media activity was also related to whether the company was serving consumers (B2C) or other organizations (B2B). In general, B2C companies were found to be more active on Facebook, Twitter, and YouTube whereas B2B companies were more active on LinkedIn.

4.1 The Relationship Between a Firm's Social Media Activity and Corporate Reputation

Within the overall sample, social media activity and company reputation (based on reputation index values) are not related (at the $p < 0.05$ level). However, when examining this relationship between industries and in B2B versus B2C companies, significant correlations were found. In the service industry, there is a positive relationship among Facebook activity ($r = 0.843, p < 0.01$), number of Twitter followers ($r = 0.976, p < 0.01$), tweets ($r = 0.976, p < 0.01$), and reputation. In the food industry, reputation correlates with number of LinkedIn followers ($r = 0.976, p < 0.01$) and LinkedIn activity ($r = 0.577, p < 0.05$). In this industry, there were also correlations between YouTube channel subscribers and reputation ($r = 0.690, p < 0.05$) and between YouTube views and reputation ($r = 0.663, p < 0.05$).

When examining B2B and B2C companies separately, the only correlation found was among B2B companies between reputation and people talking about a company on Facebook ($r = 0.784, p < 0.05$).

4.2 The Relationship Between Firm's Social Media Activity and Firm Performance

Within the overall sample, when examining the relationship between variables of Facebook activity (likes, talking about, activity) and financial numbers (net revenue, net profit), the only significant correlations were between the amount of people talking

about a company on Facebook and net revenue ($r = 0.313, p < 0.05$) and between the amount of people talking about a company on Facebook and a control variable, namely, number of personnel ($r = 0.500, p < 0.01$). This indicates that people are talking more about companies that are larger and more profitable on Facebook. No significant relationships were observed between net profit and other values.

With respect to Twitter, significant correlations were found between the number of tweets and net profit ($r = 0.384, p < 0.05$), between the number of tweets and number of personnel ($r = 0.591, p < 0.01$), and between overall activity and net revenue ($r = 0.280, p < 0.05$). This indicates that more profitable companies and companies with more personnel made more tweets, and companies with higher net revenue had more yearly activity.

On LinkedIn, significant correlations were found between activity and net revenue ($r = 0.311, p < 0.05$), between activity and net profit ($r = 0.319, p < 0.05$), and between activity and number of personnel ($r = 0.391, p < 0.01$). This indicates that more profitable companies and companies with more personnel are more active on LinkedIn. Amount of followers did not correlate with revenue, profit, or number of personnel.

On YouTube, there were no significant correlations between any variables (subscribers, amount of videos, views, financial figures).

5 Discussion

The aim of the study was to examine the relationship between a company's activity on social media and corporate reputation and firm performance. The two propositions developed were not supported by the data. The first proposition claimed that activity on social media would have a positive relationship with corporate reputation. This proposition is based on the idea that customers want to participate, interact, and create value by themselves, and social media provides the possibility for companies to participate and interact with customers, leading to higher involvement and commitment and greater bigger customer satisfaction (Trainor, 2012), which again has been proven to lead to better corporate reputation (Carmeli & Tishler, 2005). This leads to the conclusion that social media has an indirect effect on corporate reputation.

The second proposition argued that firm's activity on social media would have a positive relationship with firm performance. This proposition is based on the idea that social media usage can increase customers' involvement and commitment to a company, leading to increased satisfaction and loyalty (Trainor, 2012), which again have been found to have a positive impact on firm equity value (Anderson et al., 2004, Luo et al., 2010). Hence, an indirect effect of social media participation is better firm performance. However, this study provides some evidence of the partial relationship between social media and firm performance. The relationship was identified in use of Twitter and LinkedIn. Larger companies with more personnel had more tweets overall and were also more active on LinkedIn than smaller companies with fewer personnel.

Additionally, companies with larger net revenue were more active on both Twitter and LinkedIn than were companies with smaller net revenue. More profitable companies (with larger net profit) registered more activity on LinkedIn and more tweets than less profitable companies did. On Facebook, people talked more about profitable and larger companies, but a companies' own activity on Facebook had no relationship to firm

performance or size. On YouTube, there was no relationship between companies' activity and firm performance and size.

The main theoretical contribution of the study is that it demonstrates that the more active companies have better reputations than that are not active in social media. However, a partial link can be found between social media activity and firm performance. In terms of managerial implications, this research presents a good argument that managers should not believe that simply being active in different social media channels is sufficient to enhance corporate reputation or increase financial performance. Even if a company itself is active on social media, reputation and financial performance are not inherently positive as a result.

These rather counterintuitive findings are limited by the sampling frame, analysis methods, and firm perspective. Despite companies' activity on social media, most of the things that happen in social media occur regardless of how active companies are in this arena. Social media has caused power to shift from companies to consumers and, as a result, companies' ability to control their reputation and what is said about them on the Internet has diminished (Bunting and Lipski, 2000). Nevertheless, companies have not lost all their power as they still control the rules and framework of how the company and its brands participate in social media. Companies, can decide, for example, what is posted, who is posting, and where it is posted (Hoffman & Fodor, 2010). Thus, we encourage researchers to further examine the relationship between firms' social media activity and corporate reputation/firm performance.

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Appendix

	Reputation index questions	Dimensions
1	Overall evaluation about reputation	Overall reputation
2	Impression about the company (sympathy)	Relationship Emotional attraction
3	Trust	
4	(Financial) success	Competence Rational attraction
5	The quality of the products and services	

Figure 1: The dimensions of reputation index