

Analyzing the Impact of Social Network Position on Firm Performance: A Comprehensive Study

Zhuoming Liu^{1,a,*}

¹*Department of Finance and Trade, Zhuhai College of Science and Technology, Zhu Hai, Guang Dong, 519055, China*

a. yaozi@ldy.edu.rs

**corresponding author*

Abstract: This study attempts to clarify the complex relationship that exists between social networks and corporate performance by introducing price and selling capacities as well as trust as a mediating component. A structural equation model was created using the body of existing research as a basis, and 380 small and medium-sized businesses (SMEs) in Indonesia participated in a survey to provide empirical data. The results show that, in the absence of social network trust, the use of social media in the management process by itself has no effect on the performance of the company. It becomes clear that trust is a major accelerator for the growth of selling and pricing skills, which in turn improves company performance. The survey highlights how important selling and pricing skills are when it comes to using social media, especially when it comes to developing trust. Although the research mostly focuses on small-to-medium-sized businesses and offers insightful information, generalizability to other contexts should be handled cautiously. In order to improve selling skills and expand corporate networks, managers should proactively use social media to improve overall company performance. In conclusion, trust is shown to be a critical mediator between social networks and corporate performance, emphasizing the need for trust in utilizing social media for better management and overall business success.

Keywords: Social network, Firm performance, Selling skills, Pricing Capabilities

1. Introduction

In today's digital age, social networking has become an integral part of people's lives. At the same time, social media and the Internet of Things are related, and this has an impact on how businesses create value and innovate in their operations [1]. It has been shown that the use of social media for marketing and booking can have a significant favorable impact on the overall success of the companies studied [2]. Hotels and resorts frequently leverage social media for marketing their services. They may run targeted ads on platforms like Instagram or collaborate with influencers to showcase their offerings, resulting in increased bookings and overall success. Therefore, marketing managers have spent a lot of resources in a number of organizations in order to use social media. However, despite allocating resources for social media, nearly half of marketing managers don't think they're prepared to deal with the problems that come with these platforms. First, social media may pose a negative word-of-mouth and reputational risk to a business. Bad remarks, bad reviews or negative events spread rapidly on social media and may cause damage to a business's reputation. For

example, the rapid spread of information on social media may lead to misinformation or misinterpretation. Information released by a company might be misunderstood, leading to misleading reports. A product statement released by a company may be interpreted differently, causing confusion. Second, the spread of information is difficult for companies to control. Information spreads quickly on social media, and it may be difficult for companies to grasp and control the flow of information in a timely manner, especially in times of crisis. Finally, there is the cost of maintaining social media; while social media is an important channel for publicity and marketing, there are costs associated with maintaining an active social media presence, including human resources and technical support.

So, gaining a deeper comprehension of the negative effects that social capital has on companies that aim to make of social media is the intertie relationship between social networks and company performance is not well understood, which is a research gap that must be filled in order to construct a strategy necessitates research to determine how mature connections with sellers affect performance outcomes.

Taking a theory development approach as a starting point, this study aims to explore the role of social network structures in enhancing sales potential and developing pricing strategies, as well as contributing to firm performance [3]. This study also reveals the intricate link between social networks and firm performance through structural equation modeling. The results of the study show that having a trusted social network can help a company to price its products and increase sales, which in turn positively affects company performance.

2. Literature Review

2.1. Social Capital Theory

In the field of social media research, the goal of social capital theory is to study prerequisites such as social contact, trust and reciprocity [4]. The concept of social capital incorporates social norms and networks that promote reciprocal relationships, mutual understanding and trust to enhance collective activities for mutual benefit [5]. At the same time, individual, interpersonal and personality factors are critical to the effectiveness of the network's resource management [6]. In summary, mature firms are typically better at using business and technical information to manage affluent social capital in developing relationships with their customers than small firms are at using business and technical information to gain access to critical resources [7]. According to the social capital hypothesis, talented employees can benefit from maintaining a strong social capital value, and they may spontaneously take control of the information-gathering process rather than just maintaining the structural redundancy of the network [8]. Nonetheless, a growing corpus of literature explores the "negative aspects" of social capital theory, looking at difficulties in breaking down a sizable collective unit among particular identifications [9]. Therefore, sifting through open information to find the useful parts requires effective and correct use of tools for interpreting the data [10].

2.2. Social Network

Social networks are online communities where people may connect with each other, set up personal profiles, and share information in order to socialize and trade ideas [11]. On the other hand, economic networks are based on the idea of relational networks and examine how people cooperate to share, exchange, and access resources [12]. These networks cover a wide range of methods of collaboration, such as unofficial methods and open innovation entrance processes that define the nature of cooperation. This network structure reveals the intimate relationships between participants, creating opportunities for innovative business practices [7]. Also, through social networking, organizations can build a competitive advantage and maintain high performance over time. In-house professionals

have access to global databases that provide comprehensive details on customer behavior, key relationships between customers, and sales management processes.

Social networks offer companies a unique way to reach consumers compared to traditional advertising channels [11]. Utilizing social media in internal research, development, and open innovation in SMEs is crucial for performance. The value of a product depends not only on consumer surplus but also on the user network, which is even more directly related to its network structure. If a company is located at the center of its network, it can significantly improve its financial performance. And the active participation of customers in social networks can also have a positive impact on the performance of the company [13].

Social networks go beyond information transfer and socializing; they play a pivotal role in positively impacting business performance. Establishing a social network enables companies to gain a lasting competitive advantage, improving innovation and financial performance. Professionals access a global database through this platform, gaining a comprehensive understanding of customer behavior and sales processes. However, social networks pose challenges such as privacy issues, maintenance costs, and information leakage. This points towards a valuable direction for future research to comprehensively understand social networks' impact on business performance, revealing both advantages and disadvantages. Addressing this research gap will provide effective decision support for organizations.

3. The Macro Negative Impact of Social Media on Business

3.1. Word-of-mouth and Reputational Risk

According to certain research, sales teams, customer service departments, and the communications divisions of an organization, including public relations and cause-related marketing, have the strongest links between word-of-mouth (WOM) and company reputation [14]. Therefore, when utilizing social media, companies need to be aware of the possible negative impacts of social media dissemination of negative comments. First, the real-time communication speed of social media means that a negative comment can spread to a large number of users in a short period of time, causing a rapid impact on the corporate image. Secondly, the large scale of users on social media platforms allows negative comments to expand rapidly and have a wide impact. In order to maintain a company's reputation and image, it is necessary to implement an efficient social media crisis management system, which includes real-time monitoring of public opinion, rapid response to public opinion, and active participation in dialog in social media.

3.2. Difficulty in Controlling the Dissemination of Information

In the event of a public opinion crisis, in the case of an organization's use of social media, managing the flow of information can be a very difficult problem for businesses. False information spreads rapidly because it is now very easy for users to share, discuss and spread information on social media platforms. Moreover, on social media platforms with a huge user base, a single message can spread to many people in a flash. This, therefore, makes it difficult for organizations to follow and control the flow of information in an emergency.

At the same time, false information may simultaneously surface on a number of platforms and channels due to the widespread distribution of information on social media. So, companies face increasing difficulties in fully controlling the flow of information. Moreover, there is a diversity of user-generated content, which consists of both text and multimedia, like images and videos. This raises the possibility of a detrimental effect on the company's reputation even as it improves the information's vividness and visualization.

In this situation, businesses should set up a crisis management team to respond promptly to user concerns by monitoring the information flow on social media channels and using proactive communication strategies to reduce adverse effects.

3.3. Social Media Maintenance Costs

For businesses that actively use social media, maintaining active social media platforms requires high technical and labor maintenance costs. A great team of social media administrators, content creators and marketing experts is needed if social media is to be managed effectively. For organizations that want to make the most of social media, this requires them to consistently allocate resources to the team to improve operational efficiency and refine the organization's strategic goals.

In order for social media networks to stay active, ongoing promotion and content production are also necessary. Companies need to employ skilled content writers, designers, and photographers in order to develop an interesting content strategy and guarantee that the content is consistent with the brand's image.

4. Mechanisms of the Influence of Social Network Structure on Firm Performance

4.1. Research Theory

This study builds on several important theoretical frameworks to provide a holistic picture of the intricate relationship between social network position and firm performance. Based on the resource-based view (RBV), it explores the network structure as a particular resource and how it affects the firm's sales and pricing power. In order to investigate the intervention mechanism, this study employs mediation analysis. Specifically, it explores the role of selling power and trust in mediating the impact of social networks on firm performance. It also critically evaluates previous literature and research, pointing out the shortcomings.

4.2. Research Method and Design

In order to demonstrate more objectively and graphically the complex relationship between network structure and firm performance, this study draws on previous literature to construct a structural equation model using five measures of firm performance, network structure, trust, selling ability, and selling and pricing power as latent variables [15].

The data for this study was based on a database of registered companies provided by the Indonesian government, from which a random sample was drawn, and then a professional call center was hired to contact the sampled companies, resulting in 380 responses that were available for the study. The study then used these valid responses to distill the information and categorize it into latent variables [15].

To ensure that test the structural equation modeling proposed above, this study employs the partial least squares (PLS) method to investigate the treatment of the relationship between the independent and dependent variables because PLS allows for the simultaneous consideration of the relationship between the independent and dependent variables without the need to first establish a direct relationship between the independent variable and the dependent variable, as is required by the traditional least squares method. Therefore, the study used a software called Smart PLS 2.0 to handle complex causal models with latent variables. In addition, the software can provide external load analysis to ensure that the model is acceptable. The relationship between the social network, firm performance and the mediating effect between the observed variables in the study is examined using path analysis [15].

The mediation test seeks to determine the presence of mediating variables in the relationship between social networks and business performance. If either direct or indirect effects are significant when other factors are considered, it indicates the presence of partial mediation effect. Whereas, if the effect of social networks on firm performance is fully transmitted with the help of other variables, full mediation occurs. This test contributes to a deeper understanding of the role of mediating variables in the relationship between social networks and business performance [15].

4.3. Research Result

The results of the study suggest that simply utilizing social media management processes does not directly improve firm performance; it is critical that firms build trust on social networks. Social networks with trust enable firms to gain pricing and selling power, which positively impacts firm performance. In addition, the study found that building trust as well as enhancing sales and pricing power becomes particularly important when utilizing social media. Thus, the study highlights the moderating role of trust in the complex relationship between social networks and firm performance in social capital theory, suggesting that trust plays a key role in social networks and helps the observed firms achieve their performance goals.

4.4. Research Analysis and Discussion

This study backs up earlier research that claims social networks improve business performance [16]. Because of this, this study emphasizes the importance of trust in the structure of corporate networks that gives organizations the opportunity to develop their marketing and pricing strategies, both of which have a beneficial effect on firm performance. This shows that businesses may use social media to improve their ability to price products. The study also demonstrates that there is no direct relationship between social network usage and business success. This suggests that unless it involves the trust-based connection that is essential to managing the complicated interaction between social networks and corporate performance, using social networks for business purposes is not enough on its own.

The outcome advances the conversation on the social capital hypothesis in the manner described below. First, this study builds on earlier research on the social network theory, which is the foundation for social capital and has been utilized to inform social media studies. As mentioned by other studies, this conclusion fills in the study gap by elucidating how performance results rely on relationships and payoffs to sellers. By developing pricing power and maximizing overall business performance thanks to the advantages of trust-based network effects, businesses can gain a competitive advantage. This demonstrates a tight relationship with a high perceived level of reciprocity and intimacy that is concerned with the readiness to answer a supplier's question. This study expands on the prior research's analysis of SMEs' capacity to use social media to manage wealthy social capital. Businesses that can create social networks based on trust will be able to attain the desired results through improved pricing and marketing strategies. This supports the findings of the earlier research, which contends that the implementation of strategies that assist businesses in forming connections with a wide range of social capital results in the production of value growth.

The study promotes employee involvement both internally and externally and highlights important managerial implications related to the efficient use of social networks. It becomes clear that building trust is essential to increasing negotiating and sales potential. Businesses that want to reap the long-term benefits of social media must take a calculated, risk-aware approach that prioritizes developing trust. Intentional hiring and training that emphasizes relationship skills and consumer dynamics understanding are associated with improved firm performance. It is advised to take a nuanced approach to customer interactions and relationship investments, taking goals and

connectivity patterns into account. For state identification, the interaction between relational norms and dependency levels is emphasized, highlighting the significance of both commitment and trust working in concert. Unlike offline relational partners, who usually have more similar friends in their social networks, the chance of opportunistic conduct from an online partner grows with the discrepancy in social network levels. This emphasizes how important signals that foster trust are to the process of creating connections.

5. Conclusion

To summarize, this study not only rejects the commonly perceived direct relationship between network structure and firm performance but also highlights the complex relationship between trust and efficient communication networks and specific competencies. The shaping of these relationships is critical to the overall success of an organization in a networked environment. These insights provide insightful perspectives to further explore the complex interactions between social networks and organizational performance.

Although the findings provide valuable information for understanding the relationship between network structure and firm performance, some research limitations need to be noted. First, as the study focuses only on the specific geographic setting of Indonesia, its applicability may be limited by the global economic environment. Second, as the study period was limited to 2014-2015, the rapid changes in social networks and business environment may have introduced some dynamic factors that were not fully included in the analysis.

There are a number of areas of interest in looking at future research directions. First, given the diversity of social networks across geographic regions, an in-depth study of the impact of cultural differences on observed interactions may provide us with a more comprehensive understanding. Second, research that explores the impact of new technologies such as blockchain and artificial intelligence on network dynamics and, consequently, on business performance promises to provide new insights into this changing landscape.

References

- [1] Ferraris, A., Santoro, G., & Dezi, L. (2017). How MNCs subsidiaries may improve their innovative performance? The role of external sources and knowledge management capabilities. *Journal of Knowledge Management*, 21(3), 540-552.
- [2] Tajvidi, R., & Karami, A. (2021). The effect of social media on firm performance. *Computers in Human Behavior*, 115, 105174.
- [3] Pratono, A. H. (2018). From social network to firm performance: The mediating effect of trust, selling capability and pricing capability. *Management Research Review*, 41(6), 680-700.
- [4] Ngai, E. W., Tao, S. S., & Moon, K. K. (2015). Social media research: theories, constructs, and conceptual frameworks. *International Journal of Information Management*, 35(1), 33-44.
- [5] Dinda, S. (2014). Inclusive growth through creation of human and social capital. *International Journal of Social Economics*, 41(10), 878-895.
- [6] Dodd, M. D. (2016). Intangible resource management: social capital theory development for public relations. *Journal of Communication Management*, 20(4), 289-311.
- [7] Wang, Y. (2016). Investigating dynamic capabilities of family businesses in China: a social capital perspective. *Journal of Small Business and Enterprise Development*, 23(4), 1057-1080.
- [8] Oldroyd, J. B., & Morris, S. S. (2012). Catching falling stars: a human resource response to social capital's detrimental effect of information overload on star employees. *Academy of Management Review*, 37(3), 396-418.
- [9] Kwon, S. W., & Adler, P. (2014). Social capital: maturation of a field of research. *Academy of Management Review*, 39(4), 412-422.
- [10] Wang, Y., & Byrd, T. A. (2017). Business analytics-enabled decision-making effectiveness through knowledge absorptive capacity in health care. *Journal of Knowledge Management*, 21(3), 517-539.
- [11] Del Giudice, M., & Maggioni, V. (2014). Managerial practices and operative directions of knowledge management within inter-firm networks: a global view. *Journal of Knowledge Management*, 18(5), 841-846.

- [12] Scuotto, V., Del Giudice, M., Bresciani, S., & Meissner, D. (2017). Knowledge-driven preferences in informal inbound open innovation modes. An explorative view on small to medium enterprises. *Journal of Knowledge Management*, 21(3), 640-655.
- [13] Scuotto, V., Santoro, G., Bresciani, S., & Del Giudice, M. (2017). Shifting intra- and interorganizational innovation processes towards digital business: an empirical analysis of SMEs. *Creativity and Innovation Management*, 26(3), 247-255.
- [14] Williams, M., Buttle, F., & Biggemann, S. (2012). Relating word-of-mouth to corporate reputation. *Public Communication Review*, 2(2).
- [15] Pratono, A. H. (2018). From social network to firm performance: The mediating effect of trust, selling capability and pricing capability. *Management Research Review*, 41(6), 680-700.
- [16] Bicen, P., & Hunt, S. D. (2012). Alliance market orientation, new product development, and resource advantage theory. *Journal of Business & Industrial Marketing*, 27(7), 592-600.