The Effect Of Social Media Usage On Profitability Of SMES In Umhlathuze Municipality

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Article Info	Abstract
	Some issues have become more relevant in recent years than the surge in social media usage across the world. Social media can be an effective mechanism for businesses to enhance profits and increase market share based on network capabilities, image transformation and personal extensibilities in the market. Despite this plausible prominence however, the impact of social media usage on business performance remains less understood in empirical terms. It is against this background that we seek to examine the significance of social media usage on profitability of SMEs in uMhlathuze Municipality. This study investigated the effect of social media usage on profitability of SMEs in uMhlathuze Municipality of KwaZulu-Natal province in South Africa using primary data and to achieve this objective, a survey was conducted using a structured questionnaire administered. Furthermore, a common approach in earlier studies treats profitability as a continuous variable in a linear regression framework. The findings reveal a positive and significant association between social media usage and profitability using an ordered logit model. Notwithstanding this encouraging result, not all of the SMEs use social media for selling and advertising.

Introduction

Few issues have become more relevant in recent years than the surge in social media usage across the world. Defined by Berthon, Pitt, Plangger and Shapiro (2012) as an object of technological innovation involving both hardware and software that facilitates content creation, interaction and interoperability by online customers and businesses, social media has formed part of business operations in the last two decades (Mangold and Faulds, 2009; Fardouly, Dicdmchs, Vartaniam and Italliwell, 2015). To Okazaki and Taylon (2013), social media can be an effective mechanism for businesses to enhance profitsand increase market share based on network capabilities, image transformation and personal extensibilities in the market. Despite this plausible prominence however, the impact of social media usage on business performance remains less understood in empirical terms. It is against this background that we seek to examine the significance of social media usage on profitability of SMEs in uMhlathuze Municipality.

Several scholars share conflictingopinion regarding the impact of social media usage on business performance and the results from existing literature are largely debatable making it difficult for policymakers to draw policy inferences (Taiminen and Karjaluoto 2014; Ainin, Parveen, Maghaveml and Jaafar, 2015; Tajvidi and Karami, 2017; Hanna and Crittenden, 2011; Dahnil, Marzuki, Langgat and Fabeil 2014). Unlike existing studies, our contribution is embedded in the use of a quantitative approach in a bid to quantify the impact of social media usage on firm profitability. We uniquely measure firm profit based on orderly categories and then invoke an ordered logit model. The virtue of our contributions is threefold. Firstly, by using a quantitative research approach, we stand a higher chance of presenting objective evidence relative to the commonly qualitative approach employed in the majority of studies. Secondly by categorising firm profits as an outcome variable, we increase the chances of getting reliable data from firms when compared with requesting actual profit values. Thirdly by using an ordered logit model for the first time in this literature, we are able to show how social media usage influences the odds of earning higher profits.

The Concept of Social Media among SMEs

According to Grewal and Levy (2013:82), social media is a content distributed through social interaction. These media use various firms that offer services or tools to help consumers and firms build connections. Social media platforms are essential to businesses because they permit businesses to communicate, listen and learn from their customers differently than before (Grewal and Levy,2013; Smith, Wollan and Zhou., 2011). Recently social media has become an essential platform for everyday life with regard to communication and sharing information with relevant parties. Furthermore, social media platforms are cheap and easy to use and thus provide firms with

rather quick and law cost techniques of connecting with customers (Fischer and Reuber, 2011). This study focuses on the category of social media platforms that are influential to firm profits.

Use of Social Media by SMEs

Social media is a widely and easily adopted for use by businesses for conveying information or other forms of communication like selling and advertising or other methods of business promotion (Coleman, 2009). Researchers have discovered that the commonly used social media tool is Facebook (Janson et al., 2009). Subjective evidence from market research reports that firms use social media platforms to build direct relationships with customers, increase traffic to their websites, identify new business opportunities, create communities, distribute content and collect feedback from customers (Breslauer and Smith, 2009; e-Marketer, 2010). Most organisations are transformed by social media platforms due to the rapid growth of technology which has shaped communication from businesses to customers (Hendrickson, 2003). In addition, social media offers advantages to organisations by helping them cultivate social cultures and networks (Collins and Smith, 2006).

The market report shows that businesses use social media platforms for various reasons and all of them contribute to marketing, selling, and building relationships between customers and businesses (e-Marketing, 2010). All of these have direct influence on the performance of the day-to-day as well as the long-term operation of the organisation. Furthermore, the main aim of most businesses is to maximise profits and to satisfy the customers' needs, all of which can only be fulfilled by minimising costs and gaining customer loyalty through relationships built on communication (Collins and Smith, 2006).

Using social media platforms (in particular, Facebook, Twitter, Instagram, and LinkedIn) as a tool for communication has become a must nowadays, with over 13 589 520 Facebook users worldwide (Internet World Stats, 2012). According to Bonson and Ratkai (2013); Sarosa (2012) and Wong (2012), most SMEs use social media as a platform for selling, advertising, and marketing at an affordable cost by sharing, tagging, following, messaging, commenting and notifying customers. The use of Facebook, Tweeter, Instagram, and LinkedIn in businesses is good for promoting brand image and customer loyalty. Furthermore, SMEs can use social media platforms (in particular Facebook and Instagram) for the daily transactions as the costs are minimal and the platforms require low levels of IT skills (Derham et al., 2011).

Most SMEs use social media platforms for business exposure and brand awareness since social media creates and maintains customers' contacts and generates sales and revenues (He, Wang, Chen and Zha.,2017). The exposure of businesses, particularly small businesses on social media, increases the chances of the business to grow and to develop strategies of satisfying both customers and employees who deliver the services to potential customers. According to He et al. (2017), good maintenance of customers creates a productive relationship between the business and customers while employee satisfaction contributes positively to the performance of the business.

Social media platforms and the profitability of SMEs

The main aim of most businesses is to maximise profit by minimising costs in the organisation's operations (Lempert, 2006). Social media is perceived as a cheap, fast, and reliable tool of communication which is why most businesses have adopted its use. According to Rishika et al. (2013), profit generated by SMEs is an outcome of social media platforms given that customers spend purchase more goods via online shopping. Advertising, selling, and online transaction attract customers who are also retained and if their needs are satisfied.

Research has shown that customers who make online purchases using social media platforms contribute to the profitability of firms more than those who do not (Kumar, 2013). Furthermore, 5,6% of business revenues come from social media users and 5% is contributed by those who are not on social media. According to Rishika et al., (2013), the major way of making profit through social media platforms is the preservation of a user-friendly relationship, uploading regular updates of products or services, relating messages and information to customers to encourage interaction. According to Ming and Yazdanifard (2014), profitability is a fiscal benefit that is implied as the amount of revenue gained from business activity reduces the expenses and taxes needed to complete the activity.

Social media is a platform that has been adapted as a standard communication tool for many companies including SMEs (Kaplan, 2012). According to Trattener and Kappe (2013), businesses use social media platforms to increase website traffic and this is why businesses upload or share programmes that contribute to content creation and that attract customers' attention and sustain customer-business relationships. Customers somehow function as the promotional tool of the SMEs because they share information by using electronic word of mouth.

According to Kietzmann and Canhoto (2013), electronic word of mouth refers to sharing information through the internet via websites, social networking, instant messaging, and news feeds. Customers share business

service experiences, the benefits of products and services used, brand preferences and their loyalty. Whenever these messages spread from customers, potential prospects (customers) are attracted (Schivinski and Dabrowski, 2013). Social media has turned into a new tool that contributes to business success and the growth of market share (Evans 2012). Agresta (2010) defines social media "as an act of creating ad posting content in any of the following hosted environment, mobile, online or virtual" and that it is a platform that attracts customers and leads them to purchasing decisions. According to Singh (2008), the increase in market share is the result of social influence by customers including parents, children, friends, co-workers and even individuals who evaluate and comment on brands.

The improved bonding between customers and firms with an ultimate effect on firm profits is strongly related to the social capital theory. First analysed by Pierre Bourdieu (1985), its analytical was for modern sociology and is a common theory used in social media research as it emphasizes the prominence of utilising social connection and social relations in achieving goals for individuals, social groups, organisations and communities (Lin, 1999,2001; Portes,1998). According to Dekker and Uslaner (2001), social capital theory is approximately the value of social networking, bonding similar people and connecting between diverse societies, with norms of reciprocity.

According to Bourdieu (1986:248) the definition of social capital is the aggregate of the actual potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance or recognition. As Portes (1998) on the other hand argues, social capital is decomposable into two elements namely the social relationship itself that allows individuals to claim access to resources possessed by their associate (social networks and their constituent ties) and the amount and quality of those resources (social resources). To Chang and Chuang (2011), Chai and Kim (2010), Hau and Kim (2011) and Porter and Donthu (2008), the social capital theory is principally convenient in areas of connection and knowledge sharing to analyse the socio-psychological and volitional behaviour of social media users. We can, in this regard, use this intuition to make a case that social media usage can have strong implications on firm profitability.

2.0 METHODS

The authors investigated the effect of social media usage on profitability of SMEs in uMhlathuze Municipality of KwaZulu-Natal province in South Africa using primary data. To achieve this objective, a survey was conductedusing a structured questionnaireadministered in 2019 to business owners in 6 locations namely Empangeni, Richards Bay, Kwa-Dlangezwa, Esikhaleni Mall, Central Park Mall and 5-Ways Mall which are all part of uMhlathuze Municipality.

The target population comprised SMEs registered in the database sourced from King Cetshwayo district and we did not, in the interest of diversity, impose restrictions on the population in terms of age, gender, or ethnicity. According to the database from King Cetshwayo District, there were 207 SMEs registered with uMhlathuze Municipality at the time of data collection. From this target population, we then employed a simple random sampling technique to afford all firms an equal chance of participating.From the target population of 207 SMEs, we selected a sample size of 136 firms which was determined by Krejcie and Morgan (2009) based on a confidence level of 95% and amargin of error pegged at 5%.

The paper is part of a broader project registered with the University of Zululand. Since the broader project from which this paper is extracted received an ethical clearance certificate and followed all due research processes, our analysis was free from ethical violations.

2.1 Model Specification

A common approach in earlier studies treats profitability as a continuous variable in a linear regression framework. An important drawback of this approach is that profit data are confidential and small firms are generally unwilling to expose their financial information. For this and other ethical reasons, we asked firms, without loss of generality, to select the category of profit from a different set of profit ranges namely 1= R5000-R10000, 2= R10000-R20000, 3= R20000-R30000, 4= R30000-R40000 and 5= R40000-R50000. Since firm performance can be ordered from these categories, we preferred an ordered logit model. In an ordered logit model, an underlying score is estimated as a linear function of the independent variables and a set of cut points. The probability of observing outcome i corresponds to the probability that the estimated linear function, plus random error, is within the range of the cut points estimated for the outcome:

$$\Pr(y_j = i) = \Pr(\kappa_{i-1} < \beta_1 x_{1j} + \beta_2 x_{2j} + \cdots + \beta_k x_{kj} + u_j \leq \kappa_i) \quad (1)$$

where u_j is logistically distributed in ordered logit, y_j is the dependent variable and $x_1, \ldots, x_k$ are independent variables. We estimate the coefficients $\beta_1, \beta_2, \ldots, \beta_k$ along with the cut points $\kappa_1, \kappa_2, \ldots, \kappa_{k-1}$ where κ is the number of possible outcomes. The probability of a given observation for an ordered logit is

$$p_{ij} = \Pr(y_j = i) = \Pr(\kappa_{i-1} < x_j \beta + u \leq \kappa_i)$$

$$= \frac{1}{1 + \exp(-\kappa_i + x_j\beta)} - \frac{1}{1 + \exp(-\kappa_{i-1} + x_j\beta)}$$

where κ_0 is defined as $-\infty$ and κ_k is taken as $+\infty$. We estimate the ordered logit model using the maximum likelihood technique whose loglikelihood is given by

$$\ln L = \sum_{j=1}^{N} w_j \sum_{i=1}^{k} I_i\left(y_j\right) \ln p_{ij}$$

where w_j is an optional weight and

$$I_i(y_j) \begin{cases} 1, & \text{if } y_j = i \\ & \& \\ 0 & \text{otherwise} \end{cases}$$

Our independent variables and their measurement are presented in Table 1.1.

Table 1.1: Variable Description

Variables	Measurement
Gender	0 = male; 1 = female
Age	1= 17-24 years, 2= 25-34 years, 3= 35-45 years, 4= 46-55 years, 5= 56-69 years
Highest Educational Qualification	1= Primary, 2= Secondary, 3=Diploma, 4= Bachelor's degree, 5= Master's degree, 6= Other
Sector of the Business	1= Fashion, 2= Food, 3= Manufacturing, 4= Transport, 5= ICT, 6= Other
The location of the business	1= Empangeni, 2= Richards Bay, 3= Esikhaleni Mall, 4= Kwa-Dlangezwa, 5= Central park Mall, 6= 5 ways Mall, 7= Town square Mall
Social media usage	0= Yes;1= No
Capital costs	1= R2500-R5000, 2= R5000-R7500, 3= R7500-R10000, 4= R10000-R12500, 5= R12500-R15000, 6= R15000-R20000, 7= Other
Highest qualification	1= PhD(s), 2= Degree(s), 3= Diploma(s),4= Certificate(s), 5= Matric, 6= Other

Results and Discussion

Table 4.1 presents the descriptive statistics. It is important to note at this stage that all variables included in the analysis were categorical which down scores the relevance of several measures of central tendency. The most meaningful inference and conclusion from Table 4.1 is that all data were correctly entered looking at the total number of observations as well as the minimum and maximum values for each categorical variable. A variable with 5 categories was expected to have 5 as the maximum value and a minimum value of 1. This was properly checked, and all variables were correctly captured before analysis.

Table 1.2. Data (Descriptive Statistics)

Variables	Obs.	Mean	Std. Dev.	Min	Max
Gender	55	1.345455	.479899	1	2
Age	55	2.654545	1.040267	1	5
Education	55	3.581818	1.257436	1	6
Sector of the Business	55	3.290909	1.901975	1	6
The location of the business	55	2.527273	1.53785	1	6
Social media use	55	1.436364	0.5005048	1	2
Capital costs	55	2.872727	1.743289	1	7
Employees highest qualification	55	3.654545	1.455744	1	6

Having ensured that all variables were correctly captured the standard procedure in a quantitative analysis is to conduct a correlation matrix which aims to detect how strongly pairs of variables are related (Bailey, Pesaran and Smith, 2019). The result of correlation is known as the correlation coefficient, while this coefficient ranges from -1.0 to +1.0. Hence, the motive behind the correlation matrix is that the more closely the two variables are related, in a sense that if the coefficient is close to zero is denoted that no relationship exist among the two

variables. Moreover, if the coefficient is negative, it simply shows that as one of the variables gets larger with certain units, the other one is declining with a certain unit, while if variables get larger by certain units the other one increases. This interpretation clearly implies, as indicated by Gujarati (2004), that a correlation matrix is only useful when one is dealing with continuous variables and considerably less so when analysing categorical variables. Against this background, a correlation matrix was considered unnecessary for the purpose of meeting specific objectives of this study hence the analysis proceeded with multi-regression analysis within the binary regression framework. Binary regression results are presented in the subsequent section.

Regression modelling and diagnostic testing
Table 1.3: Ordered logistic regression

Variables	Coefficient	Z-Statistic
Age: 25-34 years	3.230239**	1.81
	(1.789426)	
35-45 years	5.746917***	3.04
	(1.888578)	
Education: Diploma	-5.123757***	-3.19
	(1.605956)	
Bachelor's degree	-2.347393**	-1.84
	(1.278993)	
Master's degree	-5.600793***	-2.99
	(1.87016)	
Business type: Food	6.015042***	3.78
	(1.590589)	
Other unspecified industries	2.142327*	1.75
	(1.224687)	
Social Media Use	1.108975***	2.70
	(0.4114253)	
Capital Costs: R12500-R15000	-5.522519***	-2.88
	(1.914667)	
Business Location: Kwa-Dlangezwa	6.09435***	3.25
	(1.874645)	
5 ways Mall	2.47658*	1.68
	(1.474539)	
Gender	1.453934*	1.80
	(0.808425)	
/cut 1	7.054642	
	(2.670127)	
/cut 2	8.818764	
	(2.792596)	
/cut 3	10.95579	
	(2.945435)	
/cut 4	11.69103	
	(2.987442)	
Obs.	55	

Note: *, **, *** denote p <0.1, p<0.05 & p< 0.01, respectively. Standard errors are in parentheses

The results reported in Table 4.2 show marginal effects of the independent variables on firm profitability. A positive sign on each explanatory variable implies a positive relationship with the dependent variable holding constant all other explanatory variables (Sekaran and Bougie, 2010). With this interpretation in mind, the estimated results can be interpreted accordingly.The first variable is age group and it was captured as a categorical variable in order to avoid getting erroneous responses from the respondents. For a categorical variable, it is important to note that one category is omitted as a reference group in order to avoid a dummy variable trap.

Out of five categories (1. 17-24, 2. 25-34, 3. 35-45, 4. 46 – 55 and 5. 56-69), the 17-24 age category was used as a reference group hence the coefficient on group 2 suggests that the probability of earning higher profits for firms belonging to the 25-34 age group is higher by 3.2302 units relative to that of firms whose age group belongs to the 17-24 age group. In economic sense, this is plausible as it suggests that experience makes firms productive and productivity increases profitability (see Wamba and Carter, 2013). This is also consistent with results in Zeiller and Schauer (2011), Wang et al., (2010), Chong and Chan (2012), Chai et al., (2011) and Lee and Kozar (2012).

The same positive effect is true with respect to the 35-45 age group. Noteworthy is that the effect is larger relative to that of the 25-34 age group. This time the probability of earning higher profits for firms within the 35-45 age group is higher by 5.7469 units relative to that of firms within the 17-24 age group and the impact is statistically significant at 1 per cent level. For the 46-55 years, the probability of earning higher profits is higher by 1.4538 units relative to that of the 17-24 years. However, the impact is not statistically significant at conventional levels which suggests that age increases the probability of higher profits up to a certain point where further increases do not cause an increase in profitability.

Diplomas as the highest educational qualification enter with a significantly negative sign. This means that having a diploma reduces the odds of higher profits. The same is true for firm owners with a Masters and bachelor's degree. This is somewhat surprising but there are two possible explanations behind this finding. The first is that our education variable by measurement is capturing the category in which the firm belongs to and not the quality of the degree. In other words, there is a possibility that firms possess qualifications with a below average understanding of the course itself and how it relates to business management. Secondly, our education category is only capturing any degree without specificity. Put differently, there is a possibility that firms that possess qualifications actually do not have qualifications that are directly related to business management which is very much plausible given the high unemployment rate prevailing in the country that mostly forces people to engage in jobs that they did not in fact studied for. However, scholars contend that formerly SMEs search knowledge outside business's boundaries they must appoint and train skilled people that will recognise inventive concepts in utilising social media platforms in the small businesses as the promotional tool for growing both the market share and profitability (Konsti-Laakso, Pihkala and Kraus, 2012).

Businesses offering food have a higher chance of earning higher profits by a margin of 6.0150 units compared to businesses that offer fashion. In statistical sense, the effect is found to be significant at 1 percent level implying strong statistical evidence that the food industry does increase the chances of earning higher profits. This result is not surprising since the food industry has a higher demand and profitability generally increases with demand. Several studies have shown that most consumers in South Africa have a higher marginal propensity to spend on food items which increases the profit margin of firms in the food industry. The businesses of other unspecified industries on the other hand have a lower chance of earning higher profits as indicated by a negative 2.1423 coefficient. Despite being significant in statistical sense, the effect is difficult to attach an explanation since the industries are unclassified.

The variable of interest here is social media use. It is a dummy variable which takes only two values – zero and one – where one represents firms that use social platforms to advertise their business operations and zero represents those that do not. In other words, the category zero is treated as the reference group. As expected, based on previous studies, and related theory underpinning this empirical study, the social media dummy is positive and statistically significant at 1 percent level of significance. The result shows that using social media platforms have a higher chance of earning higher profits relative to those that do not use social media platforms. This is revealing and supportive of the notion that social media is a catalyst through which firms can enhance their profitability through convenient and cost-effective means of advertising and selling through social media. The result is consistent with findings observed in Chong and Chan (2012) and Derham et al., (2011).

Capital costs were grouped into 7 categories, but it is only businesses capital worth R12500-R15000 which emerges with a significant association. The effect is negative as expected given that higher capital costs exert a negative effect on profitability holding constant all other possibilities as supported by Davis and Vladica (2006)

The location of the business was included in the specification as one of the independent variables and it is a categorical variable where one location is dropped as the reference category in order to avoid the dummy variable trap. According to the evidence, it is only businesses in KwaDlangezwa that have a higher profit on average and the difference is statistically significant. With respect to gender, businesses owned by females have higher profits on average and the difference is statistically significant at conventional levels. This finding is not surprising, and it supports the notion that females are more cautious and more responsible in running the businesses.

Conclusion

Social media platforms have been identified as a major technique in improving a performance of small medium enterprises in particular the growth of profitability. This study sought to investigate the effect of social media usage on profitability of SMEs in uMhlathuze Municipality. The findings reveal a positive and significant association between social media usage and profitability using an ordered logit model. Notwithstanding this encouraging result, not all of the SMEs use social media for selling and advertising. Therefore, based on our results, businesses that have not yet adopted social media as a method of advertising might need to consider adopting social media platforms as we find it to increases the chances of earning higher profits.

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