

The Impact of Social Media Usage on the Financial Performance (Profitability, Growth, and Market Value) of the Banking Sector in India

ABSTRACT

The significance of social media as indispensable marketing and communication tools cannot be ignored in today's digital world. Furthermore, these studies are mainly conducted in developed countries with a focus on large organizations. However, there is a dearth of studies examining the actual influence of social media usage (SMU) on the performance of financial institutions. Therefore, this article fills this research gap by examining the impact of SMU on the financial performance of financial institutions in India by extracting data from the annual reports of 5 banks from 2016-17 to 2020-21. Three linear regression models were applied to assess the impact of SMU on the three major aspects of the financial performance of banks, namely profitability, growth, and market value. The findings showed that SMU had a significant affirmative impact on financial performance variables. Based on the findings, this study recommends that bank managers should consciously improve their bank's financial performance by developing SMU-related competencies and capabilities and a strong willingness to implement these tools.

Keywords: Banking Sector, Financial Performance, Profitability, Social Media Usage, Market Value, Growth, Indian Banks.

INTRODUCTION

With the increasing use of social media in today's digital world, organizations view these platforms as indispensable marketing and communication tools. Organizations exchange information and receive feedback on their products or services using social media platforms, helping organizations better understand and respond to customer requirements (Parveen et al., 2016). Even the employees find it useful to improve cooperation and communication within the organization (Meske & Stieglitz, 2013). It significantly improves business-customer relationships (Icha & Agwu, 2016), thus helps an organization to broaden

its customer base (Bhanot, 2014). Further, the use of social media improves the internal efficiency and effectiveness of an organization resulting in enlarged revenues and reduced costs (Bojare & Romanova, 2017; Constantine, 2013; Harris & Rea, 2009). Social networking sites facilitate interaction, collaboration, and information sharing, and are therefore considered central to an organization's network resources, linking strategic value with business performance and capabilities (Parveen et al., 2016; Zhou et al., 2007).

The growing use of social media provides the corporate world with opportunities to increase their profitability and market value, as well as to build and manage their corporate image. Past research (e.g. Bhanot, 2014; Suvarna & Banerjee, 2014) has observed that companies that incorporate social media as part of their strategy are more financially successful. Hence it follows that the banking sector cannot be an exception. Banks are using social media platforms to share information about their products and services; engage with customers by receiving suggestions, complaints and feedback; and respond to customer interactions. Some banks have started incorporating the concept of "social commerce" by providing access to banking services through social media platforms (EFMA & Wipro, 2013).

RESEARCH OBJECTIVES

The present study aims to quantify the current state of social media usage by the Indian banks and to determine the impact of SMU on the financial performance of the Indian banks.

REVIEW OF LITERATURE

Nyambu (2013) identified the effect of social media marketing on the financial performance of the Kenyan telecommunications organizations. The regression analysis found that SMU positively impacts organizational performance by providing low-cost marketing platforms compared to other available forms of marketing. The study observed that SMU has improved the competitiveness and financial performance of companies due to improvements in technology.

Danaiata et al. (2014) studied the SMU by Mexican banks. The study surveyed 40 managers from 20 banks and revealed two major factors in banks' adoption of social media, namely the manager's age and experience in the social media space. While banks have started using social media to attract customers, there is still plenty of room for banks to adopt and fully utilize social media.

Tamrakar (2016) studied the link between SMU and financial performance using a case of 180 mono-brand companies from more than 10 industries. The research study concluded that social media sentiment is fully reflected in stock returns. Therefore, integrating social media can improve profitability and market value.

Daowd (2016) sought to investigate and elucidate the influence of SMU on the performance of financial institutions in three developing economies such as India, Kenya, and Jordan. The data was collected from the employees of financial institutions using quantitative methods. The results show that SMU has a significant impact on the performance of financial institutions. Therefore, the study recommends the SMU as a tool to improve the performance of financial institutions in advertising, marketing, and communications.

Malhotra (2017) conducted a survey of the Facebook pages of 47 domestic banks (public and private) during 2012-2014, to identify the impact of social media presence, especially Facebook, on the profitability of Indian banks. Multiple regression analysis revealed no significant impact of social media presence on profitability of banks.

Ahmad et al. (2019) conducted a quantitative survey to explore the factors that influence the adoption of social media by businesses and the impact of this adoption on their performance. Data were collected using survey questionnaires distributed to Managers or CEOs of companies operating in the United Arab Emirates and were analyzed using partial least squares (PLS) and structural equation modeling (SEM) techniques. The findings suggest that the adoption of social media has no impact on business performance.

Singh et al. (2020) conducted a study to reveal the role of social media in customer relationship management in the banking environment. The study used three case studies to explain the adaptation and implementation of different social media platforms in retail bank marketing. The study concluded that different attributes significantly impacts the overall service quality perception of banks using social media platforms. Successful adoption of these platforms will ensure better performance and customer loyalty.

Akhter et al. (2021) observed that the use of social media could be beneficial if the banking industry could focus primarily on marketing social media by identifying popular social networking sites and presenting their offers on those sites. The research provides some guidance on how banks can leverage social media marketing and on which social networks. The study concluded that a combination of traditional and social media marketing might prove an ideal way to choose a marketing tool for any bank.

HYPOTHESES DEVELOPMENT

As evident from the above literature review, the existing literature on the use of social media mainly covers individual perspective, and quite a few are based on an organizational perspective (Aluoch, 2017). Furthermore, these studies are mainly conducted in developed countries with a focus on large organizations (Parveen et al., 2016). However, there is a dearth of studies examining the actual impact of social media usage (SMU) on the financial performance of the banking sector (Franco et al., 2016; Mahboub, 2018). Therefore, this study fills this research gap by examining the impact of SMU on the three major aspects of the financial performance (profitability, growth, and market value) of the selected Indian banks. The following research hypothesis is formulated:

H₀: SMU positively impacts financial performance of Indian banks.

The formulated hypothesis is further sub-divided into three sub-hypotheses –

H_{0a}: SMU has positive impact on profitability of banks in India.

H_{0b}: SMU has positive impact on growth of banks in India.

H_{0c}: SMU has positive impact on market value of banks in India.

RESEARCH METHODOLOGY

The study examines the impact of social media usage on the financial performance of selected Indian banking institutions (HDFC Bank, ICICI Bank, State Bank of India, Axis Bank, and Kotak Mahindra Bank) for a period of five years from 2016-17 to 2020-21. The banks were selected based on the following criteria: the banks have websites; annual reports are available on their websites for a period of 5 years (2016-17 to 2020-21); and the banks have social media pages. The study considers three financial performance factors namely profitability, growth, and market value as dependent variables and social media usage as independent variables. The theoretical model associating the study variables (independent and dependent) is presented in Figure 1 below:

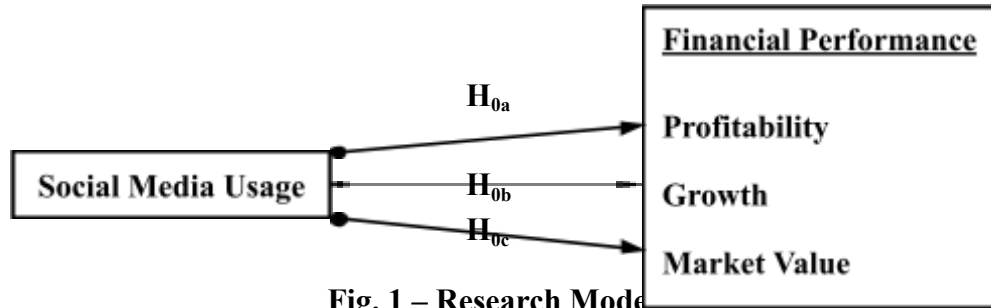


Fig. 1 – Research Model

The connotations of the variables used in the present study are clarified in Table 1 below:

Table 1 – Measurement of Study Variables

Study Variables	Definition	Measurement
<i>Independent Variable (Social Media Usage)</i>		
Social Media Usage	Fan of Facebook	Total fans of Facebook pages
<i>Dependent Variables (Financial Performance)</i>		
Profitability	Return on Assets	Net Income / Total Assets * 100
Growth	Asset Growth	(Closing Value of Assets - Opening Value of Assets) / Opening Value of Assets
Market Value	Earnings per Share	(Net Income – Preferred Stock Dividends) / Average outstanding Equity Shares

The financial data were collected from the annual reports of the identified banks, and the requisite ratios were manually calculated based on the collected data. Descriptive statistics provided a basic analysis of dependent and independent variables and the strength of these variables were measured using correlation analysis. As recommended by Rahman and Sharma (2020), the association of the study variables are empirically analyzed on the basis of simple linear regression models.

RESULTS AND DISCUSSIONS

The descriptive statistics and the correlation matrix of the study variables are presented in the Table 2 below:

Table 2 – Descriptive Statistics and Correlation Analysis

Variables	Mean	SD	SMU	PROF	GROW	MV
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SMU	87065	54437.6	1.000			
PROF	1.00	0.77	0.264*	1.000		
GROW	0.144	0.097	0.337*	0.106	1.000	
MV	19.43	23.45	0.153*	0.139	-0.081	1.000

* Correlation is significant at the 0.01 level (2-tailed)

Linear regression was performed with the aim to test the research hypothesis in order to determine impact of the independent variable (SMU) with each of the three aspect (PROF-GROW-MV) of the dependent variable (Financial Performance). Accordingly, three models were developed. The explanatory power of each model is represented by R² (coefficient of determination) and adjusted R². The outcome of the regression analysis is presented in Table 3 below.

Table 3 – Regression Analysis

IV	DV		
	Model 1 (PROF)	Model 2 (GROW)	Model 3 (MV)
SMU	0.264	0.337	0.153
p-value	.001	.000	.008
F-value	32.48	57.53	4.56
R	0.264	0.337	0.153
R²	0.070	0.114	0.023
Adjusted R²	0.067	0.111	0.019

Analysis of Model 1 - As evident from the results in Table 3 above, the coefficient for SMU is positive and significant ($r = 0.264$; $p = 0.001$). This clearly shows the affirmatory and significant impact of SMU on the profitability of Indian banks. Therefore, there is no reason to reject the sub-hypothesis H_{0a}, suggesting that SMU has brought a positive increase in the profitability of Indian banks. This appears to be consistent with existing literature observed in past studies (e.g. Murimi, 2016; Mahboub, 2018). Thus, SMU has become a fundamental strategy to gain a competitive advantage over competitors (Murimi, 2016).

Analysis of Model 2 - As evident from the results in Table 3 above, the coefficient for SMU is positive and significant ($r = 0.337$; $p = 0.000$). This clearly shows an affirmatory and

significant impact of SMU on the growth of Indian banks. Therefore, there is no reason to reject the sub-hypothesis H_{0b} , suggesting that SMU has brought a positive growth in assets of Indian banks. This appears to be consistent with existing literature observed in past studies (e.g. Aluoch, 2017; Mahboub, 2018), pointing out that Indian banks have embraced using social media that provides them with good marketing opportunities. Thus, SMU helps in enormously improving growth (Aluoch, 2017).

Analysis of Model 3 - As evident from the results in Table 3 above, the coefficient for SMU is positive and significant ($r = 0.153$; $p = 0.008$). This clearly shows an affirmatory and significant impact of SMU on the market value of Indian banks. Therefore, there is no reason to reject the sub-hypothesis H_{0c} , suggesting that SMU has brought a positive impact on the market value of Indian banks. Unfortunately, this appears to be inconsistent with existing literature observed in past studies (e.g. Mahboub, 2018), pointing out that more research is needed to investigate this issue.

CONCLUSION

The study evidences the impact of SMU, specifically Facebook usage, on the financial performance of the Indian banking sector. Data for the study was gathered from the annual reports of selected Indian banks. The findings show that SMU positively impacts the financial performance of Indian banks in terms of profitability, growth, and market value. This result is consistent with previous studies that observed a positive relationship between SMU and organizational performance (Mahboub, 2018; Shuai & Wu, 2011). As a result, SMU has helped Indian banks increase their profitability and market value, while also boosting their growth.

No research study is free from limitations. The same is the case with the present study. This study is specific to a single industry (Banking) in India. Therefore, it is recommended to further analyze the impact of SMU for other sectors and countries, as in other settings, the significance of SMU may vary. Further, this study considers only five Indian banks. More banks can be included to generalize the results for the entire banking sector. This study considers a single social media platform (Facebook). Future research can consider other social media platforms such as Twitter, LinkedIn, WhatsApp, etc. Thus, each social media platform may be another research path. The current study uses only financial performance indicators and ignores non-financial performance. Even financial performance represents three constructs and may not be comprehensive enough to assess a bank's financial

performance. Therefore, future research may consider additional financial performance indicators and also, the non-financial performance constructs to study the impact of SMU on the overall performance of banks.

Despite these limitations, this study helps fill identified research gaps and points to new avenues for future feasibility and development. This study also helps to enrich the research literature on the usage of social media in the context of financial institutions and its relationship to the financial performance of banks. In addition, this study recommends that bank managers should consciously improve their bank's financial performance by developing SMU-related competencies and capabilities and a vigorous willingness to use such tools.

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