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# **Social Media use and value creation in the digital landscape: a dynamic-capabilities perspective**

Aurora Garrido-Moreno ([agarridom@uma.es](mailto:agarridom@uma.es))  
Faculty of Social Studies and Social Work  
University of Malaga, Campus Teatinos (Ampliación)  
29071 Málaga (Spain)\*

Víctor J. García-Morales ([victorj@ugr.es](mailto:victorj@ugr.es))  
Faculty of Economics and Business  
University of Granada, Campus Universitario de La Cartuja  
18071 Granada (Spain)

Stephen King ([sfk@lubs.leeds.ac.uk](mailto:sfk@lubs.leeds.ac.uk))  
Leeds University Business School  
University of Leeds  
Leeds, LS2 9JT (United Kingdom)

Nigel Lockett ([nigel.lockett@strath.ac.uk](mailto:nigel.lockett@strath.ac.uk))  
Hunter Centre for Entrepreneurship  
University of Strathclyde  
Glasgow, G4 0QU (United Kingdom)

# **Social Media use and value creation in the digital landscape: a dynamic-capabilities perspective**

## **Abstract**

**Purpose** - Although Social Media use has become all-pervasive, previous research has failed to explain how to use Social Media tools strategically to create business value in today's increasingly digital landscapes. Adopting a dynamic capabilities perspective, this paper empirically examines the specific process through which Social Media use translates into better performance and the capabilities involved in this process.

**Design/methodology/approach** - A research model is proposed that includes both antecedents and consequences of Social Media use. Existing research was examined to derive the research hypotheses, which were tested using SEM methodology on a sample of 212 hotels.

**Findings** – The results show that Social Media use does not exert significant direct impact on Organizational Performance. Rather, the findings confirm the mediating role played by Social CRM and Customer Engagement capabilities in the value creation process.

**Practical implications** – The results demonstrate how Social Media tools should be implemented and managed to generate business value in hotels. Implications yield interesting insights for hotel managers.

**Originality/value** - This study is a first attempt to analyze empirically the real impact of digital media technologies, particularly Social Media use, drawing on the dynamic capabilities perspective and focusing on service firms (hotels). Including the variable 'Organizational Readiness' as a basic prerequisite to benefit from Social Media use enhances the study's novelty and contribution.

**Keywords** - Social Media use, Dynamic capabilities, Customer Engagement, Organizational Readiness

**Paper type** - Research paper

## 1. Introduction

Digital technologies are dramatically changing markets, business environments, and marketing communication strategies (Foltean et al., 2019). Digitalization has transformed the way organizations and customers interact and exchange value, creating new avenues for interaction and collaboration with the market. While increasing digitalization can create opportunities for business, it also presents significant challenges. Managers face complex and rapidly changing markets and lack the specific knowledge necessary to understand these changes and how to cope with them (Leeflang et al., 2014). To meet these challenges, firms should understand how to use digital technologies strategically and what capabilities they must acquire to respond quickly to market needs, transforming their value creation process (Chanias et al., 2019; Quinton et al., 2018).

Social Media use is particularly important in the current digital landscape, and it is recognized as a major component of a digital transformation strategy (Galindo-Martín et al., 2019 Torres and Augusto, 2019). These tools are considered as future service technologies (Kristensson et al., 2019) that will dramatically change the value creation process. Social Media tools are defined as “a group of Internet based applications that build on the ideological and technological foundations of Web 2.0 technology, and allow the creation and exchange of user-generated content” (Kaplan and Haenlin, 2010, p. 61). Social Media use has already completely transformed the way customers interact with firms. Organizations are realizing that these technologies can be powerful enablers of Customer Relationship Management (CRM) and are integrating Social Media into existing CRM systems to better engage customers (Choudhury and Harrigan, 2014). Social CRM appear thus as technology-enabled strategy enabled by Social Media tools and designed to engage customers in collaborative interactions that create *mutual* value (Greenberg, 2010; Trainor, 2012).

Dynamic capabilities theory provides an ideal lens to examine the process of value creation in the current digital economy, characterized by quick and dramatic structural change. This theory has been widely used in prior research to explain how firms can innovate in turbulent markets and generate business value with the use of Information Technology (IT) (Eloranta and Turunen, 2015; Wang et al., 2013). Dynamic capabilities theory seems particularly appropriate to examining Social Media use (Harrigan et al., 2015) because customer needs and preferences are constantly changing in the current

environment, requiring firms to adapt by building information-based capabilities to personalize their offerings. While Social Media can clearly help firms to reinvent customer relationships, fostering development of relevant firm capabilities, research has not yet clarified the specific process of creating value with these tools (Wu, 2016). Understanding of the organizational conditions needed to harness the full potential they can offer remains limited, and firms are finding challenging to generate real profit from Social Media use (Kunz et al., 2017; Piskorski, 2011). As digitalization continues to evolve, firms must understand how to use Social Media strategically to create real value.

While Social Media are relevant to all sectors, use of these tools is transformative in the hospitality industry (Diffley et al., 2018). In the current digital environment, Social Media have become a strategic imperative for hotels, enabling them to access their geographically dispersed potential customers directly and to monitor customer reviews and respond proactively to them. Social Media have proven to be a key tool in fostering Customer Engagement and Customer Experiences (Diffley et al., 2018; Tajvidi and Karami, 2017). Despite the growing relevance of Social Media in this sector, there is a lack of research examining empirically its impact on hotels' performance (Palacios-Marques et al., 2015). Although prior research has devoted significant effort to conceptualizing the Social Media phenomenon, the internal antecedents of its use or its specific impact on firm capabilities and value creation remain underexplored (Foltean et al., 2019; Wang and Kim, 2017).

While successful Social Media adoption requires deep understanding of the strategic capabilities involved in this process, many managers lack this specific knowledge (Foltean et al., 2019). Assuming that one of the main challenges firms face in the current digital landscape is to understand the real impact of Social Media use on their performance (Foltean et al., 2019; Leeflang et al., 2014) the purpose of our study is to examine this phenomenon empirically. We draw on the dynamic capabilities perspective to address the following research questions: (RQ1) What are the main capabilities enabled by Social Media use? (RQ2) What chain of effects leads to better performance when using Social Media? Our analysis aims to identify the specific pathways through which Social Media use enhances value creation. In fact, we seek to determine empirically whether Social Media use affects performance directly or whether this effect is mediated entirely by firm capabilities. The proposed research model is tested on a primary dataset of 212 hotels using Structural Equation Modeling (SEM) techniques.

This study makes novel and relevant contributions to the literature by responding to recent calls for additional empirical research to demonstrate the impact of Social Media use on value creation in the new digital landscape. Our first contribution to Social Media literature is to propose a conceptual model, drawing on the dynamic capabilities perspective, to examine how Social Media use leads to a better Organizational Performance enhancing firm capabilities. Second, by empirically testing the proposed model, our results confirm the mediating role of Social CRM Capabilities and Customer Engagement Capabilities in the process of value creation with Social Media. The findings provide a holistic understanding of the chain of effects that leads to better performance when using Social Media. Third, the results highlight the key role of Organizational Readiness, including significant organizational factors, as a basic prerequisite to benefitting from Social Media use. The findings also have significant implications for managers in describing how to strategically implement these digital tools to enhance sales and profitability.

The paper is organized as follows. First, we present the theoretical background and develop the research model and hypotheses. Next, we describe the research method and the empirical results. We conclude with a discussion of the results, implications for theory and practice, limitations, and directions for future research.

## **2. Theoretical background**

### **2.1 Social Media use and value creation**

With the rapid growth of Social Media use for business purposes, academic research on the topic has increased dramatically (Aral et al., 2013). One emerging research line that has advanced considerably in recent years is the impact of Social Media tools on business performance. The literature shows consensus on the transformative power of these technologies and their positive effect in the value creation process (Ahmad et al., 2019), and the phenomenon has been examined from different perspectives and in different contexts. The following summarizes insights from prior research.

Social Media use can impact organizations positively in terms of cost reduction in marketing activities and customer service, and improve customer relationships, increasing customer loyalty

(Tajudeen et al., 2018). These authors also show how Social Media use enhances information accessibility making it easy for firms to gather valuable information on the market, new trends, and new customer needs. Among Social Media's main advantages to firms, Foltean et al. (2019) stress the following: creating brand awareness, engaging with actual and potential customers by promoting conversations, generating word-of-mouth familiarity, enhancing brand image, and supporting network formation within the industry. All of these factors are directly or indirectly related to greater value creation and enhanced performance.

In the same vein, Kim and Ko (2012) observe that Social Media platforms enable firms to improve Customer Engagement with the brand, strengthening customer relations and increasing purchase intention. Social Media marketing activities are thus significantly efficacious in enhancing the firm's current and future profits. Moreover, in examining Social Media use to quantify its value empirically, Luo et al. (2013) confirm a positive impact on performance and recommend that Social Media technology use appear as a significant indicator of firm equity value.

In the hospitality industry, Social Media tools are transformative, as user-generated content significantly influences customers' travel decisions (Diffley et al., 2018). Customer reviews and opinions are crucial in this sector, as customers' experiences are more credible and trustworthy than firms' advertising (Palacios-Marques et al., 2015). Social Media platforms give hotels valuable platforms to communicate proactively with customers and enhance their engagement through value co-creation (Diffley et al., 2018). Moreover, by analyzing customer-generated content in Social Media, hotels can better understand customer needs and desires to improve their service offerings (Tajvidi and Karami, 2017). Social Media are thus a fundamental tool for creating business value in hospitality, as they give hotels advantages such as faster direct communication with customers, enhanced brand image, higher customer satisfaction, cost reduction, and sales growth (Tajvidi and Karami, 2017).

To summarize recent advances in the literature on this topic and recent evidence of the impact of Social Media use on firm performance in different sectors and countries, we created a table of recent studies (see Table 1), summarizing the main theoretical foundations and constructs used in recent empirical studies of the phenomenon.

*Insert Table 1 about here*

Examining Table 1, we can derive relevant research gaps. First, we observe that prior studies have hardly examined the role of organizational variables as effective antecedents of Social Media use. Because organizational factors have traditionally been considered as relevant resources in implementing technology-based initiatives (Wade and Hulland, 2004), we include them in our research model. Second, although various studies have examined the hotel industry, they have not properly analyzed the specific process by which Social Media use help hotels to generate new capabilities. Third, a line of prior research examines the specific impact of Social Media use on value creation. We will build on dynamic capabilities theory to develop the research model because we believe that the current digital landscape's dramatic turbulence and continuous change (Quinton et al., 2018) makes dynamic capabilities theory an ideal lens through which to analyze Social Media use and its impact on value creation (Harrigan et al., 2015).

## **2.2 Examining Social Media use from a dynamic capabilities perspective**

The dynamic capabilities perspective has become one of the dominant theories in the strategic management literature and is widely applied in a service context (Eloranta and Turunen, 2015). This theory proposes that the capability to acquire and deploy firms' resources in ways that match the dynamic environment leads to sustained competitive advantage (Eisenhardt and Martin, 2000). The theory focuses on two key attributes to build competitive advantage in dynamic markets (Teece, 1997). The term "dynamic" refers to the firm's ability to renew competences to achieve congruence with the changing business environment by developing innovative responses. The term "capabilities" indicates the process of adapting, integrating, and reconfiguring organizational skills and resources to match the demands of a changing environment. Capability development involves coordinated effort by individuals and organizational teams and is critical for firms in today's changing markets (Helfat and Peteraf, 2003). Improved performance occurs when distinctive capabilities are created by deploying technological resources in combination with complementary organizational resources (Trainor et al., 2014). Dynamic capabilities are thus a critical focus in IT management and innovation (Cetindamar et al., 2009; García-Morales, 2004).



In today's digital markets, firms' ability to respond to customer needs can be greatly enhanced by digital technologies such as Social Media tools. Social Media tools can help companies to develop firm-level capabilities based on customer knowledge, which can be essential for rapid response to market trends. For example, customers can give the firm and its employees feedback via suggestions for service improvements or participation in new product and service development processes (Dong and Wu, 2015). With this valuable information, firms can personalize their offerings, creating unique experiences and generating value for customers.

Neirotti and Raguseo (2016) conceptualize dynamic capabilities as externally oriented IT-based capabilities because they support firms in managing their external environment, responding to market changes, and seizing opportunities. These marketing capabilities help firms to understand changes taking place in their markets and to operate more efficiently by adapting to these changes (Blesa and Ripolles, 2008). Externally oriented IT-based capabilities enable firms to develop two basic activities: 1) to capture and respond to external knowledge; and 2) to reconfigure supply chain relationships, mainly with customers (Neirotti and Raguseo, 2016). From this perspective, we assume that Social Media technologies sustain firms in generating valuable customer knowledge and help them to reinvent market relationships, increasing firm responsiveness and Customer Engagement. Drawing on prior literature (Agarwal and Selen, 2009; Blesa and Ripolles, 2008; Neirotti and Raguseo, 2016; Trainor et al., 2014; Van Doorn et al., 2010), we develop a research model that includes two IT-based capabilities, Social CRM Capabilities and Customer Engagement Capabilities, which exert a major influence on value creation with Social Media use. We now define both capabilities.

Social CRM Capabilities are the abilities to gather, process, and analyze relevant market information to detect emergent opportunities and offer new products and services that meet customer needs. These capabilities include the ability to identify customer desires and needs, as well as the competence to create and build appropriate relationships with customers (Rapp et al., 2010). As Trainor et al. (2014) note, these capabilities encompass organizational systems and processes to acquire, disseminate, and respond to customer information. Proper use of Social Media tools for personal communication/interaction with customers captures a plethora of valuable information for businesses. For example, in the hotel sector—the subject of this investigation—channels like Facebook, Twitter,

Instagram, and YouTube have transformed marketing practices, personalizing campaigns and offerings. Managers in this sector have incorporated Social Media in their day-to-day practices and receive valuable information from customer reviews that helps them to improve service and meet customer needs (Baka, 2016).

Customer Engagement capabilities have emerged as a core concept in the marketing literature. These capabilities involve firms' ability to engage customers in a new type of relationship with the company, characterized by co-creation of knowledge, offerings, products, and value (Fehrer et al., 2018; So et al., 2016). In the context of service firms, Customer Engagement has been identified as a higher-order strategic capability that helps firms to co-create value through collaboration with customers (Agarwal and Selen, 2009; Agarwal et al., 2014). Engaging with a company via Social Media may make customers feel connected, potentially creating an intangible link and forging emotional bonds with the firm. Engaged customers become partners who collaborate with firms in the value-adding process to better satisfy both their needs and those of other customers. Like previous studies (Baird and Parasnis, 2011), we assume that the introduction of Social Media can transform CRM from an internal-focus monologue to a dialogue with customers for co-creation of value.

The next section presents the proposed research model, which draws on the dynamic capabilities and Social CRM literature (Harrigan et al., 2015; Trainor et al., 2012; Wang and Kim, 2017). Prior studies argue that development of IT-based capabilities involves the ability to combine specific IT systems with other organizational resources to support business processes (Trainor et al., 2014; Queiroz et al., 2018). Building on this evidence, we assume that Social Media tools must be combined with appropriate organizational resources to result in new capabilities that create a competitive advantage (Harrigan et al., 2015). The proposed research model thus includes "Organizational Readiness" as an antecedent of Social Media use that enables development of two valuable IT-based capabilities: Social CRM Capabilities and Customer Engagement Capabilities. These dynamic capabilities create business value by increasing Organizational Performance. Figure 1 presents our research model, illustrating the process through which Social Media use translates into Organizational Performance. To examine the mediating effect of these capabilities in this process rigorously, we include two alternative hypotheses in the model: hypothesis 3 proposing a direct impact of Social Media use on performance, and

hypothesis 7 assuming an indirect impact, fully mediated by firm capabilities. By empirically assessing both impacts, we can better assess whether these capabilities mediate the value-creation process significantly.

*Insert Figure 1 about here*

### **3. Research Model and Hypotheses**

#### ***3.1 Organizational and technological resources***

##### ***3.1.1 Organizational Readiness***

As previously highlighted, the dynamic capabilities perspective argues that firms must blend IT resources with strategic organizational processes to develop dynamic capabilities (Harrigan et al., 2015). Implementing digital tools such as Social Media is an enormous challenge. It requires not only technological investment but also transformation of the organizational culture to orient the firm to customers, change in organizational structure to enhance cross-functional sharing, and real management commitment and support (Sigala et al., 2018). The role of employees is key in undertaking this change; employees must understand that strategic Social Media use involves listening to customers, understanding their needs, and engaging them on these platforms. In fact, the main barriers most frequently mentioned to adopting Social Media use involve organizational variables: lack of support from top management, lack of a clear vision and strategy, poor fit with the organization's culture, lack of employee training, and cross-functional coordination problems (Chan and Guillet, 2011; Kiron et al., 2012; Leeflang et al., 2014).

Despite the importance of this topic, the impact of organizational factors on Social Media use has not been examined empirically and comprehensively. Prior research has analyzed the specific effect of variables like top management support (Ahmad et al., 2019; Tajudeen et al., 2018) and organizational culture and strategic leadership (Wu, 2016), but little understanding exists of the changes organizations must make to structures, processes, leadership, culture, and training in order to harness the potential of Social Media tools (Aral et al., 2013).

To determine the relevance of organizational factors to implementing Social Media tools, our model includes the variable "Organizational Readiness" to reflect the diverse aspects of organizational climate

and leadership required to use these technologies properly. Organizational readiness indicates whether an organization has made the necessary preparations by establishing an atmosphere favorable to effective deployment of a new technological initiative (Garrido-Moreno et al., 2015). To specify the main organizational aspects included in this variable, we build conceptually on the variable Organizational Readiness for CRM, which has been used in prior empirical research to examine firms' ability to adopt new technological systems to manage customer relationships (Chang et al., 2014; Garrido-Moreno et al., 2015). We thus conceptualize "Organizational Readiness" as an integrative variable including items related to customer relationship strategy, business processes, top management support and commitment, employee motivation (including training and incentives), and customer orientation.

If strategic use of Social Media involves organizational and structural changes, Organizational Readiness will be a fundamental prerequisite to proper use of these technologies in dynamic markets. Braojos-Gómez et al. (2015) confirm empirically that organizational capabilities truly are mechanisms through which firms learn to develop a Social Media competence. We thus hypothesize that:

**H1.** *Organizational Readiness is positively related to Social Media use.*

Social CRM Capabilities are defined as a firm's competence in generating, integrating, and responding to information obtained from customer interactions facilitated by Social Media technologies (Trainor et al., 2014; Wang and Kim, 2017). They involve monitoring the social web to gather customer insights, assess and analyze these data to detect opportunities, and integrate or embed this knowledge by putting activities into practice to improve customer relationships (Acker et al., 2012). An organization cannot build a Social CRM Capability simply by investing in technological resources. These technologies must be deployed in combination with complementary organizational resources to create distinctive Social CRM Capabilities (Trainor, 2012). Since firms must integrate technology, human and business resources properly to develop these capabilities (Harrigan et al., 2015), Organizational Readiness is a prerequisite to building successful Social CRM Capabilities.

To acquire, disseminate, and use customer information gathered via Social Media properly, companies must first develop the right organizational atmosphere. Leadership and top management support are critical to increasing use of Social Media tools to gather customer knowledge within an

organization (Acker et al., 2012; Kiron et al., 2012). Implementing a Social CRM initiative may generate conflict in traditional organizational cultures that do not promote open knowledge sharing (Koch et al., 2013). Making full use of the business potential of Social Media tools requires firms to transform their organizational conditions to harness the transformational potential of active contributions by customers and ensure interdepartmental flows of information (Aral et al., 2013).

For Chang et al. (2014), a firm's Organizational Readiness is a key facilitator of information-related processes leading to better firm performance. Trainor et al. (2014) further confirm that truly customer-oriented firms with appropriate customer-centric processes are more likely to develop Social CRM Capabilities and increase business performance with Social Media use. Accordingly, we assume that Organizational Readiness influences development of Social CRM Capabilities based on customer knowledge. We thus propose the following hypothesis:

**H2.** *Organizational Readiness is positively related to Social CRM Capabilities.*

### *3.1.2 Social Media use*

Social CRM has recently emerged as one of the most powerful ITs supporting business activities (Harrigan et al., 2015). As “sequels” to or a next step in the natural evolution of traditional CRM programs, these systems involve intensive use of Social Media to address customer needs (Greenberg, 2010). Social CRM tools help firms to acquire and continuously generate customer knowledge, facilitating interactions and conversations with actual and potential customers, as well as knowledge management processes (Foltean et al., 2019; Standing and Kiniti, 2011).

Social Media tools, including social networks, blogs, microblogs, and video- and photo-sharing platforms, have become increasingly popular, with millions of daily users (Bolton et al., 2013; Fernandez-Perez et al., 2012; Harrigan et al., 2015). Social networking sites such as Facebook bring people together to share experiences and content and are useful for tracking consumer beliefs about and attitudes toward a product or brand (Matook et al., 2013). Microblogs such as Twitter spread real-time news, opinions, complaints, and recommendations. Content communities enable users to share media content, including photos (e.g., Instagram) or videos (e.g., YouTube). The high popularity of these platforms makes them a very attractive channel for many firms, as content can be shared quickly and “go viral” (Kaplan and Haenlin, 2010). Thus, by fostering communication and connectivity, Social

Media tools represent a new vehicle for developing customer insights, accessing knowledge, co-creating ideas, and engaging customers in service discussions (Bhimani et al., 2019).

As explained in prior sections, the current digital landscape gives Social Media use the potential to change business processes, improve customer relationships, and thus enhance Organizational Performance (Tajudeen et al., 2018). In fact, the literature demonstrates that a firm's involvement in Social Media can yield numerous benefits, including enhanced brand value and customer trust, knowledge sharing, word-of-mouth (WOM), innovation and new product development, enhanced customer relationships, and increase in sales (Tajvidi and Karami, 2017).

Tajudeen et al. (2018) confirm empirically that Social Media use has a strong positive impact on Organizational Performance, translating into cost reduction, enhanced customer relations, and improved information accessibility. We thus propose that:

**H3.** *Social Media use is positively related to Organizational Performance.*

Social Media platforms have also become a new site for interaction with customers, enabling firms to gain valuable knowledge from them. These tools offer companies unique opportunities to connect with customers, hear their voices, and engage with them on a more personal level (So et al., 2016). Individualized data obtained from Social Media platforms support identification of target customers and product recommendations. The knowledge gained about customers via these tools can be used to promote and innovate in products/services (co-creation), enhance corporate image, and help customers connect with each other and exchange experiences (Pavicic et al., 2011). Use of Social Media tools enables firms to identify important market signals, evaluate services, and design responses to market change, thereby developing dynamic marketing capabilities to respond to market change (Wang et al., 2013).

Foltean et al. (2019) confirm empirically that use of Social Media tools is positively and significantly related to CRM capabilities. Trainor et al. (2014) also find that use of Social Media applications directly enables development of Social CRM Capabilities, involving information generation, dissemination, and responsiveness. We therefore hypothesize that:

**H4.** *Social Media use is positively related to Social CRM Capabilities.*

### **3.2 Social CRM Capabilities and Customer Engagement Capabilities**

Given the potential for Social Media to facilitate close relationships with customers, the advent of Social Media has increased interest in Customer Engagement in the literature (Kunz et al., 2017). In line with Van Doorn et al. (2010, p. 254), we define Customer Engagement as “customers’ behavioral manifestation toward a brand or firm, beyond purchase, resulting from motivational drivers.” In the context of service firms, Customer Engagement has been conceptualized as a dynamic capability consisting of firms’ ability to encourage customers to participate and engage during the service encounter (face-to-face or technology-mediated), and to respond to customer needs and expectations with agility (Agarwal and Selen, 2009; Agarwal et al., 2014). Drawing on prior literature (Harmeling et al., 2017; Kumar et al., 2010; Rehnen et al., 2017; Verhoef et al., 2010; Verleye et al., 2013), we assume that Customer Engagement capabilities reflect a firm’s ability to build an intimate long-term relationship with customers, resulting in various behaviors, such as customer feedback, customer-to-customer interactions (helping other customers), customer recommendations or reviews, and WOM activity.

As prior studies note, Social CRM is about enabling engagement with the customer for the mutual benefit of the customer and the business (Baird and Parasnis, 2011). We assume that effective Social Media enables firms to create a distinctive Social CRM Capability, understand customer needs better, and reinvent customer relationships based on this knowledge. Effective Social CRM Capabilities shift firms’ focus from satisfying customer needs to creating, consuming, and connecting via Social Media (Hoffman and Fodor, 2010). Customers who take a more active role in interacting with firms can co-create unique experiences, for example, proposing valuable ideas to develop new products or services. In sum, these capabilities foster the firm’s ability to engage customers in collaborative conversations, enhancing customer relations (Trainor et al., 2014).

Wang and Kim (2017) determine empirically that firms that possess Social CRM Capabilities are more effective in engaging customers and leveraging this information to serve their customers better. Consequently, we propose that:

**H5.** *Social CRM Capabilities are positively related to Customer Engagement Capabilities.*

### ***3.3 Customer Engagement Capabilities and Organizational Performance***

The use of Social Media tools has the potential to influence firm performance, as it promotes Customer Engagement capabilities based on interaction and information sharing (Choudhury and Harrigan, 2014). Trainor et al. (2014) confirm that investment in Social Media tools gives firms substantial relationship management benefits in terms of customer loyalty, satisfaction, and retention. Building on previous literature (Rapp et al., 2010; Maklan et al., 2015), we consider Organizational Performance derived from Social CRM as a multidimensional construct including measures related not only to customers but also to finance, such as increased sales, market share, and profitability.

The greater Customer Engagement, or emotional loyalty, the greater the financial value of the customer. On average, consumers spend more with the firm as their engagement increases. When they are deeply engaged, their loyalty towards the brand increases (So et al., 2016). In a well-designed Social CRM initiative, customers are likely to spread viral videos, create additional brand-related content, tweet about their brand, and post their experiences on Facebook (Hoffman and Fodor, 2010). As customers feel more involved and engaged, their relationship with the firm grows stronger, and they become more loyal and satisfied. In the current environment, customers increasingly use Social Media to obtain recommendations, reviews, and opinions from friends, family, experts, and the collective social community. Once customers access this content, the impulse to purchase immediately can be strong (Baird and Parasnis, 2011).

Despite the relative novelty of the concept, prior research suggests that Customer Engagement Capabilities impact important marketing metrics such as satisfaction and loyalty, which in turn improve value creation (Fehrer et al., 2018). Rishika et al. (2013) show empirically that Customer Engagement through Social Media increases customers' shopping visits, creating financial value for firms. By engaging with customers, organizations are better able to react to marketplace needs and improve customer relationships. Agarwal and Selen (2011) argue that the capability to engage customers properly is a strategic dynamic capability, particularly for service firms, and is directly related to high service offering and thus business performance. Based on collection of data from the customer's point of view, Kumar and Pansari (2016) observe that engaged customers influence business performance positively, increasing the firm's profits. Wang and Kim (2017) also provide robust empirical support for the impact of Customer Engagement on firm performance. We thus hypothesize that:



**H6.** *Customer Engagement Capabilities are positively related to Organizational Performance.*

### **3.4 The mediating role of firm capabilities**

As we have previously explained, the two examined capabilities (Social CRM and Customer Engagement) play a key role in the process of value creation with Social Media use. Furthermore, in the literature we find different studies which sustain that the impact of Social Media technologies on performance is mediated by firm capabilities. In this vein, Trainor et al. (2014) empirically observed how Social Media use alone does not exert a direct effect on performance outcomes. Instead, the use of these technologies helps firms to develop capabilities that allow them to better serve their customers, enhancing firm performance. Foltean et al. (2019) results' also support the mediator role of CRM capabilities in the relationship between Social Media technology use and firm performance. Their findings reveal that Social Media use contributes to improved firm performance indirectly, by enhancing firm capabilities. We can affirm that this mediation effect is supported by the resource-based view and the dynamic capabilities perspective, as both sustained that the use of new technologies will enhance existing firm capabilities, which in turn will increase business performance (Foltean et al., 2019; Wang and Kim, 2017).

Prior empirical research focusing on CRM technology use also showed that the use of these technologies, per se, do not have a direct impact on firm performance. This effect was mediated by marketing capabilities (Chang et al., 2010). Drawing on all the above, and following the same logic, we assume that Social Media use has the potential to increase firm performance through enhanced firm capabilities. Therefore, we propose that:

**H7.** *The relationship between Social Media use and Organizational Performance is mediated by firm capabilities.*

## **4. Research Methods and Results**

### **4.1 Data Collection**

To test the proposed hypotheses, we conduct a quantitative study of the Spanish hotel sector. Technology use is a key source of capabilities for hotels, and Social Media implementation is a pervasive driver of service innovations (Barile et al., 2016). We assume that the great economic

relevance of this sector and the current high levels of innovation and attention to Social Media exhibited by these firms provide a good environment in which to study the phenomenon.

To assess the validity of our proposed model, we performed a pilot study to collect qualitative feedback on Social Media use in this sector. First, we interviewed general managers, academics, and consultants knowledgeable about these strategic variables in order to clarify several aspects of our survey instrument and incorporate interviewees' suggestions. Building on existing literature and the knowledge acquired from these qualitative interviews, we developed an initial structured questionnaire for the study. Twelve general managers of hotels then completed the questionnaire. Based on their feedback and analysis of the pilot data, we modified and refined some items prior to final survey administration.

We established a reliable list of hotels in Spain using a database from a public institution. General managers were selected as key informants because they obtain information from different departments, determine the staff behavior expected and supported, and are responsible for guiding the actions, plans, and directives performed to achieve organizational goals and improve performance (Baer and Frese, 2003).

A simple random sample (a subset of individuals chosen from a larger set or population) of 900 Spanish hotels was selected. The firms were chosen randomly; each had the same probability of being chosen at any stage during the sampling process. Each business was contacted through several calls and emails. We explained the goal of the study and offered the firms surveyed the option of receiving the results once the study was completed. We kept all individual responses completely confidential and conducted our analysis at an aggregate level to prevent identification of any organization. The research design thus reduced possible desirability bias and increased the response rate (23.55%, 212 valid responses, Table 2). Characteristics of the responding hotels (number of employees, annual sales, age, and ownership) were compared to those of non-responding firms to reduce the possibility of non-response bias. The results indicated no significant difference between respondents and non-respondents. T-statistics and chi-square showed no significant differences between early and late respondents (Armstrong and Overton, 1977).

*Insert Table 2 about here*

## 4.2 Measures

### 4.2.1 Organizational Readiness

Based on previous studies that measure different aspects of Organizational Readiness (e.g., Chang et al., 2014; Garrido-Moreno et al., 2015; Keramati et al., 2010; Suntornpithug et al., 2010; Trainor et al., 2014), we constructed a 7-point Likert-type scale (1-“*strongly disagree*”, 7-“*strongly agree*”). These items, validated in prior studies, measure aspects of customer relationship strategy, business processes, top management support and commitment, employee motivation (including training and incentives), and customer orientation. Following confirmatory factor analysis to validate the scale for Organizational Readiness, three items were deleted. This procedure provided a one-dimensional scale of nine items (Chi-Square Value {degrees of freedom} $[\chi^2_{27}]$ =114.53; Expected Cross-Validation Index [ECVI]=0.71; Normed Fit Index [NFI]=0.96; Non-Normed Fit Index [NNFI]=0.96; Incremental Fit Index [IFI]=0.97; Parsimony Normed Fit Index [PNFI]=0.72; Akaike’s Information Criterion [AIC]=150.53; Non-Centrality Parameter [NCP]=87.53; Relative Fit Index [RFI]=0.95; Comparative Fit Index [CFI]=0.97; Root Mean Square Error of Approximation [RMSEA]=0.08).

### 4.2.2 Social Media use

To conceptualize our measurement items for “Social Media use,” we used homogeneous parceling strategies (Cole et al., 2016). Common in Structural Equation Models, this parceling method pools items so that each parcel represents a single lower-order dimension of the higher-order construct. In our case, the latent variable (Social Media use) was measured by five different items (homogeneous parcels) referring to different Social Media platforms. Since each item was thus an aggregate-level indicator including two lower-order dimensions (frequency of use and strategic relevance of this tool), each item was computed using the average value of both dimensions.

Based on previous scales (Choudhury and Harrigan, 2014; Harrigan et al., 2015; Rothschild, 2011; Sigala, 2011) we selected the following Social Media tools: Blogs, Microblogs, Social Networking, Video Sharing, and Photo Sharing. We asked hotels how frequently they used each tool to manage customer relationships (1-“*never*”, 2-“*rarely*”, 3-“*occasionally*”, 4-“*sometimes*”, 5-“*frequently*”, 6-“*usually*”, 7-“*every time*”) and the strategic importance of these Social Media tools for the firm (1-“*not at all important*”, 2-“*low importance*”, 3-“*slightly important*”, 4-“*neutral*”, 5-“*moderately important*”,

6-“*very important*”, 7-“*extremely important*”). Confirmatory factor analysis led to deletion of Item 1 (Blogs) to improve reliability ( $\chi^2_2=13.81$ ; ECVI=0.14; NFI=0.97; NNFI=0.93; IFI=0.98; PNFI=0.52; AIC=29.81; NCP=11.81; RFI=0.91; CFI=0.98; RMSEA=0.08).

#### 4.2.3 Social CRM Capabilities

Prior research has developed scales to measure Social CRM Capabilities through different issues, such as information generation (Trainor et al., 2014), information integration (Jayachandran et al., 2005; Choudhury and Harrigan; 2014; Chuang and Lin, 2013), information dissemination (Trainor et al., 2014), and responsiveness (Trainor et al., 2014). Based on these studies, we developed a 7-point Likert scale (1-“*strongly disagree*”, 7-“*strongly agree*”) of 12 items to measure Social CRM Capabilities accurately. Confirmatory factor analysis enabled us to validate this scale after deleting Item 8 ( $\chi^2_{44}=192.76$ ; ECVI=1.12; NFI=0.96; NNFI=0.96; IFI=0.97; PNFI=0.77; AIC=236.76; NCP=148.76; RFI=0.95; CFI=0.97; RMSEA=0.08).

#### 4.2.4 Customer Engagement Capabilities

Building on previous studies (Choudhury and Harrigan, 2014; Kumar et al., 2010; Van Doorn et al., 2010; Verleye et al., 2013), we developed a 7-point Likert-type scale (1-“*strongly disagree*”, 7-“*strongly agree*”) of five items that measured diverse aspects of customer feedback, customer-to-customer interactions, customer recommendations, and WOM activity. Confirmatory factor analysis to validate our scale led to elimination of Item 2 ( $\chi^2_2=8.95$ ; ECVI=0.12; NFI=0.99; NNFI=0.97; IFI=0.99; PNFI=0.53; AIC=24.95; NCP=6.95; RFI=0.96; CFI=0.99; RMSEA=0.07).

#### 4.2.5 Organizational Performance

Based on previous studies (e.g., Chang et al., 2010; Keramati et al., 2010; Trainor et al., 2014; Maklan et al., 2015; Wu, 2016), we drew up a 7-point Likert-type scale (1-“*much worse than my competitors*”, 7-“*much better than my competitors*”) to measure Organizational Performance in comparison to competitors. We chose this comparative method to measure Organizational Performance due to its use in recent research on Social Media use (Foltean et al., 2019; García-Morales et al., 2018; Palacios-Marques et al., 2015; Wu, 2016). The scale includes items related to both customer

performance (customer acquisition, retention, satisfaction) and financial performance (increase in sales, market share, profitability).

Preserving objectivity is crucial when measuring Organizational Performance. Since our study used general managers as key informants, performance evaluation was based on their criteria. To ensure the validity of our data, we followed the process recommended in prior studies and compared our data to objective measures to ensure convergent validity (Homburg et al., 1999; Palacios-Marques et al., 2018; Venkatraman and Ramanujan, 1986). To this end, we gathered financial data from external sources (SABI database) and obtained information about Return on Investment, which can be considered as a proxy for Organizational Performance. To check the quality of our subjective measures, we calculated the correlation of each objective measure to the mean score for each item of “Organizational Performance.” The resulting high and significant correlation (0.590\* [p=0.030]) indicates a highly significant correlation between the objective data and each item on performance in the measurement scale. This analysis confirms the validity of the Organizational Performance measure. Finally, we performed confirmatory factor analysis to validate the scale ( $\chi^2_9=51.58$ ; ECVI=0.36; NFI=0.97; NNFI=0.96; IFI=0.98; PNFI=0.58; AIC=75.58; NCP=42.58; RFI=0.95; CFI=0.98; RMSEA=0.08).

All scales used in the study were one-dimensional and had high validity and reliability. All measurement items for the variables mentioned are described in the appendix.

#### *4.2.6 Control Variables*

To capture other organizational factors that might impact the model variables, we included hotel size, age, and ownership structure as control variables. These variables were chosen because they figure widely in prior research on Social Media use in hotels (Chen et al., 2017; Garrido-Moreno and Lockett, 2016; Haro de Rosario et al., 2013; Orfila-Sintes and Mattson, 2009). To compute size, we classified hotels in the sample according to number of employees, as follows: large hotels (250 or more employees), medium-sized hotels (50 to 249 employees), small hotels (10 to 49 employees), and micro-hotels (fewer than 10 employees). Hotel age was also included as a control variable, classified by intervals (1-“0 to 9 years”, 2-“10 to 19 years”...). Finally, hotel ownership was introduced by comparing independent hotels to hotels integrated in chains (1-“independent hotels”, 2-“hotel integrated in chains”).

### ***4.3 Measurement Model***

First, the research model was tested through SEM using the statistical software LISREL 8.8. Table 3 presents the mean, standard deviation, and inter-factor correlations matrix for the study variables. Following the two-step approach proposed by Anderson and Gerbin (1988), we estimated a measurement model before examining the structural model relationships. This model (Table 4) shows very good fit ( $\chi^2_{604}=1368.08$  ( $p<0.001$ ); ECVI=7.42; NFI=0.95; NNFI=0.96; IFI=0.97; PNFI=0.86; AIC=1566.08; NCP=764.08; RFI=0.95; CFI=0.97; RMSEA=0.07).

The constructs yield satisfactory levels of internal consistency and reliability, reflected in Cronbach's alphas ranging from 0.84 to 0.93, composite reliabilities from 0.86 to 0.94, and average variance extracted (AVE) coefficients from 0.61 to 0.74 (Fornell and Larcker, 1981; Hair et al., 2010). The factor loadings were also significant. Each loading ( $\lambda$ ) was significantly related to its underlying factor ( $t$ -values $>15.35$ ), supporting convergent validity.

*Insert Tables 3 and 4 about here*

Discriminant validity (Table 5) was determined by comparing the AVEs to the square of the factor intercorrelations. In all cases, the AVEs exceeded the squared inter-correlations, providing evidence of discriminant validity (Fornell and Larcker, 1981; Anderson and Gerbin, 1988).

*Insert Table 5 about here*

We took specific measures to avoid common method bias in designing the research. Study goals were clearly communicated to respondents, survey anonymity was assured, previously validated and well-tested scales were used to reduce item ambiguity, and order of presentation was randomized for the survey items (Pandey et al., 2008; Podsakoff et al., 2003). To test for common method bias, we first conducted Harman's one-factor test (with unrotated principal component analysis). The results indicate no single dominant factor accounting for the majority of covariance among measures (the largest single component did not explain the majority of the variance, and seven components with Eigenvalues of more than 1.0 emerged, accounting for 70% of the total variance). Since Harman's test has some limitations (Podsakoff et al., 2003), we estimated a one-factor model and compared it to the proposed measurement model. The results of the one-factor model confirm that the fit of the one-dimensional

model is worse than the fit of our measurement model (the one-factor model did not fit the data well ( $\chi^2_{629}=4313.84$  ( $p<0.001$ ); ECVI=21.15; NFI=0.82; NNFI=0.84; IFI=0.85; PNFI=0.78; AIC=4461.84; NCP=3684.84; RFI=0.81; CFI=0.85; RMSEA=0.17). All tests confirm that common method bias is not a serious problem in our data.

#### ***4.4 Structural Model***

Following the two-step approach (Anderson and Gerbin, 1988), based on the measurement model and the theory analyzed, we proposed a structural model (Figure 1), taking Organizational Readiness ( $\xi_1$ ) as exogenous latent variable, Social Media use ( $\eta_1$ ) as first-grade endogenous latent variable, and Social CRM Capabilities ( $\eta_2$ ), Customer Engagement Capabilities ( $\eta_3$ ), and Organizational Performance ( $\eta_4$ ) as second-grade endogenous latent variables. Size, age, and hotel ownership were introduced as control variables.

We tested the structural paths proposed by our hypotheses and analyzed the estimated direct/indirect/total effects with covariance and asymptotic covariance matrix as input using SEM (Table 6).

*Insert Table 6 about here*

All estimated standardized paths indicate significant relationships among the constructs (Figure 2), except the direct relationship between Social Media use and Organizational Performance, which was not found to be significant. The structural model shows good overall fit ( $\chi^2_{614}=1396.48$  ( $p<0.001$ ); ECVI=7.46; NFI=0.95; NNFI=0.96; IFI=0.97; PNFI=0.87; AIC=1574.48; NCP=782.48; RFI=0.95; CFI=0.97; RMSEA=0.07). Figure 2 visualizes the statistical analysis of the research model with SEM. The figure includes the fully standardized path coefficients of the structural model, providing evidence of the hypothesized relationships. All direct relationships of the model tested are statistically significant at level 0.001 (with the exception of Social Media use to Organizational Performance), providing support for all study hypotheses. Consistent with H1, Organizational Readiness is related to Social Media use and affects it positively ( $\gamma_{11}=0.35$   $p<0.001$ ). Organizational Readiness is also related to Social CRM Capabilities ( $\gamma_{21}=0.44$   $p<0.001$ ). The results show an indirect effect of Organizational Readiness on Social CRM Capabilities through Social Media use ( $0.35 \times 0.51=0.18$   $p<0.001$ ). The total influence

of Organizational Readiness on Social CRM Capabilities is thus 0.62 ( $p < 0.001$ ), as predicted in H2. H3 is not supported, as we find no direct significant relationship between Social Media use and Organizational Performance ( $\beta_{41} = .17$   $p > 0.05$ ). The results support H4, confirming that Social Media use influences Social CRM Capabilities significantly ( $\beta_{21} = 0.51$   $p < 0.001$ ). Comparing the magnitudes of these effects shows that the effect of Organizational Readiness on Social CRM Capabilities is larger than that of Social Media use on Social CRM Capabilities. Customer Engagement Capabilities are influenced by Social CRM Capabilities ( $\beta_{32} = .52$   $p < 0.001$ ), supporting H5. Comparing the magnitudes of these effects shows that the effect of Social CRM Capabilities on Customer Engagement Capabilities is larger than that of Organizational Readiness or Social Media use on Customer Engagement Capabilities.

*Insert Figure 2 about here*

The results show that Organizational Performance is influenced significantly by Customer Engagement Capabilities ( $\beta_{43} = .33$   $p < 0.001$ ), supporting H6, and indirectly by Organizational Readiness (0.16  $p < 0.01$ ) – through Social Media use-Social CRM Capabilities-Customer Engagement Capabilities (0.35x0.51x0.52x0.33), Social CRM Capabilities-Customer Engagement Capabilities (0.44x0.52x0.33), and Social Media use (0.35x0.17). Organizational Performance is also affected indirectly by Social Media use (0.09  $p < 0.001$ ) – through Social CRM Capabilities-Customer Engagement Capabilities (0.51x0.52x0.33) – and by Social CRM Capabilities (0.17  $p < 0.001$ ) – through Customer Engagement Capabilities (0.52x0.33). Social Media use and Organizational Readiness affect Organizational Performance through Social CRM Capabilities and Customer Engagement. Comparing the magnitudes of these effects shows that the total effect of Customer Engagement Capabilities on Organizational Performance is larger than the effect of Organizational Readiness, Social CRM Capabilities, and Social Media use on Organizational Performance. Globally, Social Media use ( $R^2 = 0.20$ ), Social CRM Capabilities ( $R^2 = 0.63$ ), Customer Engagement Capabilities ( $R^2 = 0.27$ ), and Organizational Performance ( $R^2 = 0.23$ ) are well explained by the model. The  $R^2$  values for all endogenous constructs exceed 20%, implying a satisfactory and substantive model (Falk and Miller, 1992). Analysis of the control variables showed only direct and significant relationships of size to Social Media use and hotel ownership to Organizational Performance. These results are consistent with prior



studies that find hotel size to correlate with greater use of Social Media (Garrido-Moreno and Lockett, 2016; Haro de Rosario et al., 2013) and hotels that form part of a chain to have significantly higher performance (Orfila-Sintes and Mattson, 2009).

Additionally, in order to further examine the mediating effect played by firm capabilities on the Social Media use-Organizational performance relationship, we estimate specific statistical mediation tests, proposed by Sobel (1982), Aroian (1947) and Goodman (1960). These tests have been widely used in recent studies (Lee and Chu, 2011; Rangus et al., 2017; Xiao et al., 2014), and are particularly useful to examine the influence of a mediating variable on the relationship between an independent and a dependent variable. In fact, they provide a precise measure of the level of statistical significance for the indirect effect exerted by the mediator, confirming that this effect is significantly different from zero in the examined population. The test statistic of these methods is z-distributed, which makes the outcome easy to interpret: if the significance level is lower than 0.05, the indirect effect is significantly different from zero. We conducted these three tests for the mediating effect posed in the model (Table 7). Results support the mediating effect posed in the model, and confirm that relationship among Social Media use and Organizational Performance is significantly mediated by Social CRM and Customer Engagement capabilities. Consequently, findings support the mediated effect posed in H7.

*Insert Table 7 about here*

Finally, we also tested the proposed structural model against alternative models and found that the proposed model is the most acceptable and parsimonious (Table 8). Comparing Model 1 (structural proposed model) to the three alternate models built by adding additional paths, we see that all indexes considered (RMSEA, ECVI, AIC, and NCP) obtain worse values. These results show that Model 1 is preferred to Model 4 ( $\Delta\chi^2=40.92$ ) and to the other models.

*Insert Table 8 about here*

## **5. Discussion and Implications**

In the current digital landscape, Social Media tools are transforming the way firms relate to their markets, creating a new world of possibilities for improving relationships with customers. The rapid growth of Social Media has added an additional complex and multi-faceted dimension to customer

management strategies in hotels. Implementing these technologies has become a priority for companies, but most are not yet exploiting these technologies' full potential. Prior research has failed to explain the specific path to value creation through Social Media use and the specific relevance of organizational factors in this process. By building on dynamic capabilities theory, our study seeks to fill this gap. This is the first empirical study to examine how hotels develop IT-based capabilities using Social Media tools and how these dynamic capabilities create business value in the current digital environment. The findings demonstrate how Social Media use combined with Organizational Readiness leads to development of Social CRM and Customer Engagement capabilities that enable value creation through improved Organizational Performance.

Based on customer knowledge management, Social CRM Capabilities enable firms to personalize their offerings to respond to changing customer needs. Social CRM Capabilities, in turn, enhance Customer Engagement Capabilities, involving customers in collaborative conversations that promote WOM behaviors and recommendations. By building these dynamic capabilities, firms create real value, which translates into better Organizational Performance. In fact, since the direct impact of Social Media use on performance was not significant, our results confirm the key role played by two specific capabilities (Social CRM and Customer Engagement) in effective mediation of the process of creating value through Social Media use. These tools must be used as instruments to enhance firm capabilities that contribute subsequently to improving firm performance.

### ***5.1 Theoretical implications***

Our study makes important contributions to the Social Media literature, providing novel insights into how firms can create business value with Social Media use in digital markets. The contributions are threefold.

First, and most importantly, the study responds to recent calls for additional research exploring the specific relationship between Social Media use and value creation. Recent studies (Diffley et al., 2018; Foltean et al., 2019; Tajudeen et al., 2018) highlight that the field still lacks significant knowledge of how to examine the real impact of Social Media for firms, a gap that warrants additional attention. As these tools have become one of the most powerful emerging digital technologies to support business

activities, our study proposes a conceptual model to properly examine their impact on Organizational Performance. Drawing on dynamic capabilities theory, which is considered an ideal lens to examine value creation in the current changing landscape, the model introduces Social CRM and Customer Engagement capabilities as relevant mediators in the value creation process with Social Media use.

Second, by empirically testing the proposed research model, the obtained results describe the specific process through which Social Media translate into enhanced value creation. Thus, findings provide a holistic understanding of the chain of effects leading to better performance when using these tools, identifying the sequence and main variables involved. Results confirm the mediating role of two relevant capabilities (Social CRM Capabilities and Customer Engagement Capabilities) in the relationship between Social Media use and firm performance. Social Media use appears as a necessary but not a sufficient condition to enhance performance in current digital environments. To exploit the uniqueness of Social Media fully, firms should use these tools strategically to capture relevant information about customers. They should then use this information effectively to improve and personalize service to meet customers' changing demands (build Social CRM capabilities). Based on this knowledge, firms should establish valuable conversations with customers on Social Media, engaging them in active dialogue by encouraging their suggestions and comments. Findings are consistent with Foltean et al. (2019), and emphasizes the fact that Social Media use transforms into better performance by enhancing firm capabilities

This paper's third contribution is its empirical analysis of the impact of organizational factors as effective antecedents of Social Media use. Despite this topic's importance, it has received little attention and no empirical evidence has been obtained on the organizational changes that move a company toward "social readiness" (Aral et al., 2013). To address the issue, we introduced a specific variable in the research model ("Organizational Readiness") to include issues related to strategy, leadership, human resources management, and customer orientation. These issues must be addressed in order to implement Social Media tools properly. The findings confirm the strategic role of these factors in the process of value creation with Social Media tools. To build valuable capabilities with these technologies, firms must first make organizational changes so that they are "ready" to use the technologies strategically: Top managers must support their use, employees must be trained and committed, and the whole

organizational culture must focus on customer satisfaction. According to our results, only when Social Media use is combined with organizational abilities does it lead to improvements in both Social CRM and Customer Engagement capabilities.

### ***5.2 Managerial implications***

Significant implications for managers emerge from the present study. Social Media use is currently a strategic imperative in the hospitality industry (Diffley et al., 2018), and our results show how these tools should be implemented and managed to generate real business value. The study highlights some of the main challenges hotels face when using Social Media and how hotels should address these challenges in light of the evidence obtained.

First, prior research notes that the main problems that prevent hotels from benefiting from Social Media use stem from organizational factors. Lack of a Social Media strategy and of managerial commitment are among the main factors cited (Garrido-Moreno and Lockett, 2016; Jung et al., 2013). Another major obstacle is the absence of real customer orientation, leading staff to be unresponsive to hotel guests (Chan and Guillet, 2011). Our study results confirm the importance of building the right organizational culture in order to leverage the full potential of Social Media use. Managers must design a specific strategy for these tools, defining concrete goals and communicating them to all employees. Top management support and commitment must also be demonstrated clearly and specific training in Social Media use developed to ensure that all staff have the knowledge required to use them strategically. Finally, managers should foster and reward customer-oriented behavior in the hotel.

Second, prior studies recognize as a pitfall the inadequate use of Social Media tools to capture customer information and lack of informational resources to process that information (Chan and Guillet, 2011; Jung et al., 2013). Our findings highlight the relevance of Social CRM Capabilities in creating value through Social Media use. Hotels should focus on developing these capabilities by implementing specific processes to capture customer and market information on Social Media platforms. This information must then be integrated, analyzed, and shared with all departments involved to transform it into valuable knowledge. This knowledge should be used to improve hotel service and customer experience. Hotel managers must thus pay special attention to customer knowledge management processes in order to benefit from Social Media use.

Third, some hotels fail to use Social Media technologies to interact with customers, engage them in valuable conversations, instead using these tools as just another advertising channel (Chan and Guillet, 2011). Our results confirm the key role of Customer Engagement as an effective antecedent of value creation through Social Media use. Hotel managers should foster Customer Engagement behavior by responding personally to customer reviews, encouraging customer suggestions to improve service, and developing specific initiatives (such as contests) to promote WOM. In sum, to improve customer relationships, hotels must approach Social Media proactively (Diffley et al., 2018). They must evolve beyond a static approach that merely “broadcasts” commercial messages and keeps control of the conversation to an interactive focus that genuinely engages with customers, listens to their input, and acts on it (co-creation).

### ***5.3 Limitations and Future Research***

This study has several limitations that provide opportunities for future research. First, the research is based on cross-sectional data, which provides only a snapshot of the phenomenon. As Social Media tools are evolving quickly over time, we call for additional research to provide longitudinal data enabling richer understanding of the interrelationships between the constructs.

Second, all of the model variables were measured based on general managers’ perceptions (single respondents), introducing a degree of subjectivity. Prior studies on the topic are also based on managerial perceptions (Rapp et al., 2010; Trainor et al., 2014), on the assumption that senior managers provide reliable and valid data. However, one fruitful direction for future research would be to analyze Social Media use, Customer Engagement, and Organizational Performance by integrating data obtained from employees and customers. Future research could also significantly extend this study's findings by incorporating objective performance measures.

Third, the research was conducted in Spain in a specific sector (the hotel industry), and differences in market environment may influence the types of strategies firms adopt and the impact of these strategies on business performance (Wang and Fen, 2012). It would be interesting to extend our study by validating the proposed model in different activity sectors and national contexts to establish global generalizability. Future studies with SEM should use larger samples to enable multigroup modelling analysis and extend our model by adding new variables to improve its fit and representativeness.

## 6. Conclusion

This study contributes novel insight into how Social Media use helps firms to develop IT-based capabilities and improve Organizational Performance. In current digital markets, one of the main challenges firms face is how to implement Social Media tools properly to expand firm capabilities and improve customer relationships. Building on dynamic capabilities theory, our results illustrate the process of creating value with Social Media use in service firms, highlighting the role of Social CRM and Customer Engagement Capabilities as key mediators in this process. By using SEM on a sample of 212 hotels, our study reveals the specific pathway through which Social Media use translates into better performance. Given the significance of Social Media for reinventing customer relationships in current changing markets, the study provides empirical justification and a conceptual framework to help firms seize the opportunities that Social Media tools can offer.

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## **Appendix: Questionnaire items**

### *Organizational Readiness*

1. We have a customer relationship strategy (READIN1).
2. We have a Social Media (SM) strategy (READIN2).
3. Our senior managers have clearly indicated their commitment to a customer relationship strategy (READIN3).
4. Our customer relationship strategy is organization-wide (READIN4).
5. Our employees are committed to the customer relationship strategy (READIN5).
7. In our firm, business processes are designed to enhance the quality of customer interactions (READIN7).
8. We provide training for employees to enhance the quality of customer interaction/care (READIN8).
11. We frequently measure customer satisfaction (READIN11).
12. We pay close attention to customer feedback (READIN12).

### *Social Media use*

*a) Frequency of use/extent of use of Social Media Technology // b) Strategic importance of Social Media technology use*

2. Microblogs (e.g., [www.twitter.com](http://www.twitter.com)) (SMEDUSE2).
3. Social networking (e.g., [www.facebook.com](http://www.facebook.com)) (SMEDUSE3).
4. Video sharing (e.g., [www.youtube.com](http://www.youtube.com)) (SMEDUSE4).
5. Photo sharing (e.g., [www.flickr.com](http://www.flickr.com)) (SMEDUSE5).

### *Social CRM Capabilities*

1. In this business, we use Social Media (SM) to conduct market research (CAPA1).
2. We use SM to detect changes in our customers’ preferences (CAPA2).

3. We use SM to detect fundamental shifts in our industry (e.g., competition) (CAPA3).
4. We integrate customer information from the various functions that interact with customers (such as marketing, sales, and customer service) (CAPA4).
5. We integrate internal customer information with customer information from SM (CAPA5).
6. We merge third party information (such as mailing lists) with our customer database (CAPA6).
7. We have frequent interdepartmental meetings to discuss market trends identified via SM (CAPA7).
9. When one department finds out something important about competitors use of SM, it is quick to alert other departments (CAPA9).
10. We take action in response to changes in customers' needs detected via SM (CAPA10).
11. If a major competitor launched an intensive campaign targeting our customers, we would respond immediately using SM (CAPA11).
12. Customer complaints can be filed and tracked using SM in our firm (CAPA12).

#### *Customer Engagement Capabilities*

1. Customers give us valuable feedback and suggestions about our service through SM (CUSTENG1).
3. Customers provide helpful information to other customers through SM (CUSTENG3).
4. Customers recommended us through SM (CUSTENG4).
5. Word-of-mouth is an important issue for us online (CUSTENG5).

#### *Organizational Performance*

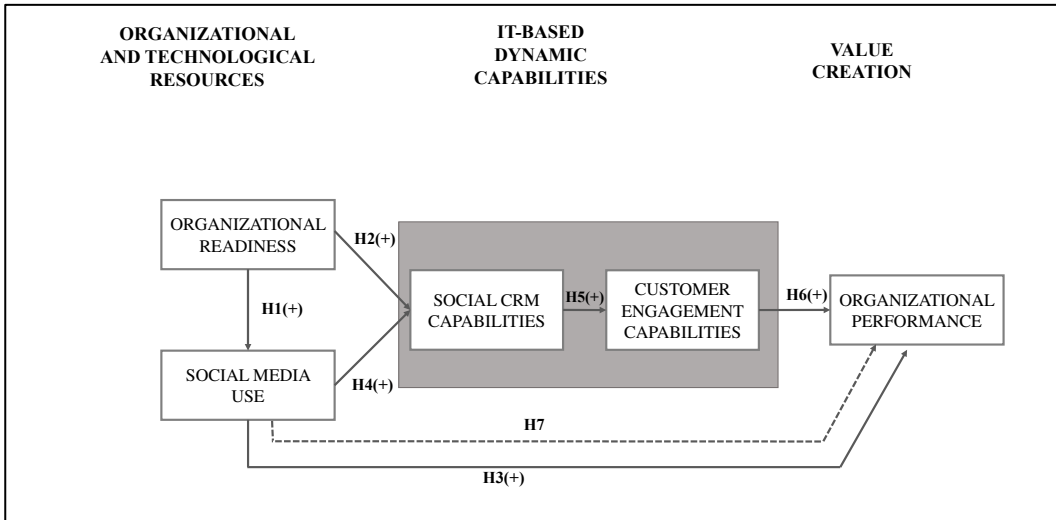
1. Customer acquisition (PERFOR1).
2. Customer retention (PERFOR2).
3. Customer satisfaction (PERFOR3).
4. Increase in sales (PERFOR4).
5. Increase in market share (PERFOR5).
6. Profitability (ROA) (PERFOR6).

#### *Control Variables*

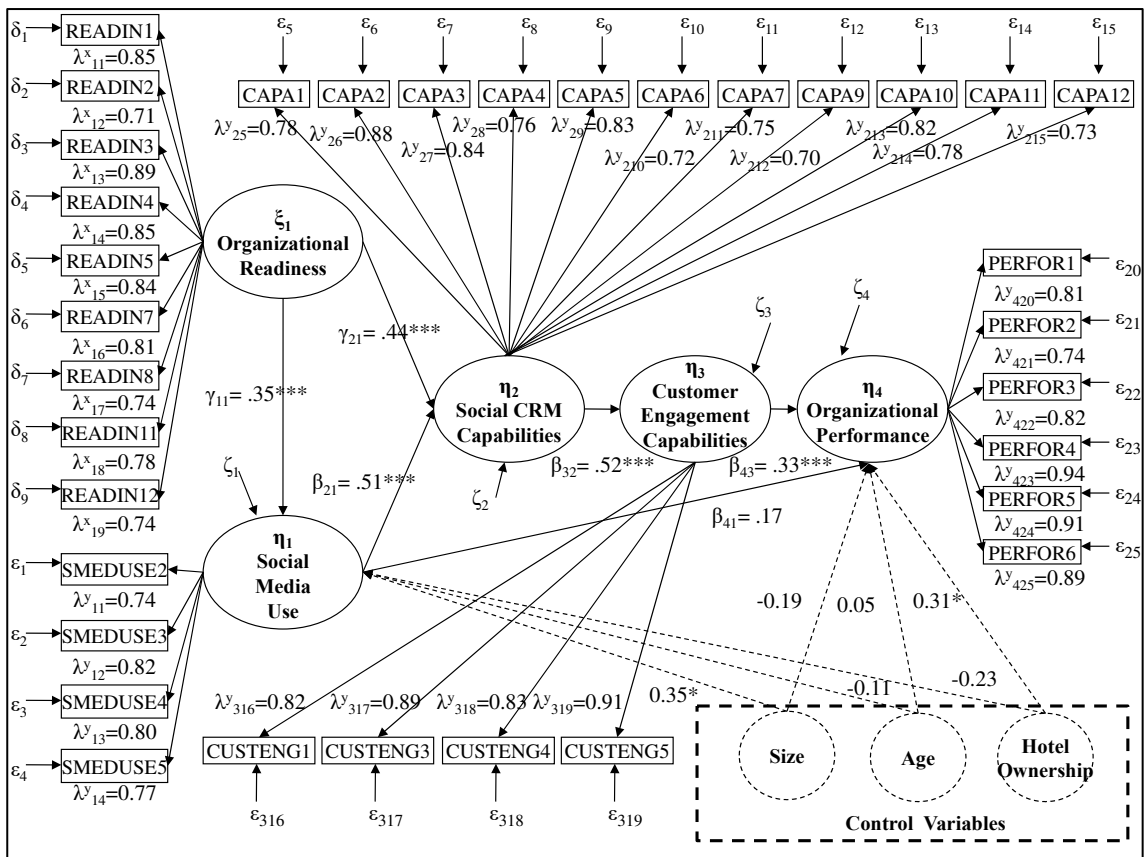
1. Size. Total number of employees (Size).
2. Age. Age of the establishment (Number of years since its opening) (Age).
3. Hotel ownership. Independent hotels vs. hotels integrated in chains (Hotel ownership).

## Figures and Tables

### Figure 1: Research Model and Hypotheses



### Figure 2: Structural Result of Proposed Model





**Table 1: Recent empirical studies analysing the impact of Social Media use on performance**

| Authors                        | Theory   | Sample examined   | Relevant constructs   | Main results  |
|--------------------------------|--|---|---|---|
| Trainor et al. (2014)          | Resource-based view and Capabilities-based perspective                                   | A cross-industry sample of 308 firms located in the United States                         | Customer-centric management systems, Social Media use, Social CRM capabilities and Customer Relationship Performance                                  | Social CRM capabilities positively influenced firm performance. Those capabilities were enhanced by Social Media use and Customer-centric management systems.   |
| Harrigan et al. (2015)         | Dynamic-capabilities theory  | A sample of 159 firms from diverse sectors (country was not specified)                    | Customer relationship orientation, Social Media use, Customer engagement, Relational information processes and Customer relationship performance      | Customer relationship orientation was positively related to Social Media use and Customer engagement. Findings show also how Customer engagement and Relational information processes (related to information capture and use) were strongly related.   |
| Palacios-Marques et al. (2015) | Resource-based view  | A sample of 197 Spanish hospitality firms   | Online social networks use, Innovation capacity and firm performance  | Results show how Online social networks use positively affected Innovation capacity. It was observed also that the relationship between Online social networks and performance was fully mediated by Innovation capacity.   |
| Wu (2016)                      | Resource-based view  | A sample of 327 firms from Taiwan operating in the chain store and franchise context      | Organizational culture, Strategic leadership, Organizational learning, Social networks, Innovation orientation, Social Media strategy and performance | Results demonstrate that Social Media marketing strategy, organizational culture, strategic leadership, organizational learning, social network, and innovation orientation are key factors in reinforcing a firms' organizational performance when using Social Media tools.                                 |
| Tajvidi and Karami. (2017)     | Resource-based view  | A sample of 384 hotels from United Kingdom  | Social Media use (online and offline), Marketing capabilities (branding and Innovation) and Firm performance  | Findings confirm a positive relationship between Social Media use and firm performance. In addition, results show how this relationship was significantly and positively mediated by Marketing capabilities.  |
| Wang and Kim (2017)            | Resource-based view and Dynamic-capabilities theory                                      | A sample of 232 companies from North-America  | Social Media usage, Social CRM capabilities, Customer engagement and Firm performance   | A positive relationship between Social CRM capabilities and Customer engagement was found. Results display that Social media usage played a moderating role by amplifying the positive impact of social CRM capabilities on firm performance.   |
| Diffley et al. (2018)          | Resource-based view, Dynamic capabilities theory and service-dominant logic              | A sample of 120 hotels operating in Ireland   | Social CRM, Service innovation, Customer-linking capability, Customer performance and Financial performance   | Findings demonstrate that Social CRM initiatives enabled hotel service innovation. This positively enhanced the development of customer linking capabilities, based in customer information, which resulted in higher levels of customer performance.   |
| García-Morales et al. (2018)   | Resource-based view  | A sample of 201 technological firms located in Spain                                      | Social Media technologies use, Technological knowledge competences, Innovation capability and Organizational performance                              | Results confirm how Social Media use enhanced the development of Technological knowledge competences in firms, and these competencies lead to higher Organizational performance. Innovation capability exerted a moderating role between Technological Knowledge Competencies and Organizational Performance. |
| Parveen et al. (2018)          | Technology, Organization and Environment (TOE) framework                                 | A sample of 174 firms from different industries operating in Malaysia                     | Technological context, Organizational Context, Environmental Context, Social Media Use and Organizational Impact                                      | Results show how Social Media usage exerted a positive and significant impact on firm performance. Drawing on the TOE framework the study highlights the main technological, organizational and environmental factors which acted as relevant antecedents of Social Media use.                                |
| Ahmad et al. (2019)            | Technology, Organization and Environment (TOE) framework, Diffusion of Innovation Theory | A sample of 144 SMES, form a wide range of sectors, operating in the United Arab Emirates | Technology construct, Organizational construct, Environmental construct, Social Media adoption and Business Performance                               | Findings reveal that Social media adoption had no significant effect on SMEs' performance in the examined sample. Regarding the determinants of Social Media adoption, Organizational and Environmental constructs appeared as the most relevant factors.   |

Foltean et al. (2019) Institutional Theory and Capabilities theory  
 A sample of 149 companies operating in Romaine and manufacturing service sectors  
 Customer pressure, competitor Social Media use and Firm performance  
 coercive pressure, Mimetic pressure, technology use and Firm performance  
 Results highlight the important role of two institutional factors (customer coercive pressure and mimetic competitor pressure) as effective determinants of Social Media adoption and use. CRM capabilities were found to only indirectly mediate the relationship between Social Media technology use and firm performance

**Table 2: Technical Details of the Research**

|                        |                          |
|------------------------|--------------------------|
| Sector                 | Hotel industry           |
| Geographical location  | Spain                    |
| Methodology            | Structured questionnaire |
| Universe of population | 4640 firms               |
| Sample (response) size | 900 (212) firms          |
| Sample error           | 3.3%                     |
| Confidence level       | 95%, p-q=0.50; z=1.96    |

**Table 3: Means, Standard Deviation and Correlations**

| Variable                      | Mean | s.d. | 1       | 2       | 3       | 4       | 5      | 6       | 7     | 8     |
|-------------------------------|------|------|---------|---------|---------|---------|--------|---------|-------|-------|
| 1. Organizational Readiness   | 5.52 | 1.23 | 1.000   |         |         |         |        |         |       |       |
| 2. Social Media use           | 4.33 | 1.33 | 0.36*** | 1.000   |         |         |        |         |       |       |
| 3. Social CRM Capabilities    | 4.21 | 1.50 | 0.62*** | 0.57*** | 1.000   |         |        |         |       |       |
| 4. Customer Engagement Cap.   | 5.78 | 1.25 | 0.47*** | 0.27*** | 0.48*** | 1.000   |        |         |       |       |
| 5. Organizational Performance | 5.57 | 1.15 | 0.64*** | 0.23**  | 0.42*** | 0.38*** | 1.000  |         |       |       |
| 6. Size                       | 1.96 | 0.76 | 0.27*** | 0.21**  | 0.28*** | 0.22*** | 0.13*  | 1.000   |       |       |
| 7. Age                        | 2.87 | 2.48 | -0.04   | -0.04   | -0.03   | -0.05   | -0.01  | 0.25*** | 1.000 |       |
| 8. Hotel ownership            | 1.33 | 0.47 | 0.26*** | 0.08    | 0.20**  | 0.20**  | 0.19** | 0.47*** | -0.01 | 1.000 |

\*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$ ;  $n = 212$

**Table 4: Measurement-Model Results**

| Variables                | Items    | $\lambda^*$    | R <sup>2</sup> | $\alpha$ | C.R.  | AVE   |
|--------------------------|----------|----------------|----------------|----------|-------|-------|
| Organizational Readiness | READIN1  | 0.84***(26.01) | 0.71           | 0.916    | 0.942 | 0.643 |
|                          | READIN2  | 0.71***(15.35) | 0.50           |          |       |       |
|                          | READIN3  | 0.88***(38.85) | 0.78           |          |       |       |
|                          | READIN4  | 0.85***(24.80) | 0.72           |          |       |       |
|                          | READIN5  | 0.84***(31.15) | 0.71           |          |       |       |
|                          | READIN7  | 0.80***(26.80) | 0.64           |          |       |       |
|                          | READIN8  | 0.74***(18.02) | 0.55           |          |       |       |
|                          | READIN11 | 0.79***(20.02) | 0.63           |          |       |       |
| Social Media use         | SMEDUSE2 | 0.74***(16.79) | 0.55           | 0.846    | 0.863 | 0.613 |
|                          | SMEDUSE3 | 0.82***(23.03) | 0.67           |          |       |       |
|                          | SMEDUSE4 | 0.80***(27.35) | 0.64           |          |       |       |
|                          | SMEDUSE5 | 0.77***(20.37) | 0.60           |          |       |       |

| Variables                  | Items   | $\lambda^*$    | R <sup>2</sup> | $\alpha$ | C.R.  | AVE   |
|----------------------------|---|----------------|----------------|----------|-------|-------|
| Social CRM Capabilities    | CAPA1   | 0.78***(24.99) | 0.61           | 0.937    | 0.945 | 0.611 |
|                            | CAPA2   | 0.88***(40.97) | 0.77           |          |       |       |
|                            | CAPA3   | 0.84***(29.95) | 0.71           |          |       |       |
|                            | CAPA4   | 0.76***(18.68) | 0.57           |          |       |       |
|                            | CAPA5   | 0.83***(29.56) | 0.68           |          |       |       |
|                            | CAPA6   | 0.72***(18.39) | 0.52           |          |       |       |
|                            | CAPA7   | 0.75***(17.61) | 0.57           |          |       |       |
|                            | CAPA9   | 0.70***(16.45) | 0.50           |          |       |       |
|                            | CAPA10  | 0.82***(27.86) | 0.67           |          |       |       |
|                            | CAPA11  | 0.77***(19.39) | 0.60           |          |       |       |
|                            | CAPA12  | 0.73***(20.19) | 0.54           |          |       |       |
|                            | Customer Engagement Capabilities  | CUSTENG1       | 0.82***(20.69) |          |       |       |
| CUSTENG3                   |   | 0.90***(32.00) | 0.80           |          |       |       |
| CUSTENG4                   |   | 0.83***(19.41) | 0.69           |          |       |       |
| CUSTENG5                   |   | 0.90***(34.11) | 0.81           |          |       |       |
| Organizational Performance | PERFOR1   | 0.81***(22.23) | 0.66           | 0.926    | 0.943 | 0.735 |
|                            | PERFOR2   | 0.75***(18.63) | 0.57           |          |       |       |
|                            | PERFOR3   | 0.83***(25.18) | 0.69           |          |       |       |
|                            | PERFOR4   | 0.94***(46.26) | 0.88           |          |       |       |
|                            | PERFOR5   | 0.91***(26.11) | 0.83           |          |       |       |
|                            | PERFOR6   | 0.89***(35.06) | 0.79           |          |       |       |
| Goodness-of-fit statistics | $\chi^2_{604}=1368.08$ ( $P<0.001$ ) ECVI=7.42 NFI=0.95 NNFI=0.96 IFI=0.97 PNFI=0.86 AIC=1566.08<br>NCP=764.08 RFI=0.95 CFI=0.97 RMSEA=0.07 |                |                |          |       |       |

Notes:  $\lambda^*$  = Standardised structural coefficient (t-students are shown in parentheses); R<sup>2</sup>=Reliability; C.R.= Composite reliability; AVE=Average variance extracted; \*\*\*  $p<0.001$  (two-tailed).

**Table 5: Discriminant Validity**

| Variable                            | 1            | 2            | 3            | 4            | 5            |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| 1. Organizational Readiness         | <b>0.644</b> | (0.22, 0.51) | (0.52, 0.72) | (0.37, 0.63) | (0.50, 0.72) |
| 2. Social Media use                 | 0.129        | <b>0.613</b> | (0.57, 0.77) | (0.16, 0.46) | (0.08, 0.40) |
| 3. Social CRM Capabilities          | 0.379        | 0.323        | <b>0.611</b> | (0.37, 0.67) | (0.29, 0.55) |
| 4. Customer Engagement Capabilities | 0.221        | 0.072        | 0.233        | <b>0.745</b> | (0.26, 0.55) |
| 5. Organizational Performance       | 0.412        | 0.051        | 0.181        | 0.147        | <b>0.735</b> |

Notes: Numbers on the diagonal show the AVE. Numbers below the diagonal represent the squared correlation between the constructs. Numbers above the diagonal represent the confidence interval between each pair of constructs (95%).

**Table 6: Structural Proposed Model Result (Direct, Indirect, and Total Effects)**

| Effect from                | To  | Direct Effects <sup>a</sup> | <i>t</i> | Indirect Effects <sup>a</sup> | <i>t</i> | Total Effects <sup>a</sup> | <i>t</i> |
|----------------------------|---|-----------------------------|----------|-------------------------------|----------|----------------------------|----------|
| Organizational Readiness   | → Social Media Use  | 0.35***                     | 3.85     |                               |          | 0.35***                    | 3.85     |
| Organizational Readiness   | → Social CRM Capabilities   | 0.44***                     | 8.06     | 0.18***                       | 4.09     | 0.62***                    | 9.79     |
| Organizational Readiness   | → Customer Engagement Cap.  |                             |          | 0.32***                       | 5.36     | 0.32***                    | 5.36     |
| Organizational Readiness   | → Organizational Performance  |                             |          | 0.16**                        | 3.06     | 0.16**                     | 3.06     |
| Social Media use           | → Social CRM Capabilities   | 0.51***                     | 7.00     |                               |          | 0.51***                    | 7.00     |
| Social Media use           | → Customer Engagement Cap.  |                             |          | 0.27***                       | 5.38     | 0.27***                    | 5.38     |
| Social Media use           | → Organizational Performance  | 0.17                        | 1.82     | 0.09***                       | 3.29     | 0.26**                     | 2.82     |
| Social CRM Capabilities    | → Customer Engagement Cap.  | 0.52***                     | 6.57     |                               |          | 0.52***                    | 6.57     |
| Social CRM Capabilities    | → Organizational Performance  |                             |          | 0.17***                       | 3.29     | 0.17***                    | 3.29     |
| Customer Engagement Cap.   | → Organizational Performance  | 0.33***                     | 3.59     |                               |          | 0.33***                    | 3.59     |
| Size                       | → Social Media Use  | 0.35*                       | 2.53     |                               |          | 0.35*                      | 2.53     |
| Size                       | → Social CRM Capabilities   |                             |          | 0.18*                         | 2.36     | 0.18*                      | 2.36     |
| Size                       | → Customer Engagement Cap.  |                             |          | 0.09*                         | 2.38     | 0.09*                      | 2.38     |
| Size                       | → Organizational Performance  | -0.19                       | -1.32    | 0.09                          | 1.69     | -0.10                      | -0.81    |
| Age                        | → Social Media Use  | -0.11                       | -1.32    |                               |          | -0.11                      | -1.32    |
| Age                        | → Social CRM Capabilities   |                             |          | -0.05                         | -1.32    | -0.05                      | -1.32    |
| Age                        | → Customer Engagement Cap.  |                             |          | -0.03                         | -1.28    | -0.03                      | -1.28    |
| Age                        | → Organizational Performance  | -0.05                       | 0.60     | -0.03                         | -1.16    | 0.02                       | 0.29     |
| Hotel ownership            | → Social Media Use  | -0.23                       | -1.60    |                               |          | -0.23                      | -1.60    |
| Hotel ownership            | → Social CRM Capabilities   |                             |          | -0.12                         | -1.60    | -0.12                      | -1.60    |
| Hotel ownership            | → Customer Engagement Cap.  |                             |          | -0.06                         | -1.59    | -0.06                      | -1.59    |
| Hotel ownership            | → Organizational Performance  | 0.31*                       | 2.07     | -0.06                         | -1.23    | 0.25                       | 1.81     |
| Goodness of Fit Statistics | $\chi^2_{614}=1396.48$ ( $P<0.001$ ) ECVI=7.46 NFI=0.95 NNFI=0.96 IFI=0.97 PNFI=0.87 AIC=1574.48<br>NCP=782.48 RFI=0.95 CFI=0.97 RMSEA=0.07 |                             |          |                               |          |                            |          |

Note: <sup>a</sup>Standardised Structural Coefficients; \* $p<0.05$ ; \*\* $p<0.01$ ; \*\*\* $p<0.001$ (two-tailed).

**Table 7: Formal tests of the mediating effects**

| Mediated relationship  | Sobel test | Aroian test | Goodman test |
|--|------------|-------------|--------------|
| The impact of Social Media use on Organizational Performance is mediated by Social CRM Capabilities          | 5.35***    | 5.33***     | 5.37***      |
| The impact of Social Media use on Organizational Performance is mediated by Customer Engagement Capabilities | 2.66***    | 2.62***     | 2.71***      |

Notes: \* $p<0.05$ ; \*\* $p<0.01$ ; \*\*\* $p<0.001$

**Table 8: Structural Proposed Model Against Alternative Statistics Model**

| Model | Description  | $\chi^2$ | $\Delta \chi^2$ | RMSEA | ECVI | AIC     | NCP    |
|-------|--|----------|-----------------|-------|------|---------|--------|
| 1     | Structural proposed model  | 1396.48  |                 | 0.078 | 7.46 | 1574.48 | 782.48 |
| 2     | Org.Read. to Social Media use, Cust. Eng. Cap. and Org. Perf. / Social Media use to Cust. Eng. Cap. and Org. Perf. / Social CRM Cap. to Cust. Eng. Cap and Org. Perf / Cust. Eng. Cap. to Org. Perf. | 1437.26  | 40.78           | 0.080 | 7.67 | 1619.26 | 825.26 |
| 3     | Org. Read. to Org. Perf / Social Media use to Social CRM Cap. / Social CRM Cap. to Cust. Eng. Cap. / Cust. Eng. Cap. to Org. Perf.   | 1410.61  | 14.13           | 0.078 | 7.51 | 1584.61 | 794.61 |
| 4     | Org. Read. to Social Media use and Org. Perf. / Social Media use to Org. Perf. / Social CRM Cap. to Cust. Eng. Cap. / Cust. Eng. Cap. to Org. Perf.  | 1437.40  | 40.92           | 0.080 | 7.68 | 1621.40 | 826.40 |

Notes: Org. Read. = Organizational Readiness; Social CRM Cap. = Social CRM Capabilities; Cust. Eng. Cap. = Customer Engagement Capabilities; Org. Perf. = Organizational Performance; In all the models size, age and ownership to Social Media use and Org. Perf.