Success in challenging times:

Generating social capital
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FOREWORD

In welcoming the third report of the SME series ‘Success in challenging times’ I would like to extend my thanks to Professor David Gray, Professor Mark Saunders, Dr Alexandra Bristow and Harshita Goregaokar, for their continuing efforts in producing this research, which remains pivotal to providing recommendations for SMEs.

Our first report highlighted the main concerns and opportunities facing SMEs, and the second concentrated on the key issue of access to bank finance. This third report focuses on a topic which has consistently arisen throughout our research: the importance of generating networks and quality connections; in other words, having a wealth of social capital.

Creating and maintaining valuable contacts is paramount to enable SMEs to support and strengthen their business development objectives. Yet, many feel they do not know how to go about it; research shows that SMEs typically invest less time in creating these networks than larger organisations.

SMEs are of course aware of the vast potential benefits of having strong networks; indeed, 94% of SMEs consider direct referrals important to their continuing success, and 67% consider search engine optimisation important. It is not only surveys that show this, but it is self-evident that the more quality networks one has, the greater the number of approaches or referrals one receives.

In an increasingly connected world where virtual relationships are valued more highly than ever, it is essential that SMEs take a co-ordinated approach which combines traditional face-to-face networking with online tools such as social media. Devising a strategy that incorporates both online and offline activities is central to SMEs’ business development, particularly if they are to compete with their larger counterparts.

I hope this report will challenge SMEs to seize the opportunities these networks offer, as doing so will undoubtedly yield strong economic benefit in the future.

Sir Michael Snyder
Senior Partner
Kingston Smith LLP
May 2014
Prompted by findings from the 2012 Kingston Smith funded national survey, *Success in challenging times: Key lessons for UK SMEs* (10), this new study focuses on the ways in which SMEs use and benefit from Social Capital. Social capital is created through both offline activities such as networking events, and online activities including social media use.

Offline and online networking activities are not mutually exclusive alternatives for SMEs. Successful SMEs network with a number of different communities, integrating a combination of both offline and online methods. SMEs’ websites are crucial and need to be optimised to improve search engine positioning. Social media sites, such as Facebook and LinkedIn are used widely to both showcase the business and build relationships with customers, but are not considered a substitute for face-to-face networking.

The most popular reason for SMEs using social media is to develop their business image or to market products. The fast, easy and low cost access to people and businesses provided by Web 2.0 and social media helps them do this better. Online networking can enable SMEs to overcome the drawbacks of traditional face-to-face contact, such as limited numbers and diversity, and the associated high costs (15). SMEs that proactively engage with social media can systematically raise their profiles to successfully compete with larger organisations (15).

Few SMEs claim to be experts in social media use. IT and social media are regarded as necessary evils and SMEs consider that there is no choice other than to engage very proactively in these areas. However, there is a need to manage this engagement strategically, along with traditional networking, to avoid a disproportionate amount of resource being dedicated to this area.

Face-to-face (offline) networking events remain the most important form of all types of SME networking with roughly two thirds of SMEs devoting one to six hours per week to this activity. In general, locally oriented SMEs without a scalable business offering prefer face-to-face networking events, whereas globally oriented non-scalable SMEs put significant effort into social media. Networks included customers, associates and former employees who had moved on to become independent contractors. Networking is about making contacts, outside the SME, who can offer feedback or advice or be used to outsource work. These networks are regarded as a ‘community of people’ who might join in with a new business proposal or be used to provide external expertise.

The methods SMEs use to increase social capital, must be fit for purpose and appropriate to their business model. Social media are complementary to, rather than a substitute for, traditional networking and events. The challenge facing SMEs is how best to integrate their online and offline activities to complement their business and generate social capital.
INTRODUCTION: SMEs AND SOCIAL CAPITAL

The 2012 Kingston Smith funded national survey, *Success in challenging times: Key lessons for UK SMEs* (10), found a strong engagement amongst SMEs with online information and communication technologies (ICT), some of it linked to social capital. Alongside traditional offline activities such as face-to-face networking events, SMEs talked about online activities including using LinkedIn to target customers, using websites as interactive tools to connect to customers, to gauge their needs and even talk to them in real time using Live Chat. Yet, none of the entrepreneurs regard themselves as experts. The perception was that online activities and, within these, social media were regarded as a “necessary evil”, and there was no choice but to engage very proactively in this area. Respondents saw themselves as using their networks with a number of communities including their customers, associates and even former employees, as a means of generating social capital.

The importance of these findings prompted Kingston Smith to commission additional research in this area. This new study takes SMEs’ use of social capital as its focus and seeks to address the following questions:

- What are the key business benefits for SMEs in using online and offline activities to generate social capital?
- What are the relative merits of using online and offline activities to generate social capital?
- Which forms of social media have SMEs tried, but considered not worth pursuing?
- Which online and offline communities do SMEs connect with and for what reasons?
- What criteria do SMEs use when judging which communities to connect to?

In this report, we commence with a brief analysis of secondary sources to provide the background to the study. This includes an analysis of the structure of the SME sector, since the size of an SME has an impact on its use of social media. We then set out details on how the study was conducted (Methodology) and report on the main findings and recommendations, before providing additional insights through five qualitative case studies (Appendix 1).

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1 Defined by European Union recommendation L124/36 (2003) as (1) under 250 employees; (2) annual assets under 43 million Euros; (3) business turnover under 50 million Euros
SECTION 1: ANALYSIS OF SECONDARY SOURCES

Introduction
SMEs are a vital part of the UK economy and contribute significantly to economic growth and employment. Department for Business Innovation and Skills (BIS) data\(^6\)\(^7\) shows the number of private sector SMEs grew from 3.7m in 2000 to 4.9m in 2013, and the number of people they employ increased from 8.6m to 14.4m. Over this period, whilst there has been growth in the number of SMEs of all sizes, private sector SMEs with no employees exhibit the highest growth (Figure 1.1), with an increase of over 50\(^{\%}\)\(^6\) to over 4m businesses\(^7\). In aggregate, in 2013 SMEs had an estimated combined turnover in excess of £1,577bn, representing over 48\(^{\%}\) of the turnover of the entire UK private sector\(^7\).

In contrast, so far as private sector businesses with 250 or more employees are concerned: 1) the number of businesses has fallen between 2000 and 2013 by more than 10\(^{\%}\) to just over 6.595m; 2) there has been a slight decrease in the number of employees from over 9.95m in 2000 to 9.91m in 2013\(^7\); 3) in 2013, these large businesses had an estimated combined turnover in excess of £1,702bn, just below 52\(^{\%}\) of the turnover of the UK private sector\(^7\).

In this section, we look at:

- The nature of social capital;
- SMEs, the Internet and social media;
- Networks and SMEs

Figure 1.1 Indexed change in the number of UK businesses by size 2000-2012

Source: Department for Business Innovation and Skills\(^6\)

*Businesses with no employees are either (i) sole proprietorships and partnerships comprising the self-employed owner-manager(s), or (ii) companies comprising only one employee director.
The nature of social capital

Social capital can be defined as the goodwill available to individuals and groups and operates where friends, colleagues or general contacts receive opportunities to use their financial and human capital. Whereas human capital is a quality of individuals, social capital is a quality created between people through offline activities, such as networking events (e.g., those organised by Chambers of Commerce) and online activities, which use social media (e.g., LinkedIn and Facebook). This is potentially of growing significance for SMEs, given the exponential growth of social networking and the use of social media amongst both individuals and businesses. Two benefits that are relevant to entrepreneurs flow from social capital: information and influence. Individuals can also gain influence in networks by accumulating obligations, which they can cash in at a future time. While many scholars have seen social capital as a uni-dimensional construct, others see it as multi-dimensional, comprising three dimensions: structural, relational and cognitive.

The structural dimension of social capital comprises the overall pattern of connections between actors, where networks provide access to resources and reduce the amount of time and investment required to gather information. Networks often provide an efficient information screening and distribution process for members, but this will depend on their configuration. It is relationships between networks that provide brokerage opportunities, taking advantage of structural holes. Cohesive contacts (people similar to each other) are likely to share similar information, much of which is therefore redundant (the ‘echo-chamber’ syndrome). But where two groups have dissimilar information, an entrepreneurial SME can span the structural hole by monitoring information, identifying problems and offering tailored solutions. Networks with few redundant contacts provide more information benefits, because they tend to be more diverse. However, information transfer only works effectively where the meaning of the information is unproblematic and therefore not open to misinterpretation. Positioning within networks is also crucial, because it enables differential access to other network members and, therefore, information. For example, an individual who holds the only connection between two clusters is able to act as an information broker between them.

The relational dimension of social capital refers to the quality of relationships that develop within a network. It is characterised by the quality (strong versus weak) of ties between network members. Strong ties are a reflection of the amount of time, emotional intensity, intimacy and reciprocal services between people. They are typically associated with high levels of trust and the flow of fine-grained information. Being embedded in a network can give rise to a form of trust known as relational trust, which develops over time and is based on continual reciprocity – ‘I will do this for you now, but you will do something for me later’.

In contrast, the cognitive dimension of social capital is the shared interpretations and systems of meaning among parties that enables individuals to make sense of information and classify it into perceptual categories, allowing individuals to share each other’s thinking processes. Shared cognition arises from the existence of shared language and vocabulary, the sharing of collective narratives, and the transfer of tacit knowledge. A benefit of social cognition is that it may give entrepreneurs a greater illusion of control, where individuals convince themselves that they can control and predict outcomes, including the success of the business. As a consequence they are more likely to be entrepreneurially proactive. One emerging way in which SMEs seek to expand their social capital is through the use of social media.
SMEs, the Internet and social media

In 2012 over 95% of UK SMEs with 1-49 employees had Internet access, this proportion rising to 99.5% for SMEs with 50-249 employees\(^\text{(19)}\). However, compared with larger organisations, the proportion of SMEs using social media, whilst increasing, is far smaller. For example, whilst only 40% of SMEs with 10-49 employees use social networks, such as Facebook and LinkedIn, this proportion rises to 53% for SMEs with 50-249 employees and 81% for organisations with 1,000 or more employees\(^\text{(19)}\). Usage of other social media, such as wiki-based knowledge sharing tools, was even lower, comprising 7% of SMEs, compared to over 26% for organisations with 1,000 or more employees. The most popular reason for SMEs using social media is, in common with their larger counterparts, to develop their business image or to market products.

**Figure 1.2 Reasons for the use of social media by size of organisation 2012**

In summary, access to the Internet by SMEs is almost universal and their use of social media is growing. However, this use is far lower than that of their larger counterparts.
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Networks and SMEs

The term ‘network’ broadly refers to a multitude of formal and informal relationships\(^{(11)}\), the development of which is particularly important for SMEs as a means of generating and utilising social capital. Due to their size, small businesses are especially vulnerable to failure caused by resource constraints\(^{(11)}\) (including limited skills, knowledge, and human and financial capital\(^{(15)}\)). Effective networking is a way of overcoming such constraints\(^{(11)}\) by enabling SMEs to draw on the social capital embedded within their networks (and thus external to themselves)\(^{(22)}\). In increasingly global markets, many SMEs find themselves competing against both small and large rivals, not only within their local settings but also around the world\(^{(20, 8)}\). Networking gives SMEs the opportunity to extend themselves through their networks and to benefit from economies of scale without the diseconomies associated with large size\(^{(22)}\), helping them to compete more successfully and globally with their larger counterparts\(^{(20, 8)}\).

SMEs use networks extensively – a 2009 study of 1,168 small businesses in Britain showed that 85% were part of a business network and they all benefitted considerably from their networks\(^{(9)}\). SMEs can use networks to extend their resources in many different spheres of activity, including marketing, procurement, manufacturing\(^{(11)}\), generating co-operation and innovation\(^{(13)}\), resulting in a positive impact on performance. Previous studies have shown that networking has a significant positive correlation with survival and, to a lesser extent, growth\(^{(22)}\). Formal business networking in particular has a strong positive correlation with net asset and added value growth\(^{(22)}\). The other key benefits of, and reasons for, SME networking are direct sales growth and improved legitimacy and status\(^{(15)}\).

Past research indicated important gender differences in the use of networks\(^{(12)}\) and suggested that male SME owners were more likely to successfully network and benefit from network-driven performance in contrast to female SME owners\(^{(23)}\). In particular, many women were found to enter self-employment from home-based or non-managerial backgrounds\(^{(3)}\), as a result of which they possess fewer formal contacts and have less time for networking\(^{(12)}\). However, according to a 2012 survey, there are no gender differences in the SME owners’ use of networking and its impact on business performance – in other words, SMEs owned by women and men enjoy similar performance benefits of networking\(^{(29)}\).

The rapid development of Web 2.0, with its emphasis on content and applications focussing on communication, communities of users and sharing of information and associated social media technologies\(^{(17)}\), is currently extending networking opportunities for SMEs. Online networking can enable SMEs to overcome the drawbacks of traditional face-to-face contact, such as limited numbers and diversity, and the associated high costs\(^{(15)}\). Web 2.0 and social media now provide fast, easy and low-cost access to people, businesses and resources around the world. They offer new ways of interacting and networking via, for example blogging and micro blogging, wikis, collaborative whiteboards, audio and video conferencing, online forums and communities, social networking sites and virtual offices and worlds\(^{(15, 14)}\). Those SMEs that are proactively engaging with social media can systematically raise their profiles to successfully compete with larger organisations\(^{(15)}\). They include the gifted social media amateurs among SMEs, who use a combination of their own networking, marketing know-how, and low-cost social media technologies, to create virtual - and sometimes even disposable - organisations, thus bypassing the need for large traditional IT infrastructures\(^{(15)}\). In the context of on-going technological development, online networking is set to become increasingly significant to SMEs – for example, it has been predicted to play a key role in the future of SME marketing\(^{(14)}\). However, despite such predictions and the opportunities provided by social media, SME online networking is used
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currently less widely than more traditional, offline networking activities. In particular, face-to-face networking events remain the most favoured form of all types of SME networking\(^{16}\).

Online and offline networking activities are not mutually exclusive alternatives for SMEs, but are often used in combination with each other. A 2012 study of Scottish biotech SMEs investigated the relationship between networking practices and innovation processes and found that the latter depended on the progressive deepening of network relationships achieved through a mixture of face-to-face offline and virtual online networking modes\(^{13}\). Both modes were used by SMEs to enable the exchange of explicit and tacit knowledge (the latter most often exchanged in face-to-face meetings), and both technical and social elements of interactions necessary for the development of network relationships. The exact mix of the two networking modes depended on the particular stage of networking relationship, the type of knowledge exchanged and the prevalence of the social side of the relationship\(^{13}\).

Another 2012 study surveyed 645 SMEs in the USA and Europe, and found that many businesses were competent in both offline and online networking modes, and about 40% of frequent users of face-to-face networking also spent more than eight hours a week networking online\(^{16}\). However, there were important differences in terms of the SME use of online and offline activities. Overall face-to-face networking events were considered the most important, with roughly two thirds of the participants spending one to six hours per week, and over 15% spending over eight hours. By contrast, although about 30% of survey participants claimed to regularly use, or depend on, social media networks such as LinkedIn, Twitter or Ecademy, the use of online networking was much more differentiated, in so far as SMEs tended to use it either a lot or a little\(^{16}\). The main differentiators in the use of online networking were found to be the scalability of the business and its orientation towards either a local or national/international market. So, for example, locally orientated (80% of sales within a 50 mile radius) SMEs without a scalable business offering had a clear preference for local, face-to-face networking events, whereas globally orientated, non-scalable SMEs put significant effort into social media engagement in addition to offline networking activities. This allowed them to ‘punch above their weight’ in terms of developing and maintaining global connections. Overall, globally orientated SMEs were less likely to use local face-to-face networking and about twice as likely to use social media as locally-orientated SMEs\(^{16}\).

In summary, networking benefits SMEs by allowing them to access the social capital resources embedded within their networks, which are becoming increasingly important in the context of globalising markets and competition. Social media technologies and online networking activities offer SMEs new opportunities to extend their social capital into the global sphere, but despite these opportunities, face-to-face networking remains the most favoured mode. A growing proportion of SMEs that network offline are also active users of social media for networking and recognise the benefits of adopting a combination of offline and online activities to suit their specific circumstances.
SECTION 2: RESEARCH METHODOLOGY

Introduction

This section describes the research design for this study comprising the use of quantitative findings from the 2012 national study (as baseline data that generated further key research questions), secondary data analysis of previous studies in this area, and qualitative data generated through focus groups and in-depth interviews (case studies). Figure 2.1 provides an overview of the research design.

**Figure 2.1 Overview of the research design**

Data gathering

**Focus groups with SMEs.** Focus group participants were identified through the relevant regional Chamber of Commerce and existing database sources at the universities. Twenty participants were selected to reflect on the importance of social capital to their business success, and how they make use of social media and networks to build the business. Two meetings, each lasting two hours, were subsequently conducted with heterogeneous samples of SMEs to explore:

- Which social media they make use of
- How they use social media and its importance to their business
- The role of their business website and their experience of search engine optimisation
- The key lessons they have learned in terms of making effective use of social media in their business
- The role of offline and online networking activities and the balance between face-to-face and virtual networking
- The future use of online and offline networking activities in their business
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**In-depth qualitative interviews with SMEs.** A sample comprising both typical cases and critical cases was selected to allow exploration (particularly extreme cases) of experiences with offline and online networking activities in relation to social capital. These interviews were in-depth, lasting between 45 minutes and one hour.

**Data validation**
Findings were validated through a third focus group, at which data and preliminary analysis were presented for comment and confirmation.

**Approach to primary data analysis**
Focus groups (with the permission of participants) were recorded and transcribed for subsequent qualitative content analysis. Initially transcripts were read and re-read to ensure full immersion within the data on SME use of online and offline networking activities relating to social capital. Subsequently, responses from SME participants were analysed searching for patterns and themes regarding use of online and offline activities. Where potential patterns were identified, these were then tested against the remaining data. By doing this, the focus group data generated insights to be gained from insiders’ perspectives.
SECTION 3: FINDINGS

Introduction

The findings are divided into two main sections:

(1) Consideration of successful SMEs and their use of social capital, drawn from secondary analysis of data gathered in the 2012 study;

(2) Exploration of how and why SMEs access and use the various forms of social capital and associated issues. This uses data gathered from the two focus groups, the post validation focus group and the five SME case studies. Such triangulation of data gathering methods is an approach that confers greater reliability and credibility on the findings.

Successful SMEs and the use of social capital

Part of the 2012 research study undertaken by the University of Surrey on behalf of Kingston Smith considered the importance of social capital under the broad heading of ‘networking and use of social media’ to over 1,000 SMEs. It highlighted that, while nearly 90% of SMEs used networks and social media, some 66% considered using networks and social media to be of at least some importance for their continuing success (Figure 3.1). It also highlighted that using networks and social media was considered significantly more important for continuing success by SMEs with fewer employees than SMEs with a larger number of employees. Yet the 2012 research study also highlighted that, whilst over 35% of SMEs did not consider their use of networks and social media to be effective, 46% had never purchased external advice or consultancy in this area.

Alongside the use of networks and social media, the 2012 research study found that having a website was also considered to be of at least some importance to the business’ success by 86% of SMEs, with over 40% of SMEs considering this extremely important. Whilst only 4% of SMEs did not have a website, more than 20% did not consider their business was effective in the use of its website. In contrast to the purchase of external advice or consultancy about the use of networks and social media, 23% had never purchased advice related to having a website.

Figure 3.1 Importance of networking and social media activities to SMEs’ continuing success


\(^2\) Chi square= 39.2, df=12, p<.00
The 2012 research study found that successful SMEs generated social capital by being connected to their communities of customers, associates and other stakeholders. Whilst these successful SMEs engaged proactively with the web and, in particular, social media, to gain competitive advantage, direct referrals were considered extremely important to their continuing success by 67% of SMEs. This represented the largest proportion of SMEs for any of the named forms of networking and social media (Figure 3.2).

After direct referrals, 44% of SMEs considered traditional networking events, such as Chambers of Commerce meetings of at least some importance to their continuing success, with 10% considering them extremely important. However, such traditional events were not considered by SMEs to be as important to their continuing success as search engine optimisation (considered to be of at least some importance by 67%). LinkedIn was considered to be of equal importance to traditional networking events while other web-based methods, such as Twitter and online discussion groups, were considered less important. The importance to continuing success of some web-based methods differed with size of the SME; LinkedIn and online discussion groups were considered significantly more important to the continuing success of SMEs by those with less than five employees, some using LinkedIn to target customers.

The importance of social media to the continuing success of the respondents’ businesses did not differ significantly according to their age – other than for Twitter, which was considered significantly more important by younger respondents than older ones. Twitter was also considered significantly more important by SMEs who had started trading more recently, being used by some as a form of viral marketing.

Figure 3.2 Importance of offline and online networking activities to SMEs’ continuing success

Source: Gray, Saunders and Goregaokar (2012)^[10]
The 2012 research study found that successful SMEs networked with a number of different communities using a range of both traditional and web-based methods. While IT and social media were each regarded as a ‘necessary evil’, SMEs considered there was no choice but to engage very proactively in these areas.

Networks included customers, associates and former employees who had moved on to become independent contractors. Networking was about making contact, talking to the right people who, even if outside the SME, could offer feedback or advice or be used to outsource work. These networks were regarded as a ‘community of people’ who might join in with a new business proposal or be used to provide external expertise.

**SMEs’ perceptions and use of online and offline social capital activities**

Data gathered during the two focus groups highlighted the importance of both online and offline activities for developing social capital, providing insights into their use. When discussing both online and offline activities, SMEs focussed on the utility of both for networking (Figure 3.3). Within the focus groups, SMEs focussed on the use of online activities, especially LinkedIn and Facebook, as well as the importance of having a website that was optimised for search engines, particularly Google.

**LinkedIn** is widely used by SMEs to showcase their business and ‘to establish who you are’. It gives the business a window into the world, allowing the SME to build a relationship with their customers (from whom positive testimonials are important). LinkedIn is perceived as more dynamic and interactive than, say, a business website because ‘you can be active, you can be seen’. It can even allow customers and other contacts to pose questions and join in discussions. This includes special interest groups; posing and answering questions allows participants to build a positive image of themselves and their business (their social capital). Since Google is ‘content hungry’, regular LinkedIn posts contribute to search engine optimisation (SEO). Enthusiasm, however, is qualified – it is difficult to identify a direct link between activity on LinkedIn and business benefits such as increased revenues. As highlighted in one of the focus groups, SMEs felt that there was a danger of getting too sucked into discussions, losing sight of the need to find new customers: ‘You have to be careful… [not] to get too involved in the discussions because that’s not helping me find clients or anything like that’. There is also scepticism about LinkedIn’s way of eliciting skills endorsements. Finally, the amount of commercial advertising on LinkedIn is seen as an unnecessary irritation.
Facebook is widely used, but not as extensively as LinkedIn for business purposes; often in more of a personal capacity. Indeed, some respondents were adamant that Facebook was not appropriate for their business model. However, some businesses find that Facebook can be more effective for marketing than LinkedIn (see Case Study 2). One focus group participant commented ‘Facebook has sort of degenerated slightly into a bit of chaos, but it's still a good marketing tool if you've got a product’. In general, however, few respondents talked about Facebook when discussing their business.

Websites require regular updating of content. This does not just mean text; it can also include YouTube video clips, presentations, articles, etc. Websites need to be dynamic – not just electronic ‘yellow pages’ or brochures. The Holy Grail is SEO, that is, the business website appearing high up on the Google rankings. It needs to be borne in mind, however, that Google is only one of the available search engines. Yahoo and Bing, amongst others, are alternative gateways to the Internet. Regardless of the search engine used, SMEs see themselves as disadvantaged compared to large corporates who have the resources and money to spend on SEO. Genuine experts on SEO are very costly and, as emphasised by focus group participants: ‘there are a lot of sharks out there ... using techniques that don’t really work any more, and those that do know how it works are incredibly expensive’. These participants felt that those selling SEO services often knew only about as much as the SME owners themselves. Some businesses are now bringing SEO ‘in-house’, partly because the marketing graduates they are hiring are now trained in SEO skills. SMEs are aware, that SEO is geographically determined, so what works in the UK will need to be modified to work in the USA or China.

Some businesses repeat key words on their website landing page in order to improve SEO, but Google can often detect excessive keyword repetition and views such practices negatively. Repeated words also reduce the readability of content and detract from visitor satisfaction. Google ‘likes’ fresh content, so updating a blog can have a positive effect on Google rankings. Relevant and regularly updated content will always win over SEO ‘tricks’. Content copied from one blog to another will have a detrimental impact on both blog sites.

Twitter is widely used by some SMEs that employ a strategy of posting a minimum number of tweets per day to reinforce the culture of the company to customers and other stakeholders. However, one participant commented: ‘Twitter is a useful medium for locating people who need training on the use of Twitter!’ Another commented: ‘I have clients that actually have gone on Twitter and they're on it so much. I've said to them ... you're giving the wrong perception of your business...One's an MD of her business, and I said ... you're tweeting all the time, people are thinking, well when are you doing your work?’ So it is also important to be ‘savvy’ with the social medium being used. Twitter can be effective when used in conjunction with other social media, such as the business’ website, and social media posts, such as blogs.

YouTube is a potentially powerful medium. One SME, for example, hired a professional cameraman to film the director giving a presentation about her products. The video subsequently achieved over 30,000 hits. However, one of the advantages of YouTube is that it encourages people to accept amateur video standards, so it is relatively cheap to produce and upload your own video; smartphones and tablets can be used. Rather than send customers a user manual, it now becomes possible to video a demonstration of a product or service. ‘They can use it as many times as they like, show it to their colleagues and that ... works really well, really well and it's cheap’.
Face-to-face networks are important both to supplement a social media presence and in their own right. ‘There’s no substitute for it. You have to be in front of people and talk to them’. It is best, however, if events are at the start or at the end of the working day. As summarised by one focus group participant: ‘I’ll very often go to an evening event, so if the face-to-face or the networking events are first thing or last thing, they fit neatly into the working day so you can actually network, and work and then network’.

But it is vital to be selective, so as not to suffer from ‘event overload’. Another focus group participant highlighted this issue commenting: ‘there’s also an overload on networking ... I could go five days a week to networking meetings so you have to be selective ... there are so many of them’. Consequently, having a clear strategy for networking at events is just as important as having a marketing strategy.

In summary, few, if any, SMEs claimed to have expertise in the uses of social media. However, they are keen to ‘get a presence’ in one or many media but realise they are on a learning curve. Whatever social media are used, they have to be ‘fit for purpose’ and appropriate to the business model. It is also clear that social media are not a substitute for face-to-face networking and events. Indeed, the challenge is how to integrate the two so that one complements the other.
SECTION 4: SUMMARY OF FINDINGS AND KEY RECOMMENDATIONS

Summary of findings
Social capital can be defined as the goodwill available to individuals and groups; it operates where friends, colleagues or general contacts receive opportunities to use their financial and human capital. Whereas human capital is a quality of individuals, social capital is a quality created between people through offline activities, such as networking events, and online activities, which include social media. Two benefits that are relevant to SMEs flow from social capital: information and influence. Where two groups have dissimilar information, an entrepreneurial SME can span this structural hole by monitoring information, identifying problems and offering tailored solutions. Individuals can gain influence in networks by accumulating obligations that they can redeem at a future time.

One way in which SMEs can seek to expand their social capital, alongside their use of face-to-face networks, is through the use of social media. However, while access to the Internet by SMEs is almost universal, and their use of social media is growing, SME use of social media is lower than for larger organisations. Nevertheless, the 2012 study showed that 66% of SMEs considered networks and social media were of at least some importance to their continuing success. Having a website was considered important by 86% of SMEs, with 67% reporting that search engine optimisation (SEO) is important to their continuing success. This new 2014 study confirms these findings, revealing that SMEs have difficulty in purchasing high quality advice, particularly on SEO.

The new study suggests that social media sites such as LinkedIn are widely used to showcase the SME business and to build relationships with customers. However, direct links between the use of LinkedIn and higher sales revenues are hard to determine. Facebook is used, but not as extensively as LinkedIn, as it is used more in a personal than a business capacity. Twitter can be effective when used in conjunction with other social media such as the business’ website and social media posts including blogs, but there is the danger that tweeting replaces genuine business activity. YouTube is a potentially powerful medium, given that it is relatively cheap to produce and upload videos, since users seem prepared to accept amateur video quality. Alongside social media, SMEs continue to use face-to-face networks extensively, both in their own right and to supplement an online presence.

Overall, few SMEs claimed to have expertise in the uses of social media. However, they are keen to develop a presence in one or many online media, while realising they are on a learning curve. Whatever social media are used, they have to be ‘fit for purpose’ and appropriate to the business model being used. Social media are not a substitute for face-to-face networking and events. The challenge is how to integrate them successfully.
Key recommendations

1: Social Capital Strategy

SMEs should have a clear strategy towards social capital included in their overall business plan. This should:

- Recognise, and build on, the significance of social capital for business success. Use offline and online activities to build a social capital strategy.

- Integrate the use of different online activities. For example, have a blog on the business website to help with search engine optimisation; put LinkedIn address on all business communications.

- Ensure that all business departments (e.g. sales and marketing, logistics, finance, etc.) have an input into the business’ social capital strategy.

- Decide strategically how much time and resource can be devoted to developing the use of online social media. Plan the input of content.

- Create a balance between offline activities (live events) and online activities that matches the business model. Use online social media for linking to contacts between offline events.

- Implement a follow up procedure to ensure new contacts are progressed along the sales pipeline.

- Use offline activities (e.g. networking events) in ways that fit around the working day.

2: Policy and Monitoring

SMEs should have a policy for, and monitor, online and offline social capital based activities. They should:

- Monitor what people (especially former employees) are saying about the business brand.

- Produce a social media policy to provide legal protection.

- Monitor and control internal development of social media tools so they are ‘fit for purpose’.

- Provide staff with operational guidelines for offline and online networking.

- Monitor time staff spend on online and offline activities to ensure business outputs are congruent with inputs.

- Adapt social capital strategy in response to the monitoring of outcomes.
3: Return on Investment

SMEs should seek to achieve a realistic return on investment. They should:

- Track business impact of engagement with social media.
- Use social media analytical data to monitor reach and impact of online activities.
- Ensure the objectives set are SMART (sensible, measurable, achievable, realistic and timed).

4: Wider Benefits

SMEs should consider the wider benefits of social capital and maximise them. They should:

- Ensure speedy communication in responding to potential business opportunities.
- Use social media for recruitment to monitor what people say about themselves.
- Use social media to survey the marketplace.
- Use social media to obtain intelligence on potential clients.
- Integrate the use of social media with the use of face-to-face events! There’s no replacement for face to face!
APPENDIX 1 – CASE STUDIES

CASE 1: THE WORLD BIRTHDAY COLLECTION LIMITED

Ian Lynch: CEO

Background: The World Birthday Collection (Woby) was first conceptualised in 1977 when witnessing two groups of people celebrating birthdays in the same location (a Surrey pub): the idea of setting up birthday party celebrations in hotels and other venues for people born on the same day. However, the Internet did not yet exist and the idea was mothballed until a chance conversation in 2010 led to its rebirth in the modern era of the Internet and mobile App. The decision followed to build a world class website, which was launched in 2011. So far over £600,000 of investment has gone into seed development, proof of concept and foundation development.

At the heart of Woby will be the world celebration live feed, where users will be able to engage with events and celebrations taking place all over the world, including their own. Users can set up key dates to meet their requirements for any anniversary or event; send personal greetings cards; and find out about birthdays or events relating to famous people. Using the Woby application, users can see who else shares a birthday with them. Once the site has generated a high volume of visitors (i.e. several million) it will become possible to sell pay-per-click campaigns to advertisers. The site will also generate ‘big data’ on people’s spending patterns and preferences, thus increasing the market value of the business in line with the number of registered users.

Director’s viewpoint: Web development was outsourced but did not work well, so Woby put together its own web team. They are now working on a Facebook application to allow people to share birthday wish lists on their timeline. ‘We are very much complementary to Facebook,’ explains Ian. ‘We are in competition with Moonpig and Funky Pigeon.’ But the latter sites do not have social connections, which Woby does. Users can sign in to Facebook from the Woby site. Facebook is important for Woby because of the sheer volume of users. Woby’s largest demographic is women between the ages of 30 and 45 who buy online.

Woby also uses Twitter, tweeting people - including celebrities - on their birthdays. For example, it tweeted the singer Beverley Knight, who tweeted back ‘Thank you Woby!’ Ian comments: ‘All we need is a celebrity to tweet something about us and we are up and running’. A feature in a software magazine could see the membership of Woby (currently 500) rise exponentially.

In terms of functionality, Woby is building a feature into its website to provide organisations with their own private area. Three-way video chat (like Skype, but without the cost) will also be developed for the café area.

Google+ is also important. Ian comments: ‘We want Google to like us and keep an eye on us.’ Ian has visited Google’s headquarters in London to network with the organisation; this is an example of the business promoting its social capital. He will also be going on a speaking tour to raise the profile of the company, an example of face-to-face networking complementing the uses of social media. Ian attends about four events a week to promote the company (in part to look for investment); he comments: ‘Nothing beats face to face contact’. But in the long term, he recognises that the company will grow virally through social media. He also views SEO optimisation as an essential means of gaining business momentum.
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**Director’s tip:** Have a Twitter logo that stands out from the crowd. Have a WordPress blog on the website; this will help with SEO.
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CASE 2: BITE SOCIAL MEDIA LIMITED
Martyn Stead and Beverley Ames-Rooks: Directors

**Background:** Bite Social Media, an SME start-up, comprises Martyn Stead and Beverley Ames-Rooks, two experienced social media managers who were working together on several joint clients before deciding, in 2013, to combine their individual businesses. Bite Social Media helps companies to develop a customised social media strategy and delivers training in social media (via presentations and workshops). Martyn launched his first social media site in 2010.

Bite Social Media works with a graphic designer, since its clients’ businesses often need better branding, which includes visual images. It will often help a client by spending three months designing and building up their social media platform before a handover period. The intervention might comprise consultancy, or Bite Social Media may represent the company through a marketing campaign. Bite Social Media makes extensive use of LinkedIn, Twitter and Facebook for business development purposes. For example, it will explore the Facebook pages of various companies and, when it identifies one with a low social media presence, it will contact that business to offer help. This is a positive example of how social media can be used to gain competitive intelligence. Most of Bite Social Media’s business, however, is won via LinkedIn, often through interaction with people in groups. Social media accounts for 90% of Bite Social Media’s total communications.

Bite Social Media does not focus exclusively on using social media to promote itself. Martyn also does face-to-face networking - in a typical month, three or four events. He claims: 'There's no substitute for actually sitting down and talking to people'. However, he explains that the business is rarely won from people in the room itself; but they can refer you to other people they know that matter. Martyn says that every business ought to be doing it.

**Director's viewpoint:** Martyn advocates that it is important to create a distinction between business aspects and the personal when using social media: On Facebook, these should be separate; but LinkedIn is different. It represents both your own personal profile and that of the business. Even though you may have a company page, you still operate as an individual. 'It gets the personality of the Chief Executive across' to other businesses.

Addressing the question of which is most effective, Facebook or LinkedIn, Martyn explains: Recently, Bite Social Media was commissioned to promote a book on workforce planning for a client, the target market including chief executives, HR directors and other senior people. Similar adverts were placed on Facebook and LinkedIn. Facebook was ten times more effective in terms of clicks and sales. The marketing was so effective that the book had to be reprinted. 'It surprised us, as people in the social media business,' Martyn admits; Facebook had an impact because you can target groups very specifically. It is the older demographic (40+) that is now most active on Facebook (many people join the network to keep in touch with their children). But once on it, they become targetable. 'If you go fishing, go where the fish are,' he says; so, if your customers use Facebook, your company should use Facebook.

Effective use of social media does not just involve talking about your own company, products or services, Martyn explains; it requires broader commitment and engagement with events and issues. Whatever you post, make it congruent with the culture of the company and outlook on life. At least 20% of posts should be social, especially on Facebook and Twitter (for example, re-tweeting), to get across the personality of the company. Social media should also be woven into your business’ website. Search engine optimisation (SEO) and social media optimisation are very
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complementary. Dashboards are also important – an example of which is HootSuite, a social media management system where all clients’ tweets and other social media networks can be managed in one place.

Martyn comments that one of the barriers to the effective business use of social media arises from the fact that most of the tools (such as Facebook) are free. As a result, they are not taken seriously - for example, sites are often given to an intern or junior member of staff to manage. He insists this is completely the wrong approach, commenting: ‘Social media is where your brand touches the public’. A range of company departments or functions should have an input into a business’ social media planning - for example sales, and product development.

Martyn believes that in the future, social media will become more fragmented - in the sense that more specialised social media tools or platforms will emerge. For example, there is a site called Polyvore, which is entirely about fashion.

**Director’s tip:** Ensure that all important business functions have an input into the business’ social media strategy. Put management of social media in the hands of suitably senior and skilled people. Be consistent; it is a common mistake to go onto social media with a flurry of activity and then stop.
CASE 3: PADUA COMMUNICATIONS LIMITED
Nicky Rudd: Director

Background: Padua Communications, a company started in 2009, offers a range of services designed to help businesses improve communications with new and existing customers, staff, stakeholders and the media. These include PR, marketing, content, social media, branding, copywriting and events management. Over two thirds of Padua Communications’ work comprises creating content for clients’ sales material, blogs, websites, social media, marketing, case studies and PR activities. The aim is to provide businesses with a range of services and training in these disciplines with the support of a 12-strong team. On the development side, depending on the client’s project, various partner agencies are drawn in – including, for example, graphic designers and web coders.

Director’s viewpoint: Nicky explains that social media helps a business to build relationships much faster than relying on face-to-face contact. Offline networking groups might meet once a month. So if, Nicky describes, you met an interesting person but then you missed the next networking event, and if they missed the one after that, it might be four months before you would meet them again. However, after an initial meeting you could follow each other on Twitter (exchanging social messages based on common interests) so that, by the time you meet them again, you have begun a relationship.

Padua Communications makes use of Facebook, LinkedIn, Twitter and Google+. Of these, the most important are LinkedIn and Twitter. Organisations that provide consultancy advice on the uses of social media have to demonstrate best practice themselves, Nicky points out; so, Padua Communications’ website features frequent blogs and Twitter posts. Pinterest is not used, because Padua Communications’ messages tend to be text-based rather than visual. Its LinkedIn site allows the business to showcase its services, and contains recommendations from clients. Nicky observes that many organisations do not realise that their own LinkedIn business page can be made both functional and interactive.

Social media is used to broadcast new updates on the website and news about the company. Each month, the business creates a content calendar of scheduled posts to tie in with blogs and other messages across the different platforms that Padua Communications works with. So there is an important planning element to the social media messaging. Additional content is shared on more of an ad hoc basis, on subjects that clients might find interesting, as they are spotted. Padua Communications monitors a variety of social channels and blogs for shareable content, in addition to its own content creation.

Padua Communications’ website is predominantly used as a brochure, giving information on the company’s services and the team, among other things. A weekly blog is posted on the website, providing advice on the uses of social media and marketing, content and communication and advertising events. Guest blogs are also published, one of the most recent being on the subject: ‘To blog or not to blog’. Nicky explains that the use of social media is not just about communicating with prospects or customers; but also with associates and partner agencies. Padua Communications uses social media in far more contexts than just around attending face-to-face meetings or events.

Director’s tip: In using social media, have a plan for content and decide who is going to manage and measure the social media messages and how this is going to be done on an ongoing basis. Since time is one of the most precious commodities, decide on how much time you can devote to
social media. Monitor what people are saying (for example on Twitter) about your brand. Decide on how you are going to manage staff members’ comments about the brand (and particularly those of ex-employees, which might be negative). Social media can be very fast moving; something can go viral in less than an hour, so it is vital that you have a social media strategy and policy in place that has been communicated to all internally.
CASE 4: PRMS LIMITED
Clayton Coke:  Founder & Managing Director

Background: Founded in 2002, PRMS provides services for recovering debts and other monies owed to businesses via a structured, ethical mediation-based approach. The consultancy works with SMEs to manage their debt recovery and cash flow, whilst protecting their reputation and brand through the process. PRMS has enjoyed steady growth over the last three years.

Director’s viewpoint: PRMS makes use of LinkedIn and Twitter, but not Facebook: ‘No one’s going to ‘like’ a debt recovery company on Facebook!’ Clayton explains that LinkedIn helps give a debt recovery business some credibility, since it is part of a profession that is insufficiently understood and/or respected. LinkedIn helps to demonstrate that his business is well connected and has recommendations from contented clients. Indeed, using Twitter or LinkedIn to comment on news and events relevant to the business (for example, the presence of zombie companies - organisations ‘running on empty’) yields kudos amongst peers. He notes, though, that it is important to keep a line of demarcation between tweeting on a personal basis and tweeting on behalf of the company; the two must not be confused.

One of the downsides of social media is finding the time to populate the sites. Clayton observes that some people are always posting; but the golden rule, he says, should be: if you don’t have anything to say, don’t blog. Also, he advises, be careful about what you say on Twitter; draft and redraft posts to ensure no one will be offended.

PRMS also has a website, which is regarded as a means of displaying information – like a shop window. Clayton explains that when people go onto a debt recovery website, they only want to know three things: how much it costs; how long the debt recovery business has been operating; and what its success rate is. They don’t look at a debt recovery website for fun! In launching a company, Clayton suggests, make sure the name is one that is easy to find via search engines.

Clayton has also done a lot of networking through face-to-face meetings, commenting: ‘It's nice for people to see your face and know who you are and what you're doing’. But he warns that if you fail to follow up the contacts you meet, you will be wasting your time. Social media reinforces what you do in terms of live networking. Even people that you haven’t met might know you at an event through LinkedIn.

Director’s tip: Link media together. So, for example, put your LinkedIn page address on other communications, such as email and letter signatures. After meeting someone at an event, always connect to them by linking to them via LinkedIn. Use social media to develop a status as a ‘thought leader’.
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CASE 5: BOOGLIES LTD
Lisa Newton: Director

**Background:** Boogles Ltd, a bookkeeping service, was launched in 2004 and now employs 20 people part-time, with most of them working remotely on the clients site. Boogles began primarily as a bookkeeping service to busy individuals and small charities and businesses based in the London and Nottingham areas. The company has since expanded, and has developed into other markets such as bookkeeping franchise, bookkeeping training courses, and products such as computer maths games for children. Lisa, the majority owner and director, undertakes the sales and marketing activities and overall management of the business herself. Her long-term aim is to franchise the business. Lisa has written several books including one entitled *How To Start Your Own Bookkeeping Business. And Be Successful*, which forms part of the brand image of her business – her social capital.

**Director’s viewpoint:** Boogles has a page on both a Facebook and LinkedIn. On LinkedIn, Lisa is active in discussion groups on bookkeeping, but she notes that these are often full of people who just moan. Lisa uses her LinkedIn posts to advertise the Boogles website and increase the business’ visibility. But social media are less effective for her in terms of finding clients who need bookkeeping services. Lisa also uses a Twitter account, both for personal communication and on behalf of her business. Boogles also has a YouTube channel, posting videos on topics such as *How to read a Profit & Loss account*. These YouTube clips can be launched from the Boogles website and include training content. Of all the social media, Lisa believes YouTube is probably the most useful. As an author, Facebook is valuable because it helps people who have read one of her books to connect to Lisa, to comment on the books or ask questions. It provides an international audience; social media makes the customer channel much wider.

The Boogles website is used to provide information regarding the company and what bookkeeping is about. Improving the website’s Google rankings is important and search engine optimisation (SEO) was attempted a couple of years ago; however, this was too expensive for the business to maintain.

One of the downsides of social media is that people can steal your ideas; Lisa tells of seeing a blog post on another site which she had written herself. There are also cost implications. For example, Lisa explains, while SEO can achieve an increase in customer views, you then need to spend more money improving the quality of the website. The Boogles website contains testimonials from customers, but one of the problems with reviews on social media is that people generally expect a good service, so they only tend to post a message when something has gone wrong to vent their frustration, and rarely when it has gone right (because that’s to be expected anyway).

Lisa attends one or two networking events a month. In many ways, she prefers live networking to the use of social media; in speed networking, for example, it is possible to meet a lot of people quickly. Lisa observes that a lot of people use social media to try to sell something, and it is possible to waste a lot of time. She explains: Face-to-face networking allows you to know what’s going on – ‘to keep your fingers on the pulse’, including regarding how others perceive you and your business (i.e. your social capital). Events allow you to ‘get in with people’ and to learn about opportunities that haven’t been advertised.
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**Director’s tip:** Be careful, as a business, that you don’t spend too much time on social media. Measure the number of Twitter followers, Facebook links, and YouTube subscribers you have - and whether they’re generating sales or not. Pointless having 200 likes on a post, but not £200 in the bank!
References


