Social Media’s Impact on Decision-Making

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GSR 722

Consumer Behavior

Hunter College
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Introduction

Social media have become an important marketing channel that integrates with traditional media, such as TV, newspaper and magazine in the last two decades. Despite its variation, the key components of this emerging digital platform are user-generated content and the possibility for users to communicate instantaneously. On this digital communication platform, users can build new relationships in addition to maintain their offline social network. The potential influence of the personal network built on social media drives more and more business and brands merge their marketing strategies and campaigns with social media. But how do different tools affect consumer decision-making differently remain unclear. For marketers, one of the most essential questions is if online social networks that created on social media platform have the same influence as that of offline. As the eWOM (electronic word of mouth) becoming more popular, this research is a literature review about when making purchase decision, if online recommendation of products from unknown users are more effective than that from people within the social network.

Literature Review

Social Media and Social Media Marketing

Defining Social Media Scholars define social media as Internet based tools (websites or software) that “serve a primary function of allowing users to connect, communicate, and interact with each other” (Wang, Tchernev & Slolloway. 2012). Today the most common forms of social media which influence consumer purchase decisions making are business website and blog, Facebook page (or pages), Twitter handle (or handles), Flickr page, YouTube channel, Yelp rating and Amazon reviews. Distinct from the traditional media, online social platform enjoys advantages such as low in cost, available to
anyone, easy to adopt and extremely reciprocative with low lags in responses.

*Online Social Network* With the popularity of social media, the concept of social network has expanded to a broader domain. Not only does it mean the social structure formed by relationships of people, but also includes the digital representations that “refer to the registered users who are linked by relationships extracted from the data about their activities, common communication or direct links gathered in the Internet-based system” (Musial & Kazienko, 2012). The majority relations fall into two categories based on the relationship profile: business and social connections. The former, such as LinkedIn, are included in professional social networks that consist of people who are linked with each other due to common professional activities but simultaneously they do not share their private lives. The latter, social relationships, such as Facebook, indicate the connections with emotional background. Such connections often are the extension of those of real world. Users not only seek for new connection, but also reconnect the existing offline ones. In this type of social network, individuals share opinions, discuss issues, talk about personal lives, and very likely influence each other.

*User Participation* One of the most important features of social media is its user participation. Different tools vary in ways of adoption, but all users are equally producing content remain the same core. No matter it’s 140 characters short message, or filtered photo, everyone has a voice and a vote to judge. In other words, social media is all about people, regardless of who they are, getting involved in a continuous process of reflection and action that is, ultimately, transformative. In this sense, the online network platform is powerful to build up engagement and participation as it provides a two-way dialogue between the organizations and individuals as well as among consumers. The dialogue and involvement with their target audience, to the standpoint of business, helps to promote the transparency of a business and thus a healthy brand image (Lewis, E., 2005).
Social Media Marketing and the Attitude Towards It Such new phenomenon has established a new dynamic in the area of marketing communications and the consumer decision-making. Marketers have recognized that social media is increasingly important to the marketing mix (eMarketer, 2010). Attitudes towards social media marketing affected by consumers’ age, education, family income, shopping habit (Akar, E., & Topcu, B., 2011) and social media usage gratifications such as integration and information (Chung, C., Austria, K., 2010). As information, communication and socializing are main gratifications when using the Internet, marketers are suggested to focus on active interaction and useful information in their social media marketing strategy. Research shows that these practices create positive perceptions toward social media messages, which very likely increase online shopper’s hedonic value.

Social media allows people to have a voice on an equal platform and this voice can be a valuable feedback for products and business. For most marketers, sustaining company loyalty among consumers is one of the main tasks. The level of the loyalty, on the other hand, also affects the consumers’ willingness to post feedback on their sites or social media. ROI Research found that at least once a week, 30% of active Twitter users share opinions about companies or products, 32% make recommendations and 30% ask for them (eMarketer, 2010).

One important way to keep loyal consumers is an efficient interactivity. Consumer's online brand related activities (COBRAs), such as reviews and sharing, and eWOM (electronic word of mouth) are among the common marketing strategies. For brands, consumers have become their most important advocates by sharing their personal experience of using certain products. Even though marketers are trying to understand the motivation behind such voluntary behavior and to guide a particular behavior, transparency is the best policy to maintain the trustfulness of the brand (Knowles, 2012). In addition, we need to understand this type of brand-related activities is very different from leaving comments on
shopping website after purchases, such as eBay, where the review is mandatory and for judging sellers or buyers themselves.

The possibility for consumers and prospects to discuss of their ideas, experiences and knowledge at an instantaneous platform has a significant influence on purchase behavior. A report on Wall Street Journal shows that 71% of online U.S. adults use consumer reviews for their purchases and 42% of them trust such a source (Spors, 2006). What's significant is not the amount of online purchases, but the impact of online reviews. By studying reviews on Amazon.com, Hu, Liu & Zhang (2008) find that such reviews have a direct impact on sales, on both ways. Although positive reviews do generate more sales, negative reviews impact sales more than positive reviews and reviewers. Other study on online peer and editorial recommendations shows that when most of purchases are done through the Internet, online recommendation, the peer recommender’s characteristics and consumers’ shopping goals (utilitarian or hedonic) all largely affect the final decision-making (Smith, Menon & Sivakumar, 2005).

**Consumer Decision-Making**

*Theories* To understand how social media can affect consumer decision-making, a review of the theories may be helpful. In the field of consumer behavior, how consumers make decision is one of the most asked questions among marketers. Since the middle of 20th century modern decision theory has developed along with the expanding of psychology, economy, statistics, and other social science. Three major models of decision-making were built and tested in cope with the uniqueness of the process of purchase: expected utility theory, satisficing, and prospect theory.

Expected utility theory, or “probability-weighted utility theory”, proposes that consumers make decisions based on the expected outcomes of their decisions. “To each alternative is assigned a
weighted average of its utility value under different states of nature, and the probabilities of these states are used as weight” (Hansson, 2005). The limit of expected utility theory is that it assumes consumers are rational and unbiased. They make decisions based on complete and perfect information, and are not affected by group norms or expectations, others’ influence, or their own purchasing decision. The theory predicts the only outcome is maximum utility, however, ignores the limit of human beings and the existence of uncertainty during the decision-making.

Satisficing, developed by Herbert Simon, is the alternative of expected utility theory. What Simon proposed is a process that consumers have approximate sense of where they want to go and then stop once they are “satisfied”, or a “good enough” decision is made. In addition, consumers also have to face pressures from the limit of time and resources, their cognitive power, and inconsistency of time. Satisficing is an earlier adaptor that recognizes that referencing is an ordinary procedure of decision-making. Ordinary consumers are supposed to seek different shortcuts or tools to help making decision, such as turning to their social network (Simon, 1959).

Following Simon, Kahneman and Tversky proposed prospect theory, in which two major cognitive “systems” are involved in general decision-making, automatic and reflective. The former helped us avoid predators in the past and today answers simple calculation in a flash, governs our driving on easy roads with little traffic, and connects stereotypes with their target. The latter helps us solve an more complex equation in our heads, fill out tax forms and make more rational decision when facing complex situation. What underneath of this “dual systems” is that 1) real decision-maker have very limited computational ability in facing complex situation which requires calculation, 2) people are generally “risk averse”, and evaluate risk differently depending on if the problem has a “frame” of gain or loss (Tversky & Kahneman, 1981).
The Challenge: Uncertainty In the model of perfect market, buyers and sellers exchange goods and services under conditions of perfect information and certain outcomes. A perfect rational decision maker has complete information, unbiased perception and judgment, and is not affected by group of norms or expectation, what anyone else is doing, or pattern of past decision. However, neither market nor consumers are perfect. In reality, information is normally insufficient, outcomes are uncertain, and consumers are most of time taking short cuts by making use of social relations when facing difficulties.

The development of the decision-making theory represents the acknowledge of its under non-certainty, which can be divided into three categories: risk, uncertainty, and ignorance (Knight, 1921). In general, the uncertainty, or the unknown part, about the quality of goods or services increases the risk of purchase and, thus, individuals may seek various methods to reduce such risk. Internet and social media provide a great opportunity for consumers who are in the uncertainty while making purchase decision.

Comparing Two Strategies of Online Consumer Decision-Making: Rating/Reviewing and Recommendation

Various factors affect consumers decision-making, such as their social network, their trust in the brand, or the trust in the recommendation from unknown individuals. Extending all these researches to the online sphere, I would like to compare two types of social media and their impacts on consumer decision-making: product review from unknown consumers, such as Amazon, and Epinion, and the recommendation from individuals in the online social network, such as Facebook. If, according to the social network theory, the stronger the ties between individuals, the more influence they have, we would see a strong tendency that endorsement from Facebook friends outperforms the strangers’ product review. The comparison includes these dimensions: trust, attitude, and the quality of recommendation.
Trust and Social Network DiMaggio and Louch’s (1998) work shows that, before online customer reviews are widely available, as the buyer’s uncertainty, which involves in the quality of goods or services, increases, so does the tendency to purchase via socially embedded transaction. Such result echoes what Bonoma and Johnston (1979) have found that higher trust individuals are less rational than others on decision-making. Both results show that social network plays a heavy role in the process of decision-making. Furthermore, Simpson and McGrimmon (2007) take generalized trust, which is trust towards strangers, into consideration. They argue that people low in generalized trust will tend to forgo risky transactions with strangers, opting instead for the increased certainty of embedded markets. On the other hand, high-trusters will be more likely to transact with strangers when the purchases entail uncertainty.

Generalized Trust and Decision-Making Applying that study to the social media, the trust of online reviews, as most of them are from strangers with few exceptions, can be regarded as a form of generalized trust, while recommendation from friends in social network service is specific or dyadic trust. Generalized trust, differ from specific or dyadic trust, has been linked to a variety of positive social outcomes, which include greater cooperation in social dilemmas and social exchange situations (Orbell and Dawes, 1993). People who are high in generalized trust, if we explain in a "quick and slow system", are conditional optimists highly attuned to relevant social cues about others’ trustworthiness. Simpson and McGrimmon’s study (2007) suggests these people may be more likely to be affected by rating/reviewing system such as Amazon than their opponents. People who are high in specific trust may weigh recommendation from Facebook friends more than the unknow users review.

Trust in the Online Social Network In the Pew survey of Facebook users, Hampton et al. (2011) have found Facebook users tend to have higher trust on both aspects, generalized and specific. The
report shows that a Facebook user who uses the site multiple times per day is 43% more likely than other internet users and more than three times as likely as non-internet users to feel that most people can be trusted. Some features of the Facebook network in that report may explain this significance. 1) Facebook users tend to have more close connections, an average 9% more strong ties than other social network services users. 2) There are very low rate (7%) of Facebook friends that an ordinary user has never met in-person. In other words, Facebook presents an extension of users’ offline network. It connects not only immediate ties, such as close friends, family members or colleagues, but also latent or weak ties, which include between people who have only met few times. What extraordinary about this is people tend to keep the relation online even though they do not communicate each other, unless there is a reason to delete the relationship. This phenomenon preserve certain trust among users and their online social network, even some of them are loosely connected.

*Trust in Online Review Community* In an investigation of the community influence on consumers’ motive to write and evaluate online review, Yang, Mai and Ben-ur (2012) discover that reviewers tend to be objective in a well-established online community, such as Amazon.com. The result indicates that users do not show stronger tendency of trust in others’ review than their own judgment of the product. However, the only exception is the review from those with high community status, such as those most of whose review are considered helpful. This also explains the “words of few mouths” phenomenon Zhang, Tran and Mao (2011) have proposed. What they have found is that a large fraction of reviews each only having received feedbacks (helpfulness) from very few users. In addition, they also demonstrate that opinions provided by individual users are “informal, often biased, and have relatively low reliability and large quality variation.” As Liu et al (2008) have found that the reputation of a user and his online review is very likely built on two types of interaction: personal experience and recommendation.
Personal experience indicates a user gauge the reputation of another user based on the past interactions between the two. Recommendations are the interactions between that user and other users. Several types of interaction are involved in such online community, most of them do not have direct communication. Their study concludes that if user A writes a review of a product and user B rates that product, user B has stronger tendency to trust user A, even though they may not have direct contact to each other.

**Conclusions**

As a literature review, this paper could not present direct comparison between the two system from existing projects. However, by studying trust between users and the quality of the trust, we may have some clue of how different users affected by these two systems. In conclusion, if an online user have high generalized trust, he may be more likely to be connected on Facebook. This indicates two things: 1) he will be in an online social network, in which others can influence his decision-making, 2) defined by Simpson and McGrimmon he is also very likely to consider the product review from unknown users on Amazon or Epinion. If a person has relatively lower generalized trust, the latter may not apply to him, unless there is certain interaction between him and others who review the product. This indication is a little tricky, as there is no clear indication of if he weigh his own social network more than product review community.

While the difference between these two systems remain unclear, we have learned that the primary purposes of people go to these websites are very different. For those seeking help on Facebook or other social networking sites, there are existing relationship on these sites and the answer or recommendation is very different from review from product listing sites. Coming to the latter is very likely the result of a stronger intention of purchasing. In this sense, those users may be more affected by
the products review especially from those they may have certain interactions beforehand or those have better reputation.

The review in this field is incomplete, the survey about the opinion of these two system is strongly recommended for the future research.
Reference


Knight, FH ([1921] 1935), Risk, Uncertainty and Profit.


