

# **Social Network Usage of Financial Institutions: A SWOT Analysis based on Sparkasse**

**Marc-Oliver Sonneberg<sup>2</sup>, Danny Wei Cao<sup>3</sup>, and Michael H. Breitner<sup>4</sup>**



<sup>1</sup> Copies or PDF file are available on request: Institut für Wirtschaftsinformatik, Leibniz Universität Hannover, Königsworther Platz 1, 30167 Hannover, Germany ([www.iwi.uni-hannover.de](http://www.iwi.uni-hannover.de))

<sup>2</sup> Doctoral Student, Institut für Wirtschaftsinformatik ([sonneberg@iwi.uni-hannover.de](mailto:sonneberg@iwi.uni-hannover.de))

<sup>3</sup> Student of Economics and Management at Leibniz Universität Hannover ([dannyweicao@gmx.de](mailto:dannyweicao@gmx.de))

<sup>4</sup> Full Professor for Information Systems and Business Administration and Head of Institut für Wirtschaftsinformatik ([breitner@iwi.uni-hannover.de](mailto:breitner@iwi.uni-hannover.de))

## **Abstract**

*In addition to the consequences of the recent financial crisis, traditional financial institutions experience increased competition. New providers offer innovative product solutions and creative ideas of sales approaches and customer retention. In their need to stay competitive, traditional institutions need to find new and entertaining ways of keeping up with their customers. One potential solution lies in social networks, which play an important role in everyday-life of their increasing number of regular users. These networks are typically used to connect with friends, but also to gather and share information about companies or products. The usage of social networks by financial institutions is associated with diverse risks, but at the same time holds great potential to set an organization apart from its competitors. To analyze related chances and risks, a SWOT analysis examines Facebook activities of the Sparkasse. In an internal analysis strengths and weaknesses of the organization are assessed. An external analysis reviews opportunities and threats using the PEST approach. Resulting strategies and recommendations are presented and discussed.*

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## 1. Introduction and Motivation

The traditional financial sector lives through rough times. Altered, and potentially difficult market conditions, resulting from the financial crisis, inventive competitors, and increased technology-driven opportunities, require organizations to amend the way they do business to stay competitive. In order to regain trust in their business, attract new customers, and retain existing ones, financial institutions have to be creative and innovative while remaining adaptable to change. An often underestimated possibility for achieving customer satisfaction is to take part in social media (Stempel 2014). While initially often used by younger generations, the age-span between 35 and 44 years also increasingly uses social media (Kaplan and Haenlein 2010). Social networks, such as Facebook, with millions of regular users allow to connect with friends, but also to gather and share information about companies and products. Consequently, social networks represent a platform for organizations to present and directly discuss their products or services. Yet, only few organization feel comfortable to constantly interact in a digital environment with increasingly reduced control of the information available about them (Kaplan and Haenlein 2010). With threats ranging from shared negative user input to serious shit-storms that potentially damage an organization's reputation as reported by Yang and Albers (2013), resistance to social network activities is more than understandable. However, the usage of social networks holds great potential to set an organization apart from its competitors. To date, many financial institutions hold Facebook accounts, but most of their activities remain conservative and cautious (Czotscher and Heck 2014). One of these accounts belongs to the German bank Sparkasse, who holds the pole position of German banks with regards to the number of Facebook fans and serves as an application example in the course of this paper. By means of the Sparkasse, chances and risks of social media presence are analyzed using a SWOT analysis to answer the following research questions:

1. Which opportunities and threats need to be considered when using social networks as a financial institution?
2. Which recommendations and strategies can be derived from the SWOT analysis to support the Sparkasse and other banks to strengthen their position and remain competitive?

To answer these questions, the remainder of the paper is structured as follows: first the theoretical background is described, covering methodology, the use of social networks by financial institutions and existing studies regarding this topic. Subsequently, a SWOT analysis is conducted and leads to possible recommendations. A discussion followed by a conclusion and outlook complete the paper.

## 2. Research Methodology, State of the Art, and Related Work

### 2.1. SWOT Analysis including the PEST Approach

A SWOT analysis is a strategic planning tool to systematically assess and evaluate strengths, weaknesses, opportunities, and threats of an organization. While strengths and weaknesses are typically internal to an organization, opportunities and threats usually refer to external or environmental factors. Developed by the Harvard Business School in the 1960's, the objective of the SWOT is to investigate interdependencies between the organization and its environment and to derive recommendations for the organization (Müller-Stewens and Lechner 2011). The internal analysis assesses strengths and weaknesses of the organization itself, including core capabilities, skills, routines, and resources. It also involves a comparison with competitors to clearly identify where the organization is considerably better or weaker (Matzler, Müller, and Mooradian 2013). The external analysis reviews opportunities and threats, and, as suggested by Matzler, Müller, and Mooradian (2013), can be supported by means of a PEST analysis to strategically assess political, economic, social, and technological factors. Outcomes of the sub-analyses of the SWOT are then integrated into a 2x2-matrix, allowing to correlate all aspects with each other and to draw recommendations for strategic planning, with the ambition to maximize strengths and opportunities and minimize weaknesses and threats (Pearce and Robinson 2011).

Certain limitations need to be mentioned when reviewing the work and its recommendations. In a SWOT analysis, internal strengths are often overemphasized while external threats are underestimated. Our application example clearly shows more strengths than weaknesses, partly based on the fact that the analysis was conducted from outside of the organization, using company-published material focusing on strengths. We consider this matter by recommending cautious Facebook posts and presenting serious content in an entertaining way rather than focusing on mere entertainment. These recommendations do not replace a review of each potential post with common sense and all due diligence. This certainly represents a challenge as it differs from how people usually post on Facebook and shall be mitigated by the suggested trainings and guidelines. Another limitation refers to the nature of the SWOT analysis, which usually represents a snapshot of a situation and changes over time (Pearce and Robinson 2011). Recommendations may consequently have to be amended on a regular basis. Moreover, the SWOT is limited to the Sparkasse; it is transferable to other German banks and financial institution to some degree and clearly needs extensive amendment for application in other countries.

## 8. Conclusions and Outlook

The increasing digitalization and the enormous amount of internet and social media usage come up with new business and marketing opportunities for organizations, but at the same time hold detrimental traps. This leads especially financial institutions to carefully approach social media and social networks and leaves a lot of potential unexplored.

In this paper we investigated internal and external conditions of a financial organization and derived recommendations for the financial sector using the Facebook-fan-equipped Sparkasse as an application example. We discussed opportunities of customer attraction, satisfaction, and retention originating from Facebook. In addition, we explained how appropriate usage of the Facebook account can depict a business case and lead to competitive advantage. However, we indicated the peril of social media to backfire, leading to bad publicity and potential reputation damages.

In conclusion, Facebook as well as other social networks, hold tremendous potential. This applies specifically to the financial sector, which has not yet discovered its full potential. An inclusive approach of Facebook usage therefore may lead to powerful first-mover advantages, including an increasing number of Facebook fans, enhanced interactions, but also a good impression amongst users. As a consequence, Facebook based marketing initiatives can easily reach customers and potential customer without major financial impact. Admittedly, the successful management of associated risks is crucial in this context and needs sound assessment before taking action.