

Impact of Relational Capital Management on Firm Performance

Ali Raza¹

Abstract

The aim of the article is to evaluate the influence of relational capital management on organizational performance. Data was collected from SME's based in Khyber Pakhtunkhwa Province through questionnaires. Data Collected was subjected to analysis using SPSS. Correlation and Regression analysis was utilized to test the hypothesis. The results indicated a significant influence of relational capital on firm performance. The findings will focus over understanding of strategies and policies that can be further used to increase organizational effective management of relational capital.

Keywords: Relational Capital, Firm Performance, Relational Capital Components

¹MS Scholar, Institute of Management Sciences

Twenty first century is likely to be the century in which the economies will grow on the creation and application of knowledge, technology and information (Verma, 1995). Knowledge is embodied in human beings in tacit and explicit forms. Tacit knowledge is mainly based on common sense while explicit knowledge is derived from academic accomplishment.

In the knowledge-based economy, knowledge and intellectual capital is recognized as the most important source of competitive advantage particularly for SMEs (Daud & Yusoff, 2010). In a Knowledge-based economy, intellectual capital appeared as the critical component for the success of organization.

In the knowledge based economy; the contribution of intangible assets is greater than tangible assets. The market value of an organization is the result of the combination of tangible and intangible assets (Edvinsson and Malone, 1987). It is estimated that almost 80 % of the organizational assets reside in intangible assets. According to Bueno (1998) intangible assets are those assets of organization which are not presented in organizational balance sheet but they have a future value. Researchers such as Luthy (1998); Steenkamp and Kashyap (2010) argued that intellectual capital is one of three critical resources (the other two being physical and financial capital/assets) of organizations.

Statement of the Problem

The study seeks to identify the impact of relational capital on firm's performance.

Purpose of the Study

The purpose of the study was to establish the relationship between relational capital components and organizational performance in small and medium enterprises of KPK.

Research Objective

To evaluate the relationship between relational capital components and performance of small and medium enterprises.

Research Questions

- What is the relationship between business relational capital and performance of small and medium enterprises?
- What is the relationship between social relational capital and Performance of small and medium enterprises?

Scope of Study

This study was designed to establish the relationship that relational capital has on performance of small and medium enterprises of KPK. The study aimed at establishing the extent to which relational capital contributes to the firm performance.

Significance of the Study

- The results of this study will interest top executives, policy makers, and researchers in the country.
- The findings will focus over the understanding of strategies and policies that can be further used to increase organizational effective management of relational capital.
- The study will also act as a base for research in the area of relational capital in service oriented organizations of KPK.
- The study findings will be of great importance to the management since it will address the most critical factors pertaining to intellectual capital which influences the growth of small and medium enterprises in KPK. This will contribute to a greater understanding on various challenges SMEs in KPK go through in trying to attain sustainable growth.

Literature Review

Relational Capital

Relational capital is defined as the organizational relation with internal and external associates of firm , including customers, employees, suppliers, strategic alliance partners stakeholders, and industry associations, (Ordonez de Pablos, 2003).

The main focus of relational capital is the level of mutual understandings, trust and respect, the friendship that arises out of close interactions between external and internal factors. The trust is

composed of organizational confidence on internal interconnections and environment, which binds the organization to keep the long term relationships. Thus, in the context of internal and external stakeholders, it can be argued that relational capital of enterprise is relationship among employees with customers and suppliers (Tomasz & Kijek, 2008). Baygi (2011) believes that relational capital is the sum of all assets which arrange and manage organizations' relations with the environment. This kind of capital includes the relations with customers, suppliers, shareholders, the rivals, community, the official institutions, and society.

Relational capital is composed of customer satisfaction, customer loyalty, negotiating capacity, company image, and interaction with suppliers by employees, distribution channels, supplier channels and licensing agreements. Relational capital is the knowledge attained by the firm as a result of its interactions with parties and the potential to exchange knowledge to work for future. The value of the firm is directly related to the accumulated knowledge of relationship with third parties (Ordonez de Pablos, 2004).

One of the elements of relational capital is the relationship with customers that often are referred to the market orientation concept, for the purpose of feedback. According to Kohil and Jaworski (1990), market orientation is generation of market intelligence related to the current and future needs of customers.

Business Relational Capital Components

Supplier capital

Relational capital is composed of relationship with suppliers and customers. Supplier relationship can be defined as, supply chain relational capital integrated in social structures of the groups through which resources are approached. The level of supply chain relational capital may be assessed by the degree of trust, mutual respect, and interactions that occurs between

organization and its suppliers (Cousins, Handfield, Lawson & Petersen, 2006).

Internal networks (relationships among employees)

Internal network relations enhancement is not a recent concept. Relationship among employees within an organization is considered as a fundamental unit to develop learning processes and other production activities (Jenkins, 1994). These inner relations within an organization on regular basis contribute in group learning, based on common interest, mutual trust and collaboration.

Customer capital

To acquire competitive advantage an organization must focuses on market trends and customer values. The competition is becoming more intense due to globalization of business environments, which forces organizations to both compete and cooperate at domestic and international level.

Customer capital consists of external intangible assets of an organization. External factors play a part in determining the market value position and strength of firms while customers are the important factor of this position. This factor has been termed as customer relational capital, which characterizes the particular relationship an organization has with the external environment. Narver and Slater (1990) argued that there is a link between organizational knowledge creation and organizational performance enhancement.

Strategic Alliance and agreements.

Relational capital shows all the knowledge accumulated in relationships with external parties (Edvinsson, Roos, Roos, & Dragonetti, 1997). Edvinsson, Roos and Dragonetti described the importance of strategic alliance and knowledge about these parties.

Zambon (2002) extends this notion and includes strategic alliances, partner agreements as evidence of these relationships.

Firm performance

Firm performance is referred to as bottom line of activities, which means profit. Thus, performance might be assessed from the profit generation rate of firm. Other measures of firm performance includes profitability and earnings per share, return on investments and capital , rate of growth in sales and growth of firm .

A company should acquire and maintain profit share in order to survive in competitive environment. Measuring firm performance is based on profit generation figure which comes from analyzing the financial statements and over all cash flow of business. Edwards (2004) emphasized on elements like profitability, size and future viability as essential factors in measuring the profit generation capacity of performance measurement for firm.

Firm performance relation to Relational capital

Relational capital helps organization in many ways .It reduces cost as the knowledge flow of information from employees, customers and suppliers may help and aid in product and process innovation, and increasing outputs. Moreover, the higher level of relational capital and its related knowledge gathered may result in problem solving, better planning and development and trouble shooting for a firm, which in a long run more likely to increase efficiencies and reduces organizational cost. Additionally, relational capital increases the organizational information processing ability , It enhances the trust in relations among employees and within customers and suppliers, facilitates efficient exchange of information by reducing time consumption during the flow of information due to mutually built trust.

Conceptual Framework

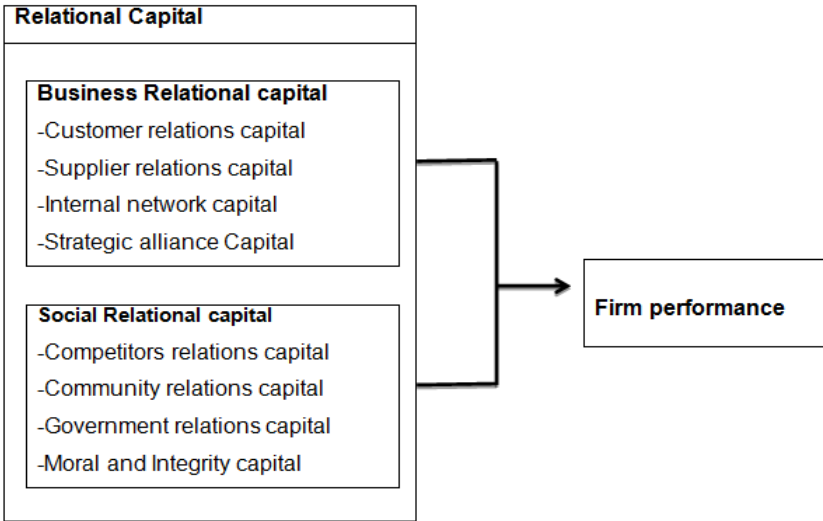


Figure 1. Conceptual Framework

Research Hypothesis

H1: There is a significant influence of Relational Capital on Firm Performance

Research Methodology

The population studied consisted of manufacturing small and medium enterprises of Khyber Pakhtunkhwa region. The populations of senior managerial employees were targeted because they are responsible for strategic tasks. To investigate the relationship of variables convenient sampling method was used. A total of 255 questionnaires were distributed to the employees in 85 organizations, 3 to each organization, in various industrial zones of Khyber Pakhtunkhwa. Out of 85 organizations, 62 responded and a total of 182 questionnaires were returned. This resulted in the total usable sample size of 182 participants from employees with a response rate of 71 %. Out of the 182 questionnaires received 174 (96%) were male and 8 (4%) were female.

Instrumentation

Relational Capital. The data for the measures of the variables are collected through questionnaire adapted from Tumwine (2012) using five-point likert scale to measure the level of agreement or disagreement with the scale range from 1 as “strongly disagreed” to 5 as “strongly agreed”.

Organizational Performance. Organizational performance is measured through scale developed by Bontis (1999). The organizational performance is measured using ten items , with 5 points likert scale where 1 represents “I strongly disagree , 2 represents “I disagree “ 3 represents “I am not sure “ 4 represents “I agree “ and 5 represents “I strongly agree”. The higher score means higher organizational performance.

Reliability. Reliability of the instrument was tested using Cronbach`s alpha (a) coefficient to test for consistency. This was to ensure that the instruments used were accurate and reliable. By performing Cronbach`s Alpha test, below were the findings.

Table 1. Analysis of constructs using Cronbach`s Alpha

Variables	N	Mean	Cronbach`s Alpha
Business relational capital			
Customer Relational Capital	10	3.35	0.705
Supplier Relational Capital	10	3.40	0.778
Internal networks	10	3.57	0.756
Strategic alliance	5	3.12	0.634
Social Relational Capital			
Competitors relations capital	5	3.16	0.730
Community relations capital	3	3.36	0.796
Government relations capital	5	2.69	0.690
Moral and integrity capital	5	3.15	0.692
Firm Performance	10	3.35	0.700

The research reliability by using Cronbach`s Alpha value as observed from the results in table 2 above indicates that business relational capital, Social relational capital and firm performance, all the variables had Cronbach`s Alpha coefficients well over 0.7

proving that the research instrument used to collect data from the respondents was appropriate.

Data Analysis

Testing for Hypothesis 1

Table 2. Correlation between Relational Capital and Firm Performance

	Relational Capital
Firm Performance	.681**

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

Table above shows that there was a significant and positive relationship between relational capital and firm performance ($r=0.681$). The significance shows that greater the level of investment in building relational capital, the greater increase in firm performance is likely to be revealed.

Regression Analysis for relational capital components and firm performance

A regression analysis was used to analyze the third objective, the statistical relationship to which the predictors are; relationship capital and firm Performance. Below are the output results.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.166	.256		.649	.517
Customer Capital	.317	.063	.307	5.007	.000
Supplier Capital	.192	.066	.210	2.921	.004
Internal Network	.191	.075	.176	2.561	.011
Strategic Alliance Cap	-.067	.044	-.083	-1.516	.131
Competitors Relations	.060	.063	.074	.958	.340
Community Relations	.149	.063	.188	2.346	.020
Government Relation	-.021	.065	-.020	-.325	.746
Moral & Integrity Capital	.115	.051	.124	2.274	.024

Results from above table revealed a significant relationship between customer's capital and firm performance. This result shows that ease to product access, product availability, product packaging, brand based on customer preference, handling and processing complaints on due time and making customers loyal to buy product again and again. This result supports our hypothesis that relational capital has an impact on performance.

Discussion

The study revealed that there is a positive relationship between a firm's Customer relational capital and Firm Performance. This means a positive change or a boost in firm's customer relational capital leads to an increase in performance of the firm. The firm which invests capital to strengthen its relationships with customers and stronger and organized distribution channels increases its performance.

Increase in capital by a firm increases positive relations with customers through strong distribution channels where customers can easily attain products and services, handle complaints from customers and allow their opinion in decisions making. The other component of measuring business relational capital was supplier capital. From the study results, it was found that engaging in positive relationship with the suppliers increases the level of firm performance. The third component that measured business relational capital was internal network capital which is related to the relationship among employees within an organization. Results from the study shows that there exists a significant relationship between firm's internal network capital and firm performance. The findings concur with the work of Kijek (2008) who stated that that the positive relationship among employees is necessary for the flow and transfer of knowledge in organization.

Studying the relationship between social relational capital components and firm performance, and the findings on this

objective showed that there exists significance and positive relationship between social capital and firm performance. By analyzing each component that measured social relational capital, the findings show that there exists a significant and positive relationship between competitor relational capital and firm performance. This means that manufacturing firms which are in good and regular contact with fellow firms in the industry, experience better performance. By benchmarking one's own firm with other firms in the same industry helps in improving product quality and brings innovation.

However, a few firms that did not adjusted themselves for the changes brought by competitors failed to achieve market position and thus due to low performance were pushed out of the industry. Findings of this study further show that there exists a positive and significant relationship between community social responsibility and firm performance. This means that firms that use different channels of associating and making relations with the community such as funding the community activities, experience an increase in performance.

The overall results indicate that relational capital components strongly affect firm performance in short and long run. The components of relational capital namely business relational capital which further include customer capital , supplier capital , internal network work and social relational capital which include relationship with competitors community, positively correlated with firm performance. Therefore relational capital is recognized as an important asset for increase in firm performance. The study further reveals that customers place high emphasis on those firms with better relational capital efficiency and firms with such efficiency have more and better chances for future growth and profitability. This finding is in accordance with work of Kaplan and Norton (2004) who stated that relational capital is being recognized as the major drive for corporate growth.

Conclusions

Relational capital management in small and medium enterprises of KPK is slow and this has affected the performance of many firms. The fundamental reason is the lack of financial resources and managerial skills. Managers in these firms are not aware of the real importance of relational capital management and its relation with the overall growth and increase in performance. This lack of awareness leads their firm fail to attain a good market position hence gradually expelled from the market.

To some firms, the objective of relational capital is to increase sales and they fail to give attention to other elements of relational capital, which are supplier relations, community relations and inner relation. Firms with such policy emphasizes on sales orientation, which may temporarily increase the sales and firm profitability but such firms start losing the loyal customers as customers start switching towards more relational capital and customer oriented firm. Customer views are valued and firm make decisions in the light of customer's feedback.

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