Relational Capital and Performance: A Case of Brand Developing Firms

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Abstract: The purpose of this paper is to investigate the impact of relational capital components on the performance of brand developing firms in Pakistan. It aims at disclosing the composition of relational capital components that associate with performance. A single element of intellectual capital was studied (Relational Capital). A study was carried out on 40 managers representing 34 brand developing firms in Pakistan. A correlation and regression models were used to test the hypotheses. It was established that the correlations between relational capital components are associated with firm performance. Multiple respondents relating to firm were studied. It was established that the correlations between relational capital components are associated with firm performance. Furthermore, relational capital as a whole account for 16.2% of the variation in performance of Pakistan’s brand developing sector. In order to boost the performance, managers should intensify initiatives to encourage greater understanding and acceptance of relational capital and its components, employ a viable relational capital strategy that includes building strong social relational ties with the community and competitors, pays attention to customers and employees in order to identify their needs and provide optimal value for them. The paper contributes to the existing literature by finding out the influence of relational capital on brand developing firms’ performance in Pakistan. The study also provides useful guidance to the firm managers about relational capital and its importance in boosting up the performance of the firm.

Keywords: Relational Capital - Retailers - End-User Capital - Supplier - Consultant Client - Firm Performance

INTRODUCTION

In many organizations, it remains a fact that managerial awareness for the importance of relational capital has remained significantly low, although a number of researchers and practitioners have emphasized the importance of innovation arising from the unaccounted for relational capital [28]. Accordingly, Cuganesan [1] observed that increased sophisticated customers and the importance of innovation have shifted the bases of competition for many businesses away from traditional physical and financial resources towards managing relationships. More so, there is a widespread recognition that relational capital represents a portion of the company’s market value that is attributable to its portfolios of business relationships that is responsible for business growth. According to the Intellectual Model developed by CIC [2], relational capital (RC) is put into different layers, the first layer refers to knowledge and its management regarding the relations that certain organizations can sustain with the agents that are part of its closer industry, the second is managing the relationships with agents located further than its own competitive environment. Carlucci [3], argues that increased investment in relationships with internal and external agents still if it attempts to improve performance usually produces multiple effects in a system. For example, relational capital increases Supplier-customer and end-user relationships that could directly impact on the performance of organizations, but could also generatean indirect effect on the organization when suppliers and consultant increase their supply price, kills employee creativity, number of
patents and the reputation of the company. Consequently, much of the research about relational capital have been carried out in the developed world especially in Scandinavian countries that it is expected to provide significant information other than financial performance. However, none of the prior studies have investigated the contribution of different relational capital components in Less Developed Countries especially Brand developing companies in Pakistan. Also, there is a large interest in advancing relational capital in developing countries and Pakistan in particular because;

- The increasing competition locally and internationally for quality production and market share (sales).
- The idea that relational capital increases performance is generally accepted up to boardroom level in addition to the general agreement that accounting is not solely looking at only tangible assets, new methods are needed.

It is therefore within this framework that we consider the influence of relational capital management as a significant facilitator of brand developing firm performance which has never been consumed in developing countries. The aim of this study thus is to ascertain the impact of relational capital components of a brand developing firm performance in Pakistan. The report is organized into five sections and begins with the brief overview of the research study followed by theoretical reviewed related literature and hypothesis, methodology, analysis of results and the last part gives discussions, conclusions, research implications, limitations and suggested areas for further research.

Literature Review: In many cases, those assets with no physical existence are at a core of the unique and inimitable endogenous resources on which firms rely to generate and maintain their competitive advantage [24] and are referred to as intellectual capital. The management of intangible assets has attracted a great deal of attention, in both the professional and academic literature and in today’s knowledge based economy, intangible assets have become an important source of growth and wealth for the vast majority of firms. Bontis [4-6] points out that intellectual capital is the difference between a corporation’s value on the market and the monetary value of its assets. Also, the professional skills, knowledge and learning ability in a corporation cannot be measured by money. Intellectual capital as any intangible resources in the organization, which create value. There are three kinds of firm’s intellectual capitals, in terms of human, structural and customer capital. Human capital refers to and includes know-how, education, work-related competencies and psychometric assessments. Maheran [7] and Khairu describe structural capital as competitive intelligence, formulas, information systems and patents, policies that result from the products or systems the firm has made over time. Welbourne [8] defines relational capital as an invisible asset based on developing, maintaining and sustaining high-quality relationships with any organization, individuals or group that influences business performance. According to Dyer and Singh routine relationshipsWith stakeholders’ leads to mediocre performance that in turn creates sustainable competitive advantage for all parties involved. This improved performance corresponds to the benefits from the firms’ intangible assets that would not have existed if the firm (s) had tried to achieve this alone without involving stakeholders. Relational capital is knowledge embedded in the relationships with any stakeholder that influences the organization’s life. Relational capital as an intangible asset that is based on developing, maintaining and nurturing high-quality relationships with any organization, individual or group that influences or impacts the business including: customers, suppliers, employees, government, partners, other stakeholders and sometimes Competitors.

Relational Capital: Relational capital is defined as the organizational relation with internal and external associates of the firm, including customers, employees, suppliers, strategic alliance partners, stakeholders and industry associations. 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 the environment, which binds the organization to maintain the long term relationships. Thus, in the context of internal and external stakeholders, it can be argued that relational capital of the enterprise is a relationship among employees with customers and suppliers. Relational capital is the aggregate of all assets which arrange and manage organizations’ relations with the environment. This kind of capital includes the relations with customers, suppliers, consultant clients, the
retailer. Relational capital is composed of customer satisfaction, customer loyalty, negotiating capacity, company image and interaction with suppliers and 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 in the future. The value of the firm is directly related to the accumulated knowledge of relationship with third parties. 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. Market orientation is generated of market intelligence related to the current and future needs of customers [9-20].

Relationship with Suppliers: Relational capital is composed of relationship with suppliers. Supplier relationship can be defined as, supply chain relational capital integrated into the 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 occur between an organization and its suppliers.

Relationship with End-Users (Customers): To acquire competitive advantage an organization must focus on market trends and customer values. The competition is becoming more intense due to the globalization of business environments, which forces organizations to both compete and cooperate at the 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 ingredient has been termed as relationship with end users, which characterizes the particular relationship an organization has with the external environment. There is a link between organizational knowledge creation and organizational performance enhancement.

Relationship with Consultant Client: The relationship is much more than a personal relationship even though it is often argued that the relationship between consultant clients is based on people. In order to make the consultancy intervention work and be successful it is therefore important for managers to understand the nature and context of this relationship. Working as a design consultant for clients from many industries, markets, etc., firms must have abilities to quickly understand what design style the clients are looking for, or even to establish a new design style from the ground up for a particular client. A firm must have an ability to be as flexible as water in order to fit into different industries, schedules and working processes which are needed by clients.

Relationship with Retailers: Retailers include distributors, retailers, chain stores that sell products. They import products and distribute them to other parts of the country and also to the end users. They are the first persons to have feedback from the target users about products. They are the important bridge that connects creator of the brand to the end users. They have good sales, hence generate good profit margin. They also expect brand developing firms to be flexible enough to fulfill their shipping and ordering requests on the products. Hence it played a vital role in improving firm performance.

Firm Performance: Firm performance is referred to as baseline of activities, which means profit. Thus, performance might be assessed from the profit generation rate of the firm. Other measures of brand developing firm performance include profitability and earnings per share, return on investments and capital, rate of growth in sales and growth of the firm. A company should acquire and maintain a profit share in order to survive in a competitive environment. Measuring firm performance is based on a profit generation figure which comes from studying the financial statements and overall cash flow of the business.

Firm Performance Relation to Relational Capital: Relational capital helps organization in many ways. It reduces cost as the knowledge flow of information from retailers, customers and suppliers may help and aid in product and process innovation and increasing output. Moreover, the high level of relational capital and its related knowledge gathered may result in problem solving, better planning and development and troubleshooting 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 retailers, consultant's client, customers and suppliers, facilitate efficient exchange of information by reducing time consuming during the flow of information due to mutually build trust.
MATERIALS AND METHODS

Brand developing firms in Pakistan are highly innovative because of the competition in the industrial area. Firms which are selected have been considered the best choice for a detailed Relational capital study because networks are necessary to win over stakeholder to achieve a better performance. Though these firms dispose of a mixture of more intangible forms of intellectual capital (HC, SC and RC), more importantly is Relational Capital, of relationship networks. Hence, the nature of the questions that are part of this study requires a research design is limited to at least three senior managers per company, since the answer to most questions is not clear cut and therefore may rely upon the perception of the personal observation. In order to increase the internal validity of the research, questionnaires were sent to multiple people from the same company. To obtain information, we required a respondent with extensive knowledge of the firm’s relational Knowledge with stakeholders in the network and these were considered to be managers [21-40].

Moreover, the respondent needed to be able to perceptually evaluate the contribution of relational capital with regard to the operation of those Brand developing firms (profitability). The managers are at all levels appeared to be the respondent best suited for this study. By opting for this methodological approach, perfect information symmetry is ensured as managers are perceived to be able to evaluate both the nature of the relationship and the gains (profits and sustainability) of the relationships evolved over time by the firm. Such symmetry of information could not be as easily accomplished by collecting data from other stakeholder such as suppliers, retailers, customers, consultant's client and others if the evaluation was to be made because little public data exists regarding the relationship network. The selected managers were reached using a structured questionnaire by physically moving to their offices on appointment. A survey was adopted as the most appropriate method of data collection and previous research supports the reliability and validity of the self-report measure. This approach consists of a selection of key information providers by virtue of their position, knowledge and information available [36]. To investigate the relationship of variables convenient sampling method was used. A total of 102 questionnaires was distributed to the employees in 34 organizations, 3 to each organization, in various brand developing firms. Out of 102 organizations, 28 responded and a total of 84 questionnaires was returned. This resulted in the total usable sample size of 84 participants from employees with a response rate of 82%. Out of the 84 questionnaires received 72 (85%) were male and 12 (14%) were female.

Hypotheses: The research hypothesis considered the relational capital as a basic element of intellectual capital that is presumed to improve performance of a brand development company. Relational capital arises out of a relationship with suppliers, consultant's client and relate with end user and with retailers. Hypothesis development of research presented here considered the positive impact of relational capital variables on branding developing firm performance [41-51].

The above mentioned assumption leads to the following hypothesis:

\[ H_1 \]: Relationship with suppliers positively influences firm performance
\[ H_2 \]: Relationship with consultant client positively influences firm performance
\[ H_3 \]: Relationship with End User positively influences firm performance
\[ H_4 \]: Relationship with Retailers positively influences firm performance
\[ H_5 \]: Relational capital positively influences the performance of brand developing firms.

Instrumentation
Relational Capital: Data for the measures of the variables are collected through questionnaire using the pattern after modifications, 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 a scale developed by Bontis [5]. 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.

RESULTS

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.

The research reliability by using Cronbach’s Alpha value as observed from the results in Table 1, above indicates that firm’s 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 respondents are appropriate.

Testing of Hypothesis: To check the brand developing firm performance, key Principal components of relational capital are to be taken; Supplier relation (16.5%), Consultant client (15.7%), End user relational capital (21.1%) and retailer relational capital (19.6%) Appendix A. The mean scores of each variable were above 3.0 and standard deviations did not deviate significantly from the means. The correlation results presented in Table 2 indicate that relational capital components (Supplier relational capital, Consultant client relational capital, End users relational capital and Retailer relational capital) have a positive relationship with firm performance. An increase in any one of them strengthens their association with performance. These findings are in line with those made by earlier scholars [48].

Regression results in Table 2 showed that relational capital components of Supplier capital (Sig=0.144, p<0.05), Consultant client relational capital (Sig=0.072, p<0.05) End user relational capital (Sig=0.624, p<0.05) and community relations capital (Sig=0.087, p<0.05) significantly improve firm performance. The overall regression results revealed that relational capital components put together account for 16.2% of the variation in firm performance.

DISCUSSION

The study examined the relationship between relational capital components and firm performance in Pakistani’s Brand developing firms. The results showed that relational capital components (supplier relational capital, consultant client relational capital, End users relational capital and retailer relational capital) positively influence performance of brand developing firms. This means that when determining a mix of relational capital components that boosts performance of the firm, only significant variables should be concentrated in a judicious manner. The survey revealed that there is a positive relationship between a firm’s relational capital and Firm Performance. 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 clients through strong distribution channels where customers can easily attain products and services, handle complaints from customers and allow their judgment in decisions making.

The other component of measuring relational capital was supplier capital. From the survey results, it was found that engaging in positive relationship with the suppliers increases the level of firm performance. The third component that measured relational capital was end-user capital which is related to the relationship with the
product of the firm. Results from the survey shows that there exists a substantial relationship between firm’s end user capital and steady performance. The findings are similar to study, stated that that the positive relationship among customer is necessary for the flow and transfer of knowledge in organization and for the better performance of the system. Examining the relationship between relational capital components and firm performance and the findings on this objective showed that there exists a significant and positive relationship between firm’s relational capital and steady performance.

By examining each component that measured relational capital, the findings indicate that there exists a significant and positive relationship between competitor relational capital and firm performance. This means that brand developing firms which are in good and regular contact with their consultant clients of firms in the industry, experienced a better performance. By conferring with clients, retailer, suppliers and customers in the industry helps in improving product quality and brings innovation. However, a firm that did not adapt themselves to the changes brought by competitors failed to achieve market position and thus due to low performance were pushed out of the industry. The findings of this study further show that there exists a positive and significant relationship of relational capital components and solid performance. This means that firms that use different channels of associating and working relations with the stakeholders such as consulting the needful activities, experience an increase in performance [47].

CONCLUSION

Relational capital management in Brand developing firms in Pakistan plays a vital role and have a great impact on firms' performance. Many of the firms, now a days spends a heavy investment on branding their product and in result this will increase their market share as well as the prestige of the company. Electronic media flourish the brand developing firms and boost up the firms' performance. However, most of the firm managers are not aware of the real importance of relational capital management and its relation to the overall growth and increase in performance. This lack of awareness leads their firm fail to achieve a respectable market position hence gradually expelled from the securities industry. For 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, customer relations and relationship with retailers. Firms with such policy emphasizes on branding orientations, 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. Moreover, brand developing firms increase their relational capital by promoting values, reward system, provide training sessions and by strengthening brand recognition through promotions and exhibitions. However, Customer views are valued and the firm makes decisions in the light of customer’s feedback.

REFERENCES

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