RELATIONAL CAPITAL AND ITS IMPACT ON FIRMS’ PERFORMANCE: THE CASE OF POLISH ENTERPRISES

Abstract

The purpose of this article is to investigate empirically the relation between relational capital and organizational performance. Using data drawn from Polish food companies, the authors present descriptive statistics and construct regression matrix to examine the degree of development of relational capital pillars, as well as their associations to the various types of performance. The findings of this research significantly support the hypothesis that relational capital has a positive impact on market and financial performance. In addition, the authors conclude that differences in firms’ performances depend on the degree of development of relational capital elements. The results extend the understanding of the role of relational capital in creating sustainable advantages and some suggestions for practitioners are offered.

Key words: relational capital, market performance, networks, knowledge flow

Introduction

A critical challenge for most enterprises is how to achieve and sustain competitive advantage. According to the resource and capabilities theory of the firm, resources and capabilities that are unique, rare, difficult to imitate and non-substitutable create competitive power and above average performance (Barney, 2006). Nowadays, regardless of size, age or industry enterprises focus on creating and diffusing knowledge that is becoming the most valuable resource at the market.

The effective flow of knowledge depends on relational capital that may be regarded as a knowledge transmitter. Relational capital of the firm is rooted in relationships with customers and suppliers, as well as employees. The theoretical impact of relational capital on firm performance has never been exhausted in the literature. However, there is far from enough empirical research investigating this issue. The purpose of this study is to investigate the impact of relational capital elements on business performance, as well as the relationship among relational capital elements from a cause-effect perspective.

Pillars of relational capital

The intellectual capital statement movement was initially developed as a framework
for analyzing the value contribution of intangible assets in an organization, when some practitioners in the service industry in Sweden suggested an extension to the financial reporting. The following definitions summarize some aspects of intellectual capital concept:

- Intellectual capital is elusive but once it is discovered and exploited, it may provide an organization with a new resource base from which to compete and win (Bontis, 1996).
- Intellectual capital is the term given to the combined intangible assets of market, intellectual property, human centered and infrastructure which enable the company to function (Brooking, 1996).
- Intellectual capital is regarded as an element of the company’s market value as well a market premium (Olve et al., 1999).

Generally, researches have identified three main components of intellectual capital: human capital, structural capital and relational capital (Stewart, 2001). Our concern in this study focuses on the last mentioned element of intellectual capital (i.e. relational capital). The main theme of relational capital is the level of mutual trust, respect and friendship that arises out of close interactions between internal and external partners (Kale et al., 2000) Morgan and Hunt define trust as existing when one party has confidence in an exchange partner’s reliability and integrity (Morgan, Hunt, 1994). Trust is embedded in a particular exchange relation, and becomes a fundamental basis of long-term relationships between partners.

Thus, in the context of internal and external stakeholders it can be argued that enterprise’s relational capital is represented by relationships among employees and with customers and suppliers (chart 1).

Chart 1. The pillars of relational capital

![Diagram of relational capital](chart1.png)

Source. own compilation.

As presented at the figure above the internal part of relational capital pertains to the relationships among employees. The relationships among employees are embodied in attributes like a shared code or a shared paradigm that facilitates a common understanding of collective goals and proper ways of acting in a social system (Tsai, Ghoshal, 1998). Inside an enterprise a set of common values helps develop the trusting relationships that erase the possibility of opportunistic behavior (Ouchi, 1980). Moreover, the compatibility of individuals’ values with an enterprise’s values allows the employees to trust one another and
pursue the collective goals by sharing knowledge and team working.

One of two external elements of relational capital is the relationships with customers that often are referred to the market orientation concept and direct interaction with customers, for a variety of different purposes, including feedback and issue-reporting. According to Kohli and Jaworski market orientation is defined as the organization-wide generation of market intelligence pertaining to the current and future needs of customers (Kohli, Jaworski, 1990). Finally, the dissemination of this intelligence must be done horizontally and vertically within the organization so as to create a competency in responsiveness to market changes. Furthermore, market sensitivity demands measuring the factors that drive customers’ satisfaction and loyalty.

The last but not least element of relational capital encompasses the relationships with suppliers. Applying the concept of socialization to the buyer – supplier relationships, it is convincing to define supply chain relational capital as the configuration and social structure of the group through which resources are accessed. The level of supply chain relational capital may be assessed by the degree of mutual respect, trust and interactions that exists between organization and its suppliers (Cousins et al., 2006).

Relational capital and firms’ performance

The impact of relational capital on firms’ performance is twofold. Firstly, the knowledge embedded in relationships among employees, customers and suppliers may lead to costs reduction. Secondly, relational capital may affect customers’ satisfaction by increasing value that is offered at the market (chart 2).

![Chart 2. The model of relationships between relational capital and performance](image)

Source: own compilation.

Relational capital may reduce organizational costs in many ways. The knowledge derived from employees, customers and suppliers may result in process innovations that eliminate bottlenecks, increase outputs, reduce variation and etc. Moreover, the higher level of relational capital, the better planning, problem solving and troubleshooting, all of which most likely increase production and service delivery efficiencies and, thereby, reduce organizational costs (Yound, Snell, 2004). Additionally, relational capital should reduce organizational costs by increasing an organization’s information processing capacity. Trust in relationships among employees and with suppliers and customers facilitates both efficient exchange of information by reducing the need for time consuming and costly monitoring and the effective exchange of information by removing the perceived need to veil or hide sensitive
Relational capital may also be instrumental in enhancing customer benefits by helping to increase quality, reliability, and flexibility, creating value for the customers, through production and service delivery process innovations. Furthermore, the networks of employees, customers, suppliers should be able to better identify as well as satisfy customer needs. Relationships with suppliers and customers aid in identifying idiosyncratic customers’ needs as well as facilitates the development of novel solutions to address those needs.

**Methodology**

Data used in this study have been gathered by submitting a questionnaire to a sample of 50 Polish companies that have been at various level of relational capital development. Since there is no such a thing as an official register of companies meeting this requirement, the sampling was selected from the list of 100 the biggest food companies in Lubelskie voivodship. All questionnaires were addressed to top managers that were responsible for strategic matters within the company. Gathering the questionnaire took place throughout the months of February 2006 and September 2006.

Relational capital elements have been measured with a scale consisting of 12 items grouped in three dimensions: relationships with suppliers (4), relationships among employees (4), relationships with customers (4). The respondents have been asked to value each item using 5 – point Likert scale ranging from 1 (strongly disagree) through 5 (strongly agree).

Customers satisfaction has been measured by dissatisfaction index (the higher index, the lower customers’ satisfaction and vice versa), which has been expressed as a ratio of leaving customers to all customers during last year. According to performance, we have used a scale consisting with five items addressing profitability, sales and overall financial performance that have been rated on 5 point Likert scale.

**Analysis and Results**

Reliability and validity of scales implemented in this study was verified with the use of confirmatory analysis of the factors. In the case of relational capital and performance, overall model fit was evaluated and model benchmarks were estimated. Results of the analysis are shown in table 1.

<table>
<thead>
<tr>
<th>Scale title</th>
<th>Range of standardized estimates</th>
<th>Range of R²</th>
<th>Construct reliability</th>
<th>Cronbach’s α</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relational capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationships with customers</td>
<td>0.65 – 0.94</td>
<td>0.71 – 0.85</td>
<td>0.83</td>
<td>0.85</td>
</tr>
<tr>
<td>Relationships among employees</td>
<td>0.51 – 0.84</td>
<td>0.62 – 0.79</td>
<td>0.71</td>
<td>0.80</td>
</tr>
<tr>
<td>Relationships with suppliers</td>
<td>0.52 – 0.74</td>
<td>0.61 – 0.80</td>
<td>0.78</td>
<td>0.82</td>
</tr>
<tr>
<td>Goodness of fit</td>
<td>GFI = 0.96 AGFI = 0.94 RMSEA = 0.045</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td>0.60 – 0.89</td>
<td>0.51 – 0.81</td>
<td>0.72</td>
<td>0.79</td>
</tr>
<tr>
<td>Goodness of fit</td>
<td>GFI = 0.98 AGFI = 0.95 RMSEA = 0.020</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: own compilation.

As indicated in table 1, the overall model fit rates are acceptable (GFI, AGFI and
RMSEA). Moreover, the factor loadings exceeded the minimum threshold of 0.4, that proved the significantly good construct validity. The squared multiple correlation ($R^2$) for each indicator is greater than 0.5 which implicates goodness and reliability of variables for measuring the constructs. Finally, high levels of Cronbach’s alphas (more than 0.70) and constructs reliabilities (more than 0.50) indicate an adequate internal consistency of the constructs.

Descriptive statistics are used to initially analyze the survey data. Both the relational capital development and performance are measured on a five-point interval scale with multiple items. The mean value of all the items measuring a particular factor is taken as the value of that factor. The values of relational capital pillars and performance are determined by the average of all the factors concerned. In contrast, customers’ satisfaction is measured by single construct - dissatisfaction index. Table 2 shows the number of items which measure particular construct, the means and standard deviations.

Table 2. Descriptive statistics in survey data

<table>
<thead>
<tr>
<th>Construct</th>
<th>No. of items</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationships with customers</td>
<td>4</td>
<td>3.47</td>
<td>0.76</td>
</tr>
<tr>
<td>Relationships among employees</td>
<td>4</td>
<td>3.40</td>
<td>0.76</td>
</tr>
<tr>
<td>Relationships with suppliers</td>
<td>4</td>
<td>3.89</td>
<td>0.68</td>
</tr>
<tr>
<td>Customers’ satisfaction</td>
<td>1</td>
<td>3.71</td>
<td>2.83</td>
</tr>
<tr>
<td>Performance</td>
<td>5</td>
<td>3.39</td>
<td>0.62</td>
</tr>
</tbody>
</table>

Source. own compilation.

To verify the hypothesis of the relationship between relational capital and performance we calculated correlation matrix among all variables (table 3).

Table 3. Correlation matrix of variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Relationships with suppliers</td>
<td>1.00</td>
<td>0.695</td>
<td>0.560</td>
<td>0.205</td>
<td>0.191</td>
</tr>
<tr>
<td>2. Relationships among employees</td>
<td>0.695</td>
<td>1.000</td>
<td>0.542</td>
<td>0.093</td>
<td>0.086</td>
</tr>
<tr>
<td>3. Relationships with customers</td>
<td>0.560</td>
<td>0.542</td>
<td>1.000</td>
<td>0.425</td>
<td>0.377</td>
</tr>
<tr>
<td>4. Customers’ satisfaction</td>
<td>0.205</td>
<td>0.093</td>
<td>0.425</td>
<td>1.000</td>
<td>0.326</td>
</tr>
<tr>
<td>5. Performance</td>
<td>0.191</td>
<td>0.086</td>
<td>0.377</td>
<td>0.326</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: own compilation.

According to the results shown in table 3, the relational capital elements exhibit synergy with one another. It is worth noting that, although the three pillars of relational capital are clearly related to one another, each dimension provides a unique contribution to customers’ satisfaction and performance. Two of the relational capital elements: relationships with customers and relationships with suppliers are stronger correlated than third element - relationships among employees with customers’ satisfaction and performance. These findings imply that organizations with high level of customers’ satisfaction and performance are more eager to seek and fulfill customers needs as well as cooperate with suppliers than organizations that do not make such attempts.

Surprisingly, relationships among employees do not play a significant role in determining customers’ satisfaction and performance, as it may appear. This fact may result from the premise that relationships among employees fortify and boost other elements of
Relational capital and their influence on performance is partial and indirect. The high level of relationships among employees is sufficient condition for the knowledge flow from environment to the organization.

Finally, customers’ satisfaction is positively correlated with performance. This shows that satisfied customers contribute to the organization’s financial and market success.

Conclusion

The following conclusions have been drawn from the findings of this study:

- Relational capital is an important strategic asset for sustainable competitive advantages. Thus, organizations that develop the relational capital elements are more likely to obtain higher levels of customers’ satisfaction and performance.
- Relational capital elements are highly interrelated and various relational capital elements act in synergy to affect customers’ satisfaction and performance.
- Relationships with customers have the highest correlation coefficient with customers’ satisfaction and performance measures.

Our first recommendation for practice is that managers aim to gain competitive advantage should develop relational capital at their organizations. Our second recommendation concerns how to explore relational capital elements. We suggest that managers should pay extra attention to relationships with customers in order to identify customers’ needs and provide optimal value for them. The process of value creation should be based on mutual trust and cooperation with suppliers. The best way of exploiting customers and suppliers potential is to build a trusting and open culture where employees share common values and work together.

REFERENCES: