

## Relational Capital and Organizational Performance: A Study of Selected Banks

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### Abstract:

**Purpose** - *The study aims is to evaluate the impact of relational capital on organizational performance in the selected banks of Uttarakhand.*

**Design / methodology / approach** - *A valid research instrument was utilized to conduct a survey of 120 top and middle level bank managers of Haridwar and Dehradun district of Uttarakhand.*

**Findings** - *The study reveals that, there is a statistically significant impact of Intellectual Capital on Organizational Performance of the banks.*

**Practical implications** - *Relational capital measurement is of primary interest for top and middle level managers of banking sector in Uttarakhand.*

**Originality and value** - *The research reported among only a few to investigate the issue of relational capital in Uttarakhand. The*

*findings offer valuable insights on the generalizability of relational capital in an innovative research setting.*

**Key words:** Intellectual Capital, Relational Capital, Organizational Performance, Banks

## **INTRODUCTION**

The progress of the modern economy no longer depends on physical assets rather it depends on intangible assets or intellectual assets (Wiig, 1997). Intellectual capital (IC) may be a source of competitive advantage. Most of the organizations do not understand nature and value of intellectual Capital (Collis, 1996). However, one of the first firm's ever to report on their observable resources was Skandia (Bontis, 1998). There is a broad recognition that intellectual capital is a critical force which drives economic growth (Huang & Liu, 2005). Intellectual capital is mainly encompassed of human capital, relational capital and structural capital (Stewart 1997, Nahapiet and Ghoshal, 1998, Sullivan 1999, Petty and Guthrie 2000, Bontis et. al. 2002, Marr and Roos, 2005). This study establishes the importance that relational capital has, and its impact on the organizational performance of selected public banks of Uttarakhand.

### **Relational Capital**

Relational capital is the sum of assets which organize and manage organizations' relations with the environment. RC includes the relations with shareholders, customers, the rivals, community, suppliers, the official institutions, and society (Baygi, 2011). From external and internal stakeholder's perspective, the relational capital of an organization is composed of three elements, the relationship with customers, employees, and suppliers (Tomasz & Kijek, 2008). It is the knowledge conquered by a firm as a result of its relations with other stakeholder's and the prospective to exchange the

knowledge to work in future. The value of the firm is directly related to the collective knowledge of relationship with other parties (Ordonez de Pablos, 2004). Intangible assets, in particular relational capital, amount to 70 percent of the company's value (Kaplan & Norton, 2003). Relational capital is defined as the combination of all relations that the organization has with its customers, suppliers, peer group, competitors, community, shareholders, and government which affects the firm. In the knowledge-based cross-border competitive world, where the dominating resources are knowledge, information & information technologies. Banking industry being most knowledge-intensive industry is experiencing a dynamic and competitive environment which is stimulating banks to modify their competitive position by achieving effective financial and non-financial performance (Amitava Mondal & Santanu Ghosh, 2012).

### **Relational capital and Organizational Performance**

Relational capital reduces organizational cost as the flow of information from employees, suppliers and customers help and result in product and process innovation, eliminate bottlenecks, and increase in output. Additionally, more input of relational capital may result in resolving problems, improved planning and development for a firm that may help to increase production and services efficiently resulting in reduction of organizational cost leading to Organizational Performance (Yound & Snell, 2004).

### **REVIEW OF LITERATURE**

Several empirical studies show the significance of Intellectual Capital (Ante Pulic 2004, Cabrita and Vaz 2006, Saengchan's 2007, Wen-Yig et al. 2005, Welbourne 2008, Ahmadi et. al. 2011, Cabrita & Bontis 2008, Dujaili et al. 2012, Bontis and Serenko 2009, Maaloul 2010, Sulait et al. 2012, Tumwine et al.

2012, Ali Raza 2013, Sharabati. et. al. 2013, Siddiqui & Asad, 2014). The study conducted by Ante Pulic revealed that the banks with the high expenses on intellectual capital components were more profitable and had better financial performance. Cabrita and Vaz examined interrelationship among intellectual capital components and banks performance on 53 Portuguese banks and they concluded that relational capital positively moderates the relationship between HC and organizational performance. Wen-Yig et al. observed in his study that the components of relational capital in influencing firm performance were not equally important. On the contrary, Welbourne conducted a study on Australian banks. The study revealed the importance of intellectual capital. The results of research highlighted that there is a strong relation between intellectual capital and organizational performance. Relational capital is an indistinguishable asset established by developing, maintaining and sustaining superior relations with individuals, organizations, or groups that impacts organizational performance. Maaloul stated that relational capital can impact on customer satisfaction by increasing the value provided in the market. Additionally, Saengchan concluded that there was a strong relationship between the competency of Intellectual Capital and banks financial performance in the study on Thailand's bank industry. Relational capital directly affects organizational performance Ahmadi et. al. (2011). Relational capital is positively and strongly associated with business performance (Cabrita & Bontis 2008, Dujaili et al. 2012). Further, it is found that there was a significant relationship between firm performance and social relational capital (Bontis and Serenko 2009, Sulait et al. 2012, Tumwine et al. 2012, Ali Raza 2013). Sharabati et. al. found a positive and significant relationship between the relational Capital and Business Performance of Jordanian Manufacturing (JPM) organizations. Siddiqui & Asad (2014), found in their study on Pakistan's brand developing sector that, all the components of relational

capital collectively accounts for 16.2% of the variation in performance.

It was hypothesized that Relational Capital has a significant impact on Organizational Performance.

## **RESEARCH METHODOLOGY**

The population studied consisted of selected banks of Uttarakhand. The populations of senior managerial employees were targeted because they are responsible for planning tasks and have more knowledge of the organizational functions. To investigate the relationship of variables simple random sampling technique was used. A total of 120 questionnaires were distributed to the employees in five public sector banks of Uttarakhand state, 3 to each bank, in Haridwar and Dehradun districts of Uttarakhand state. Out of 5 banks, a total of 107 questionnaires were returned. This resulted in the total usable sample size of 96 participants from bank employees with a response rate of 80 %. Out of the 96 questionnaires 82 (85.42%) were male and 14 (14.58%) were female.

## **MEASURES**

**Relational Capital.** The data for the measures of the variables are collected through self-designed questionnaire using five-point Likert scale to measure the level of agreement or disagreement with with 5 points Likert scale where 1 represents “strongly disagree”, 2 represents “disagree”, 3 represents “not sure”, 4 represents “agree” and 5 represents “strongly agree”.

**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 “strongly disagree”,

represents “disagree “ 3 represents “not sure “ 4 represents “agree “ and 5 represents “strongly agree”.

## **ANALYSIS & INTERPRETATION**

Regression analysis was performed on the data. Table 1-3 presents the results of regression analysis.

**Results on table 1** shows the adjusted R<sup>2</sup> which indicates the percentage of the variance in the Performance explained by Relational Capital. Adjusted R square value is 0.620 which indicates that independent variable relational capital accounts for 62.0% of the variance in the organizational performance.

**Table 2** shows the value of F-test which determines whether the model is a good fit for the data. In other words, ANOVA assess the overall significance of the regression model. From the table it was found that the value of F-test (27.07, p< 0.05). Thus, the model is significant and shows that the relational capital is significantly related to organizational performance.

**Table 3** shows the contribution of the relational capital on business performance in the selected banks. The unstandardized regression coefficients, b in a regression model indicate the strength of the extent of impact of the independent variable on the dependent variable, when all other independent variables are held constant.

A linear regression equation between a dependent variable (Organizational Performance) and independent variable (Relational Capital) as follows:-

The regression equation has the following form:-

$$OP = a + b RC \quad \dots (1)$$

The resulting regression equation is:

$$OP = 1.969 + .144 RC \quad \dots (2)$$

Where, OP = Organizational performance

RC = Relational Capital

The equation (2) indicates that if relational capital changes by one unit, there will be 0.144 units increase in the organizational performance. The coefficient is positive for relational capital, hence it indicates the positive relationship between independent and dependent variable.

The t-value indicates for individual regression coefficient in the model shows whether the independent variable (relational capital) is a significant predictor of the organizational performance. The results of the t- value confirm that RC ( $t = 7.588$ ;  $P = .000 < .005$ ) is significant at 0.05 level.

The results of the Standardized Beta value ( $\beta$ ) indicate the impact of relational capital on organizational performance. Since,  $p = .000 < .005$ ,  $F = 27.071$ ,  $p < .05$ , Adjusted R square = .620, it can be concluded that relational capital has significant and positive impact on organizational performance as the Standardized Beta value ( $\beta$ ) is 0.614.

## **DISCUSSION & IMPLICATION**

The results indicate that there is a statistically significant impact of relational capital on organizational performance. The results of the study are supported by previous studies (Tumwine et.al. 2012, Sharabati et. al. 2013). Tumwine et.al. reported that the different components of relational capital affect performance in tea manufacturing firms of Uganda. The study revealed that relational capital and its components enhance the firm performance by 28.3%. (Sharabati et. al. 2013) investigated that the research is statistically significant and makes theoretical and empirical contributions to the literature about the impact of relational capital on organizational performance.

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## TABLES

**Table 1: Model Summary**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.802 <sup>a</sup>	.643	.620	.46463

a. Predictors: (Constant), Relational Capital

b. Dependent Variable: Organizational Performance

**Table 2: ANOVA**

**ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	35.065	6	5.844	27.071	.000 <sup>b</sup>
Residual	19.430	90	.216		
Total	54.495	96			

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Relational Capital

Table 3 shows the results of coefficients

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.969	.975		2.019	.046
RC_Tot	.144	.019	.614	7.588	.000

a. Dependent Variable: Organizational Performance