Intangible Relational Capital and the Success of Entrepreneurship Firms in Nigeria: A Second Look

Dr. (Mrs) Regina G. Okafor
Dept of Accountancy, University of Nigeria, Enugu Campus
E-mail: gwamokafor@yahoo.com

Abstract:
This study used data collected from 20 SMEs operating in Anambra and Enugu states of Nigeria to evaluate the impact of relational capital on the success of firms. The multiple regression analysis was the main statistical tool used to test the relationship between a dependent variable (success) and a set of five independent variables (relations with customers and suppliers, informal relations, reputation, location and ties with external bodies including government). The results indicate that only the variables concerned with relationship with customers and suppliers and those relating to ties with external bodies made significant contributions to the success of firms (t=7.549, p<.01) and (t=5.107, p<.01) respectively. Result also shows that $R^2=.534$ indicating that the set of independent variables accounts for slightly more than half of the explanation of the success of firms in the sample. The paper recommends that more future research efforts should be invested to develop other reliable measures and measurements of relational capital given its significant impact evident in this study.

Key Words: Relational Capital, Intellectual Capital, Value added, Competitive advantage, Firm success

1.0 Introduction
Entrepreneurial firms play a number of important roles in Nigeria such as the provision of goods and services, creation of employment, stimulating competition by reducing the prices of goods and services through injecting substitute products into the markets, thereby widening consumer choice. In plying such important roles, relationships are built. The actions can stimulate firms operating in the market to improve the quality and/or lower the prices of their products or services in order to remain competitive. Okafor (2011) defines relational capital as consisting of those assets whose specific nature is more appropriately explained in terms of the relationships established by a firm with its environment. It includes all relational facilities available to a firm arising from its environment that can add value to the firm. The internal and external networks of the entrepreneur and the firm are deemed to form a major part of a firm’s relational capital. The external relationship can be established through relating with customers and suppliers, informal relations with members of the family, a firm having linkages with other external bodies such as national, state and local governments, location of a firm, established reputation of a firm and that of the entrepreneur as well as the goodwill that create image for a firm.

Previous studies like those of Chaharbaghi and Cripps (2006), Gartner (2001) and Johannisson (1992) have produced evidence that most successful firm’s excel because they derive the full benefit of relational capital. The studies place lots of emphasis on intangible assets which add value to a firm, by constituting necessary platform on which the competitive advantage of a firm may be built. The studies of Barney (1991) and Grant (1991) on the other hand emphasize the characteristics which a resource should have in order to provide a competitive advantage, for a firm in the short-run, medium-run and long-run. Such characteristics include uniqueness of the product or service and durability. Intangible relational asset are used to acquire assets like financial and physical capital, needed to develop product or service. Combination of the three assets (financial, physical and intangible/relational) can put a firm in a competitive position, improve its performance and place the business in a position to earn profit (Aldrich and Martinez, 2001; Brush et al. 1997; Sullivan, 1999; Stewart, 1991).

Not all businesses however can establish relations with its environment especially such new businesses that have no history and therefore cannot identify and manage intangible assets very well (Andriessen, 2004). For firms to establish relationship with their environment, first, they should be aware of the importance of intangible assets in the performance of a firm, and second, all the indicators and evaluative/models which help to identify, develop and manage intellectual capital should be of great use to a firm (Chaharbaghi and Cripps, 2006; Augier and Teece, 2005; Kannan and Aulbur, 2004; Lichtenshein and Brush, 2001; Lev, 2001; Edvinsson (2000); Teece (2000), Aldrich and Martinez, 2001.
This paper evaluates the important role which relational capital plays in business success. The relational capital concerned in this paper are those which by their nature arise from relationships established by the firm with its internal and external environment, which in the final analyses, improve the competitive advantage of a firm and thereby enhance its overall performance.

2.0 Theoretical Framework

Every business requires resources in the form of physical, financial and intangible assets. Lack of, or inadequate resources of this kind may place a firm in a vulnerable position, and might undermine its success. In this period of national as well as global financial crisis, the study of the relevance of intangible assets, has attracted much attention in the business management literature, because intellectual capital which is an aspect of intangible asset has that exerting influence of adding value to a firm and with its relational ability can facilitate the acquisition of other resources which promote the survival and profitability of a firm.

Intellectual capital has been defined by researchers in various ways. For instance, the study of Edvinsson and Malone (1999) defines it as the variable that covers the relationships between the customers and the associates. According to Sullivan (1999), intellectual capital is the knowledge that can be converted into profit in the future, and it derives from ideas, inventions, innovations, technologies, software, designs and procedures. The elements of intellectual capital are normally applied by the directors and employees of firms in the course of carrying out the activities designed to move the firm forward. Similarly, Stewart (1991) sees intellectual capital as everything that is intangible that can be used to earn money for a firm. Along the same line of argument, Lev (2001) considers intellectual resources as those resources that can generate value but have no physical volume in the traditional accounting records. Based on the accounting approach, Ordonez de Pablos (2003), Lev (2001), Roos ct. al (2001), Harvey and Lusch (1999), Pashe (1999), Brooking (1997) and Petrush (1996), Bontis et al. (1999), Edvinsson and Sullivan, (1996) argue that the value of intellectual capital should be calculated by the difference between the market value of a firm and its accounting value. Sanchez Medina (2003:39) provides his own definition after gathering together the most important aspects of the definition given by other authors. His definition runs thus: “Intellectual capital is the combination of the immaterial or intangible assets of an organization which, although they do not appear in the traditional accounting records, are directly or indirectly controlled by the firm and which can generate value for a firm and on which sustained competitive advantage can be built”.

In businesses organizations, intellectual capital is heavily attached to social relationship, and that is why many authors define social capital from the standpoint of the structure and content of the individual in order to reflect the positive influence of an individual or group of individuals. For example Bourdieu (1986) defines social capital as the sum of all actual and potential resources that accumulate in an individual or group of individuals because of the possession of a durable network. On this basis, Putnam (1993) defines social capital networks as existing social norms and trusting relationships within the social organizations that facilitate action and cooperation of persons in an organization for mutual benefit. Other researchers refer to it as follows - as the aspects of social structure that facilitates certain joint actions of agents within the structure (Coleman 1988); as the goodwill available to individuals or groups (Adler and Kwon 2002); as the instantaneous set of values and informal rules shared by members of a group of people enabling them to cooperate among themselves (Fukuyama 1995). All these definitions indicate that social capital is routed in individual relationship, and that its existence facilitates the creation of intellectual capital within the organization which makes it easier for businesses to be profitable and also facilitates entrepreneurship (Davidsson and Honig, 2003, Nahapiet and Ghoshal, 1998).

Studies identify different dimensions of intellectual capital namely - human capital, structural capital and relational capital (Boedker, Guthrie, and Cuganesa, 2005; Marr and Roos, 2005; Kaufmann and Schneider, 2004; Bontis, 2002; Roos, Bainbridge, and Jacobsen, 2001; Brennan and Connell, 2000). The three dimensions of intellectual capital are however not exclusive but mutually interrelated. Human capital is defined as a value generator and a potential source of innovation for a firm. It constitutes of the ideas of the organization, which constitute the source of innovation and the basis for strategic planning (Bontis, 1998). It is that capital which assists the members of an organization to generate value for the firm. Studies agree that human capital is composed of the stock of tacit and explicit knowledge held by the members of the organization (Ordonez de Pablos (2003), (2002), Bontis, Crossan, and Hulland, 2002).
The real holders of the capital are the workers who acquire the knowledge, the skill and the experience that form part of the value of a firm. Structural capital is the knowledge which a firm has been able to internalize due to its relationship with the employees of the organization. It remains in the firm, and is reflected in the structural, procedural, organizational models, information flows, database, cultural and all the organizations nonhuman intangibles (Bontis et al. 2000). The difference between structural capital and human capital is that structural capital is inhuman and it remains in the firm even if the employee that generated it has left the organization. Studies on relational capital argue that firms cannot be isolated from the environment but rather should depend greatly on the relations they have built up with such environment (Okafor, 2011; Walker et al., 1997). This type of capital includes the value generated from relationships, not only with customers, suppliers, or shareholders, but also with all interest groups, both internal and external (Ordonez de Pablos, 2003; Roos et al., 2001; and Bontis, 1996). The outcomes of relations of this nature add value to a firm, and in such relationships, knowledge, skill, ideas, software and technical knowledge are very important.

3.0 Hypotheses Formulation

It was stated earlier that the contribution of relational capital to a firm is determined by the external and internal relationships of a firm with its environment; and the entrepreneur is considered very important, and a critical player in this respect because the relationships are primarily established using his personal networks. Therefore, relational capital can be considered from the perspective of the value added by customers when they do business with the firm (Pettrash, 1996). Some indicators that show the existence of this capital in a firm include customer repeat rates, the market share, and the number of links established. Relationships with customers and suppliers can add value to a firm in terms of obtaining key strategic information requirements and the possibility of gaining access to new customers and suppliers (Markman and Baron, 2003; Greve and Salaff, 2003). The information contacts collected could provide important sources of influence, control and even power for the entrepreneur (DeCarolis and Saparito, 2006; Blyler and Coff, 2003; Adler and Kwon, 2002). Good relations with suppliers can facilitate access to the raw material needs of a firm at favourable terms of payment and/or at lower cost. Most often, entrepreneur’s spouse, friends, classmates, club members and other relationships may provide practical and emotional support to the entrepreneur, especially that of spouse which should not be underestimated. Such emotional support is an intangible asset into the category of relational capital. Firms have reputation just like individuals. The reputation may have been established from the integrity of the entrepreneur who is closely working with the firm. In that case the reputation of the entrepreneur is identified with the reputation of the firm. A reputation is an appraisal or an evaluation that are made of a firm’s image by its customers, competitors, potential employees, and other stakeholders of the firm. It is the key element in obtaining the necessary trust from the external and internal individuals relating with the firm. A good reputation can help in obtaining new customers, winning the fidelity of the existing customers, gaining access to credit, access to raw material, and other resources that would not be available were it not for good reputation (Shane and Cable, 2002). An entrepreneur that has succeeded in winning good reputation for his firm, all things being equal gives the firm more opportunity of surviving and making greater profit. In this respect reputation which is among the relational capital is an intangible asset because it plays a key role in establishing the legitimacy of an organization. Firms have ties with other firms both outside and inside the country, government agencies, credit institutions, employment agencies, professional bodies, associations, town unions and reputable individuals. Having linkages with such groups or individuals can provide a firm with valuable information, knowledge, resources, venture capital, good employees, wider access to distributive channels and more in-depth information about the market (Okafor, 2011). It will also avail the firm an opportunity to obtain information about conferences and policies relating to business management (Ordonez de Pablos, 2003). Lastly, The location of a firm at the place of convenience to customers gives the firm added advantage. For example, the location of a grocery store in a high density area, shopping mall where customers should have access to packing spaces, a professional firm in good building in the downtown area, or a manufacturing firm situated in the outskirts of a city can have a positive influence on the success of a firm. These specific issues forms the basis for the five hypotheses formulated. There are:

**Ho:** The Success of a firm has no significant relationship with the entrepreneur’s firm’s networking with customers and suppliers.

**Ho:** The Success of a firm has no significant relationship with the informal support from the entrepreneur’s spouse.
**Ho**: Success of a firm has no significant relationship which derives from the integrity of the entrepreneur.

**Ho**: There is no significant relationship between the success of a firm and the ties established by the firm.

**Ho**: The more accessible a firm is to its customers, the less successful the firm will be. Therefore success of a firm has no significant relationship with its accessibility.

### 4.0 Methodology

Only firms that were in business for the period (2006 – 2010), which had attained some measure of success were considered in the study. Of the 20 SME’s in the sample, 6 were in servicing, 8 in retail/wholesale and 6 in manufacturing and trading. Using the convenience sampling technique, the 20 firms were selected from firms located in Enugu and Anambra state of Nigeria, the researcher’s place of residence. Face to face interview was used to collect information from owners of the firms or employed managers because they were deemed to participate actively in the management of the firm as well as being responsible for the overall decision making responsibility.

**Variables:**

The dependent variable is the success of a firm which normally should be derived from operational indices such as volume of sales, return on investment, achievement of defined goals, and any other similar measures. These objective measures could however not be adopted because of the difficulty of accessing financial information from SME’s who are not required by law to publish their annual report to the public. The success variable was thereafter derived from a likert-type scale ranging from 1 = unsatisfactory to 5 = satisfactory. Since such subjective measures of success are prone to errors; objective information on any relevant performance indicator, such as sales growth rate, change of market share, profitability over the year, obtained from the proprietors was used to evaluate the likert-scale scores given by them. The independent variables used were relations with customers and suppliers, informal relations, reputation, linkages with external bodies and location. The respondents were asked to indicate the extent to which they agreed, on a likert-type scale ranging from 1 = totally disagree to 5 = totally agree.

Considering the type of data generated from the respondents, the main statistical tool used was the multiple regression analysis, which describes the relationship between the dependent variable (success) and a set of the five independent variables named previously. The multiple regression analysis adopted tried to identify what level of success was attained by a firm based on the combined impact of the five independent variables. The relationship was explored in an equation as thus:

\[ Y = a + b_{1}X_{1} + b_{2}X_{2} + b_{3}X_{3} + b_{4}X_{4} + b_{5}X_{5} + e \]

\[ Y = a + b_{1}I + b_{2}CS + b_{3}R + b_{4}L + b_{5}T \]

where:

- \( Y \) = the dependent variable success; \( a \) = the y intercept or constant; \( b_{1} \) to \( b_{5} \) = regression coefficients for each independent variable; \( I \) = Informal Relation; \( CS \) = Relation with customers and Suppliers; \( R \) = Reputation; \( L \) = Location; \( T \) = Ties

Regression co-efficient in this equation are interpreted as impact levels that identify how much each of the independent variables contributes to the explanation of the dependent variable success. A test of significance at 0.05 was performed on each regression co-efficient to test the null hypothesis.

### 5.0 Hypotheses Testing/Results

The multiple regression analysis and the test of regression coefficients for each variable in the equation were conducted to evaluate the relationship between the variables using data generated from the survey to be processed on SPSS computer package as appropriate. Testing the relationship between success and the
complete set of the five independent variables, the determination coefficient generated are as follows:

$$R^2 = 0.534$$

Adjusted $R^2$ = 0.509

Standard Error of the Estimate = 42.613

$F = 21.512$

$\text{Sig. } = 0.000$

$R^2$ indicates the accuracy of the prediction of the regression analysis. With $R^2 = .534$ shows that the group of independent variables account for slightly more than half of the success of firms. $F$-cal = 21.512 suggests significance and relevance of the equation. With $f$-sig = .0001 at $p<.01$ suggests that there is evidence of the impact of the independent variables on the success of firms analyzed.

The coefficients of determination for each independent variable were also analyzed in table 1 to determine the impact of each independent variable on the success of the entrepreneurship firms in the sample.

Table 1: Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Standardized Coefficients</th>
<th>Unstandardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std Error</td>
</tr>
<tr>
<td>Constant</td>
<td>19.116</td>
<td>41.817</td>
</tr>
<tr>
<td>Informal/Rela</td>
<td>.0115</td>
<td>.313</td>
</tr>
<tr>
<td>Rel. with Cus/Sup.</td>
<td>.0309</td>
<td>.410</td>
</tr>
<tr>
<td>Reputation</td>
<td>.00218</td>
<td>.276</td>
</tr>
<tr>
<td>Location</td>
<td>.41158</td>
<td>8.612</td>
</tr>
<tr>
<td>Ties/Connectivity</td>
<td>.00511</td>
<td>.100</td>
</tr>
</tbody>
</table>

6.0 Discussion of Empirical Results

The $t$-test as shown in table 1, shows that the coefficient for informal relation, reputation and location are not significant with ($t$=.037 $p>.05$); ($t$=.788 $p>.05$); ($t$=.483 $p>.05$) respectively. Therefore these three variables are not making a significant contribution to the success of firms. Only hypotheses one and four which refer to relations with customers and suppliers and ties with external bodies emerged with significant variables in the analysis with ($t=7.549$ $p<.01$); and ($t=5.107$ $p<.01$) respectively. The standardized coefficient Beta weight shows that the two variables (relations with customers and suppliers and ties/connectivity with external bodies) are the most important variables that make significant contributions to success. With the $f=21.512$, $p<.001$ associated with the regression provides an explanation of success of the equation that is better than chance.

The results of hypotheses two, three and five were influenced by some intervening variables. For instance, in hypothesis two, the SME’s in the sample were owned by men, and the result was affected by the societal and cultural norms which shape the relationship between male and female in Nigeria. For example, the entrepreneurs in the sample are very conservative, and invariably, the advice and support of their spouse are regarded as irrelevant. The assertion of Hisrich (1985) underscored this argument; he said “when an entrepreneur is contemplating starting a business, the first source of advice for male entrepreneurs is professional experts (accountants, lawyers) and the second is their friends, while the third may be their spouses, whereas for female entrepreneurs the first source of advice is their spouse, second is their friends and the third is their professional advisers. Some men entrepreneurs do not even consult their spouses when it comes to business because of gender stereotyping.
The result of hypothesis three was influenced by the level of corruption in the country. Most of the Nigerian entrepreneurs indulge in illegal businesses (smuggling and other criminal offences). It was indicated earlier, in this paper, that evaluation of a firm’s reputation is made by customers, potential employees and other stakeholders of the firm. As long as these evaluators can not overtly/ openly say no to the corruptive practices exhibited by some of the entrepreneurs and some government agencies relating with firms, reputation as a variable does not matter significantly to the success of firms in Nigeria.

Hypothesis five was influenced by the buying behaviour, attitude and educational level of the Nigerian customers of firms. Location of a business does not matter much to most of the buyers of goods and services but primarily cost and probably quality especially to some educated customers who can differentiate quality goods from non-quality goods. It is certain that smugglers and those who indulge in illegal businesses store such goods at obscure places and yet buyers look for them provided price is reasonable. Therefore, location of a firm does not make significant impact to the success of businesses in Nigeria.

Hypothesis one reveals the importance of a customer in business organizations. If there is no customer to buy goods and services, there would be no revenue generation for the firm. In this respect, the customer is the king because he adds value to the firm by buying goods and services thereby contributing substantially to the revenue generation of the firm.

Hypothesis five reveals the evidence of the benefits entrepreneurs receive from different links created. Such benefits include information on sources of demand for product, markets, competition, employees, tax burden, supply deficiencies and benefits from government agencies. Ties with governmental bodies affiliate them to conferences, trade fairs where they derive knowledge on management of business; legislations, credit policies of banks and business regulations.

7.0 CONCLUSIONS

The results of the analyses highlight the importance of intangible assets whose specific nature is explained in terms of the relations established by the firm with its environment. Of the five independent variables tested to evaluate the impact of intangible relational capital on the success of firms, only relations with customers and suppliers, and ties with external bodies represent values that the firms should not underestimate. The importance of relating positively with customers and suppliers may be seen when we consider customer repeat rate, the number of links created as well as the market share of a firm. In terms of relating with suppliers, the value is felt when one considers the terms of credit granted and the cost of the raw material purchased. The significant impact of ties with external bodies obviously reveals the benefits entrepreneurs derive from trade fairs, conferences and seminars organized.

The study reveals the insignificant impact of informal relations an entrepreneur gets from his spouse and members of the family because of gender bias planted in our society. Again, reputation has no place in the life of entrepreneurs of this country, otherwise there should be nothing like bribery and corruption, illegal business, and other aspects of criminal offences that have eaten deep in the Nigerian business environment. The study also shows that the independent variables as a set have an impact on the success of firms but the impact is just slightly above 50%. This means that most firms have not really identified nor developed lots of intangible assets that are available to business organizations.

The study has made obvious contribution to the field of entrepreneurship by promoting ideas for entrepreneurs regarding the importance of intangible assets which if identified, developed and managed properly would add value to a firm, and give rise to greater performance. The findings of this paper provide justification for the government of Nigeria to accelerate fight against corruption because reputation as a relational capital has great impact on the success of ventures in other countries. In Nigeria, evidence reveals that it has decisive influence on financial institutions who give credit, and suppliers of raw materials. These two resources are very important for the success of SME firms, without them the contributions of SMEs to economic development of the nation would be impaired. Finally, in identifying the relational capital of a firm, the environment is heavily involved, and the contributions of the environment on the composition of intangible assets of businesses are under researched. Further studies on the way the variables condition the success of business ventures is therefore necessary.
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