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## External Relational Capital: A Study of Select Organizations

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### Abstract

*External Relational Capital (ERC) plays an important role in organizations which not only enlighten HR Managers to evaluate their ERC, but also incentivize them to holistically develop the ERC, keeping its merits in mind. To develop a comprehensive RC model, a Questionnaire was prepared. This study has been carried out by taking four sectors, namely, Automobile, Banking, IT, and Manufacturing, into consideration, having a sample size of 402 respondents. To measure its reliability, Cronbach's Alpha was used. To explore the components affecting ERC, EFA has been used. To verify the constructs, CFA was carried out. The survey instrument was shown to be both reliable and valid statistical analytical tools such as factor analysis, CFA other descriptive statistics scores have been used. The result of this study would help to better understand the external relational capital, to facilitate its adoption in practices. Academics can use the result to build models that would further expand the ERC model. This study is probably the first to systematically determine the antecedents of ERC model in organizations in India. It offers a beneficial source of information to organizations, which are lagging behind when it comes to intellectual practices.*

**Keywords:** Confirmatory Factor Analysis (CFA), Exploratory Factor Analysis (EFA), External Relational Capital (ERC), Intellectual Capital (IC), Relational Capital (RC).

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## 1. Introduction

### 1.1 A General Preview

The value of relation which is created by the people in the organization is known as Relational Capital. Relationship is a key component in the organization, without any interaction between the organization and its environment, business cannot be run. Today the focus is to develop a great business relationship then moving to further strategic management. To quantify the relationship is not an easy task; as business depends upon people and their relationship within the organization. Degree of association among the employees in the organization is another form of Relational Capital. Relationship is the most important element in the organization. Credibility, integrity, and authenticity are the qualities of relationship for improving Relational capital. Relational Capital not only expands and strengthens the relationship among individuals but also improves the quality of the business environment leading to overall success of the organization. Therefore, every organization should invest in developing relational capital.

Relational capital is the combination of strategic capital that cannot be replaced by any other organization. It provides a way of doing business and to earn more profit and captures attention of investors. It cannot be replaced by the competitors and increases degree of association among the employees.

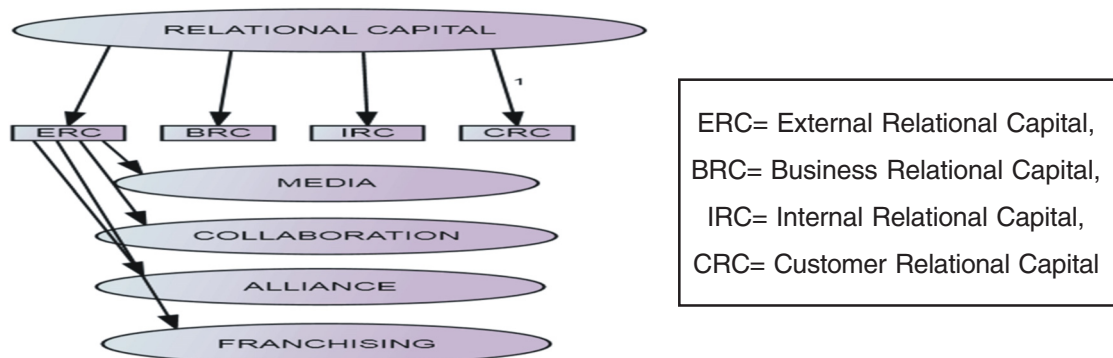
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### 1.2 Relational Capital

“Relational Capital is a part of intellectual capital. Relational Capital (RC) refers to the worth of the association between the firm and its surroundings” (CIC, 2003). Business capital can be a part of relational capital i.e., relationship’s value that gets generated in the organization among the employees, organization maintains this for developing the process of business by the help of other social elements and Relational Capital includes factors like management team, innovation, internal networks, franchising, media, government, etc.

### 1.3 External Relational Capital

Includes all the external variables like strategic alliance partner, collaboration, franchising, media, etc.



### Strategic Alliance Partner

“The parent in the alliance has the better knowledge if they discuss with each other, and partner should have the knowledge, regarding the firm where, they can gain more in terms of information” (Dyer and Singh, 1998). Organization should solve the conflict with the alliance partner to improve the relationship. Therefore, certain aspects should be improved such as:- Alliance foundation, strength of the tactical alliances associate and settlement of the alliances conflict.

### Collaboration

Collaboration refers to the agreement of particular practices among the organization and the parties. Relationships among the parties depend upon mutual trust and transparency in the agreement. Bond of relationship depends upon how they are sharing their values in terms of cost saving. Collaboration does not only help to save the cost of the organization but also helps to improve the efficiency, which includes certain perceptions, and having benefit of agreement such as:- Improved decision making. It helps to increase market revenues through market sharing. Exchange of the ideas can lead to innovation. Dispersed unit involves enhanced collective action.

### Franchising

Franchising is defined as a business relationship by a licensing agreement between two independent firms. Relationship between Franchisor and Franchisee is dependent upon their mutual trust and understanding. There are two parties to the agreement that are known as Franchisor and Franchisee. A franchise can be private, non-exclusive or “sole and exclusive”.

Relationship depends upon agreement between the franchisor and franchisee in terms of decision making transparency.

### **Media**

Media is known as the voice of the society. Media is an important element of Relational Capital as it can influence the decision making power of an individual. Media creates an image in front of society that reflects the corporate image of an organization. Organization should focus on certain aspects such as: - Trade mark identification of the organization and image of organization in front of society and social responsibility.

## **2 Review of Literature**

### **2.1 Strategic Alliance Partner**

"The parent in the alliance has better knowledge which they discuss with the other, partner to share the knowledge, regarding the firm where, they can gain more in terms of knowledge" Dyer and Singh (1998). "Two or more organizations forming an alliance can have better understanding, if they change their business operation and activities which are undertaken jointly"(Hedberg et al., 1976)

### **2.2 Collaboration**

"Collaboration is an integrative process between organizations that involves (sometimes simultaneous) negotiation, development and assessment of commitments and implementation of these commitments" (Thomson, 2003). "Collaborative alliances entail investment of time and resources by all partners, interactivity across the partners and some defined or envisioned product or output" (Salk and Simonin, 2003).

### **2.3 Franchising**

Franchising is defined as a business relationship by a licensing agreement between two independent firms. It can be categorized into two primary forms: product distribution and business format franchising. Business format franchising can be defined as the "ongoing relationship between two parties often providing a full range of services such as site selection, product supply, marketing plans, training and financing in which a franchisee sells goods or services supplied by a franchisor or that meet the franchisor's quality standards".

### **2.4 Media**

The primary creator of Relational Capital is Storytelling. Organizations may employ it knowingly or not. "Companies could build and enhance their reputation by producing and presenting stories of future performance, and that the production of such stories could happen quickly and could prove to be cost saving" Vendelo (1998). "It found that Stories have always appealed the human mind. After all, storytelling has been a major form of human communication since ages" (Orr 1990, Swap et al. 2001). "Over the generations, in the absence of writing, tales have been our primary method of moving towards wisdom. Great tales of hunt and heroic ancestors, as well as simple campfire lore have entertained and taught us" (Simmons 2000).

Based on the above, following objectives and hypotheses have been formulated.

## **3. Objectives of the Study**

1. To study the components of external relational capital. 2. To study interrelationship among the component of external relational capital such as 2.1. To study relationship between franchising and strategic alliance partner. 2.2. To study relationship between media and strategic alliance

partner. 2.3. To study relationship between collaboration and media. 2.4. To study relationship between strategic alliance partner and collaboration. 2.5. To study relationship between franchising and collaboration.

#### **4. Hypotheses of the Study**

- I. Null Hypothesis 1 (HO1): There is no relationship between media and franchising. Alternative Hypothesis 1(HA1): There is a relationship between media and franchising.
- II. Null Hypothesis 2 (HO2): There is no relationship between franchising and strategic alliance partner. Alternative Hypothesis 2 (HA2): There is a relationship between franchising and strategic alliance partner
- III. Null Hypothesis 3 (HO3): There is no relationship between media and strategic alliance partner. Alternative Hypothesis 3 (HA3): There is relationship between media and strategic alliance partner.

#### **5. Research Design**

Total of 40 companies were taken into consideration for collecting the data through questionnaire comprising of 10 companies from each sector i.e. Automobile, Banking, Manufacturing, and I.T.

##### **5.1 Sampling**

Data have been collected from different sectors such as Automobile, Banking, Manufacturing, and I.T. sector to measure different aspects of Relational Capital. 40 companies were taken out from these sectors; each sector consists of 5 public limited companies and 5 private limited companies. 402 samples were collected and stratified random sampling was opted for the study.

#### **6. Outline of Statistical Analysis**

Data Collection, data mining, missing value, normality check by using Skewness and Kurtosis, reliability test, Cronbach's Alpha, factor analysis, exploratory factor analysis, and confirmatory factor analysis, have been used for the analysis.

##### **6.1 Statistical Analysis**

###### **Missing Value**

A total of 440 respondents filled the questionnaire out of which 38 responses were found to be incomplete (where the missing answers percentage was more than 40%), the total of 402 survey responses were found complete. 38 respondents were eliminated, those who did not answer more than 10% of the questions in the questionnaire set, those candidates were candidates for elimination (Hair et al. 2010). Later on no missing value was found in the questionnaires, therefore, no replacement of missing value was required.

###### **Skewness and Kourtosis**

The value of skewness and kourtosis was not found between +3 and -3. Hence was asymmetrically distributed and, non-parametric test would be applicable.

###### **Reliability Test**

Cronbach's alpha of factor media is 0.891 with summated scale 05. Cronbach's alpha of second factor collaboration is 0.861 with summated scale 05. Cronbach's alpha of third factor franchising is 0.899 with summated scale 06. Cronbach's alpha of last factor alliance is 0.885 with summated scale 05. Overall scale reliability is 0.942

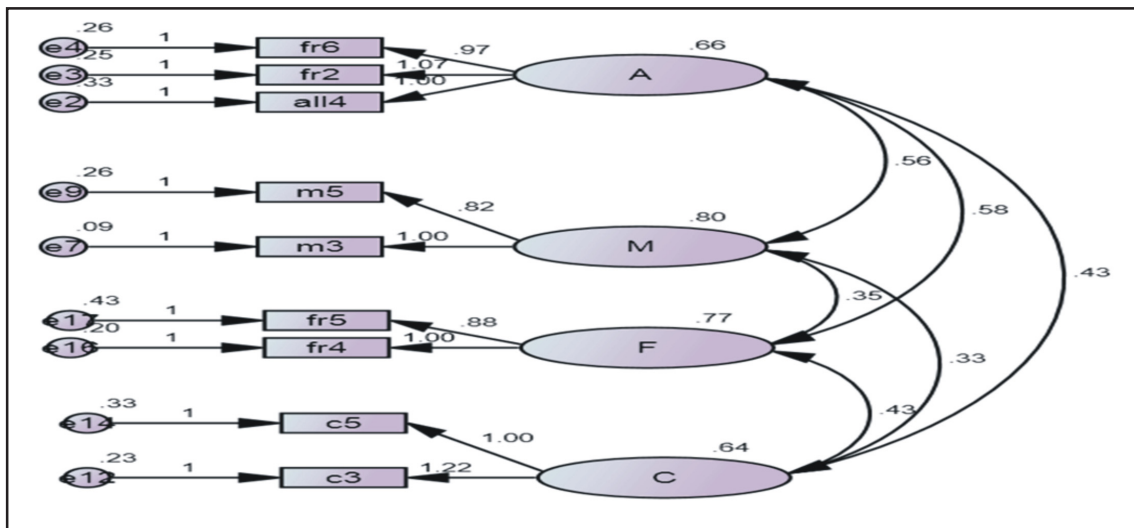
**Measures of EFA**

**KMO** The data adequacy was checked with a Kaiser in value (0.901) which comes out to be exceeding the minimum recommended value of 0.6 (Tabachnick and Fidell, 2001). Bartlett's test shows a significant result.

**Communalities:-** Communalities refer to the common variance shared by the variables and researchers should identify each variable with the value of that which is above 0.9 It shows multicollinearity and below 0.3 is not accepted for making the factor, therefore, we can't ignore the value of communalities.

**Multicollinearity:-** In this study no issue has been found as all the values were lying between 0.4 to 0.8 which is sufficient to making the factor and sufficient not to reject on the basis of multicollinearity.

**MSA:-** After the communalities next step was with MSA, MSA refers to measure of sample adequacy, Measure of sample adequacy index range from 0 to 1, reaching 1 predicting perfectly without error by the other variable. MSA above 0.50 is acceptable or above meritorious.



**Figure 2: CFA of ERC**  
(M=MEDIA, C=COLLABORATION, A=STRATEGIC ALLIANCE PARTNER, F=FRANCHISING)

**Table 1: KMO Test**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.900
Bartlett's Test of Sphericity	Approx. Chi-Square	6501.453
	Df	210
	Sig.	0.000

**Table 2: Model Fit Summary**

Measure	Result & Threshold
Chi-square/df (cmin/df)	4.820 (< 3 good; < 5 sometimes permissible)
CFI	0.966 (> 0.95 great; > 0.90 traditional; > 0.80 sometimes permissible)
GFI	0.952 (> 0.95)
AGFI	0.896 (> 0.80)
RMSEA	0.98 (< 0.05 good; 0.05- 0.10 moderate; > 0.10 bad)

### 7. Hypothesis Testing

First null hypothesis is not accepted as there is significant relationship between the media and franchising. Although degree of relationship is not so high but there is positive relationship i.e., 0.452. Accept alternative hypothesis there is significant positive relationship between media and franchising. (Sig. P value 0.05). Second null hypothesis is not accepted in this study there is significant relationship between strategic alliance partner and franchising. Degree of correlation is 0.813 is showing high correlation between these two constructs. Accept alternative hypothesis there is significant positive relationship between strategic alliance partner and franchising. Third null hypothesis is not accepted as there is significant relationship between media and strategic alliance partner. There is high correlation between these two factors i.e., 0.768. Accept alternative hypothesis there is significant positive relationship between strategic alliance partner and media. (Sig. P value 0.05)

### 8. Summary Findings

The exploratory factor analysis (EFA) was conducted and it established that many of the constructs which were predicted to load on one factor actually did. The first loaded factor as identified during EFA was *strategic alliance partner (A)*. Each of the four questions used to measure alliance reported positive significant loading of greater than 0.60. This factor was known as strategic alliance partner. As it was pre-defined, this construct was made out of two variables as two statements were from another component i.e., franchising. The second loaded factor as identified during EFA was *franchising (F)*. Each of the three questions used to measure this construct and reported positive significant loading of greater than 0.60. It was pre-defined as franchising, and all the statements were together in this construct. The third loaded factor as identified during EFA was *media (M)*. Further, each of the five questions used to measure this, reported positive significant loading of greater than 0.60. As it was pre-defined, and all the statements were together in this construct. The fourth loaded factor as identified during EFA was *collaboration (C)*. Further, each of the five questions used to measure this, reported positive significant loading of greater than 0.60. Which was pre-defined, and all the statements were together in this construct.

### 9. Recommendations

**Focus on appropriate component:** External relational capital is a relationship between the organization and its stakeholders. It is not always possible to have the perfect relationship with all stakeholders in a particular organization; therefore, the organization must make efforts to recognize the drivers. The ultimate consequences must be clear in the mind of the organization right from the beginning. Apart from these components, other components must also be taken into consideration with respect to the size and nature of the business.

**Improving the culture and policies:** The culture of the organization also depends upon the employees who are working there. The concept of understanding each other (peer learning), giving the value and respect to other employees signifies great culture at workplace. Hence these activities also improve the relationship within the organization.

**Improving the policies related with stakeholders:** This can be achieved by creating a dispute resolving machinery and impartial negotiation policy within the organization.

**One factor doesn't fit to all:** External relational Capital may not be same for every sector. As a result, different factors play different roles for different organizations to boost/improve the relation. Therefore, Organizations should focus on the factors which are relevant to them or their operations.

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