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Full Length Research Paper

Relational capital and performance of tea manufacturing firms

Sulait Tumwine[1]*, Nixon Kamukama[2] and Joseph M. Ntayi[3]

[1]Faculty of Vocational and Distance Education, Makerere University Business School, Uganda.
[2]Department of Accounting, Makerere University Business School, Uganda.
[3]Faculty of Computing and Management Science, Makerere University, Uganda.

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The focus of this article is to examine the impact of relational capital components on the performance of tea manufacturing firms in Uganda. It aims at disclosing the composition of relational capital components that associate with performance. A study was carried out on 59 managers representing 17 tea manufacturing firms in Uganda. A correlation matrix and multiple regression models were used to test the hypotheses advanced. It was established that the correlations between relational capital components are associated with firm performance. Furthermore, relational capital as a whole accounts for 28.3% of the variation in performance of Uganda`s tea manufacturing sector. Only a single research methodological approach was employed in this study, as such, interviews could be undertaken in future researches. Multiple respondents in a firm were studied, neglecting other key stakeholders outside. Finally, a single element of intellectual capital was studied (RC), though more studies on other elements are necessary. 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, pay attention to customers and employees in order to identify their needs and provide optimal value for them. This is the first study that focuses on relational capital components effect on firm performance in Uganda tea manufacturing sector.

Key words: Relational capital, business relational capital, social relational capital, firm performance.

INTRODUCTION

In many organizations, it remains a fact that managerial awareness for the importance of relational capital has remained low, although a number of researchers and practitioners have emphasized the benefits arising from the unaccounted for relational capital (Klaus, 2009). Accordingly, Cuganesan (2006) 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 wide spread 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. (Karagiannis et al., 2009).

According to the Intellectus Model developed by CIC (2003), relational capital (RC) is framed into different layers, the first layer refers to knowledge and its management regarding the relations that certain organizations can maintain 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 et al, (2004), argues that increased investment in relationships with internal and external agents still if it tries to improve performance usually produces multiple effects in an organization. For example, relational capital increases employee-customer and community relationship that could directly impact on the performance of organizations, but could also generate

*Corresponding author. E-mail: stumwine@mubs.ac.ug, t.sulait@yahoo.com

generate indirect effect on the organization when suppliers and labour increase their supply price, kill employee creativity, number of patents and the reputation of the company.

Accordingly, much of the research about relational capital have been carried out in the developed world especially in Scandinavian countries (Sharabati et al., 2010) that it is expected to provide important information other than financial performance. However, none of the prior studies have investigated the contri-bution of different relational capital components in Less Developed Countries especially in the tea manufacturing sector. Besides, there is a great interest in advancing relational capital in developing countries and Uganda in particular because;

1. The adopted industrial approach that is aimed at liberalizing the private sector away from the states ownership.
2. The increasing competition locally and internationally for quality production and market share (sales).
3. The idea that relational capital increases performance is generally accepted up to board room level in addition to the general agreement that accounting is backward 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 an important facilitator of firm performance which has never been exhausted in developing countries. The aim of this study thus is to contribute to the development of a strategy and mix of the firm`s relational capital that incorporates the impact of both business and social capital networks and the extent to which relational capital contributes to performance of tea manufacturing firms in less developed countries especially Uganda.

The paper is organized into five sections and begins with the brief overview of the research study followed by the 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

The management of intangible assets has attracted a lot of attention, in both the professional and academic literature (Kaufmann and Schneider, 2004; Maines et al., 2003) and in today's knowledge based economy, intangible assets have become an important source of growth and wealth for the vast majority of firms (Levi, 2001).

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 sustain their competitive advantage (Grant at el., 1991) and are referred to as intellectual capital.

According to Sofian et al. (2008), intellectual capital is the possession of knowledge and experience, professional knowledge and skill, goal relationships, and technological capacities, whose synergic effect can boost firm performance. It incorporates three main components that together form value: human capital, organizational (structural) capital, and relational capital (Dzinkowski, 2000; Stovel and Bontis, 2002). Human capital refers to and includes know-how, education, work-related competencies, and psychometric assessments. Maheran and Khairu (2009) describe structural capital as competitive intelligence, formulas, information systems, and patents, policies that result from the products or systems the firm has created over time. Welbourne (2008) defines relational capital as an invisible asset based on developing, maintaining and nurturing high- quality relationships with any organization, individuals or group that influences business performance.

Following Bontis (1998) and Kamukama et al. (2010), human capital interacts with structural capital to create, acquire, and employ consumer capital to enable continued organizational success, at the same time relational capital interacts with human capital to improve performance. Other studies carried out by Vergauwen et al. (2005) and Kamukama et al. (2010) have shown the interactive effect of the elements of intellectual capital and their effect on performance while others have focused on human capital, structural capital and their contribution to performance (Bassi and Mcmurrer (2005); Bontis (2002). However, few studies have been carried out on relational capital, its components and importance's in developed countries and less attention has been put on relational capital components and their effect on performance in less developed countries of Africa. Thus, unless organizations have well-established networks to harvest customer (or ex-firm) knowledge assets, performance may remain low in many firms. Thus, as businesses are increasingly focusing on their core competences and joining up in networked consortiums to deliver performance (Quinn, 1992), important and distinctive resources are emerging within the context of organizational relationships (Powell et al., 1996).

According to Dyer and Singh (1998) routine relationships with stakeholders' leads to average 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 (Madhok and Tallman, 1998). These intangible assets are generally referred to as relational capital but its contribution in Africa`s context remains scarce.

According to Maria and Landeiro (2002), relational capital is knowledge embedded in the relationships with any stakeholder that influences the organization`s life.

Adecco (2007) defined 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.

Though studies have been done on relational capital, most of them have addressed customer`s capital perspective herein referred to as business relational capital (Kijek, 2007; Chang and Tseng, 2005), with little attention focusing on the benefits arising from the different relational capital components of business and social relational capital (Lawson, et al, 2008). Yet these components when combined form relational capital which is a source of competitive advantage in organizations (Dyer, 1996).

The concept of Business relational capital and its components

According to Cic (2003) business relational capital is framed as the first layer of knowledge and its management regarding the relations that certain organizations can maintain with the agents that are part of its closer environment or industry (internal stakeholders) that include relationships with employees, customers and suppliers.

Accordingly, a relationship with employees promotes cohesiveness within the firm and enhances research and development projects that support knowledge transfer. It is therefore important to observe that the point of performance in most organizations is the team rather than the individual. If this is so, then it makes sense that relational capital developed between team members, never mind about the other various stakeholders, is more central to business performance than the human capital provided by the individuals themselves. Therefore, this suggests that it is not the humans or people you hire that are the assets but the relationships those people have that brings your company real value (Welbourne, 2008).

Thus, the relationship among employees are embodied in attributes like shared code or shared paradigm that facilitate a common understanding of collective goals and proper ways of acting in social systems (Tsai and Ghoshal, 1998). At this point, it is true that inside an organization is a set of common values which help to develop the trusting relationships that erase the possibility of opportunistic behavior. In addition, 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. It is this synergic effect that makes the firm unique and builds the firm`s competitive position in the market (Bontis, 1998). This is because the relationships of firm employees carry with them on behalf of the firm, as well as their level of engagement and willingness to go above and beyond, are not easy to replicate (Welbourne, 2008).

Another manifestation of relational capital is customer capital which can be leveraged from customers' point of view as was advanced by Bontis et al. (2002). In this case, customer capital is considered as the organizations wide generation of market intelligence pertaining to their current and future needs. To this effect, Bontis et al. (2002) extended the debate and pointed out that the dissemination of this intelligence must be done horizontally and vertically within the organization so that a competency in organization responsiveness to market changes can be developed.

It is true transactional activities can be provided to some degree by anyone in any business, but relational capital which creates business relationships that last must be cultivated because clients will continue to ascribe to firm qualities that distinguish it among its competitors and they are these qualities that foster firm performance (Castro, et al., 2004). Customer capital thus creates a distinctive value; not merely a differentiation but begins with your worthy intent towards your clients goals, passions, and struggles and it sets you on a path to advancing your business relationships in a way that leads to your ultimate success in today`s competitive environment (Maaloul et al., 2010). The principle of worthy intent is thus, the inherent promise you make to keep the other person`s best interest at the core of your business relationship (Wellbourne, 2008).

Despite the importance of relational capital, the value of this intangible asset arising from supplier relationship is not readily visible to external investors and analysts and this can be evident in the case of supply-oriented relationships. Also, Generally Accepted Accounting Practices (GAAP) still does not consider relations with suppliers to be inherently valuable to the company. More so, the most recent reform in 2002, pertaining to the way a purchase discrepancy is recognized in financial statements makes no reference to the intangible value associated with an organization's relationships with its suppliers (FASB, 2001).

Applying the concept of socialization (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 exist between organization and its suppliers (Cousins et al., 2006). Furthermore, Cic, (2003) stated that suppliers are partly responsible for the relations with the organization and its production factors (whatever it will be: goods or services, with financial or non-financial nature, or with tangible or intangible characteristics). Thus, relationship with suppliers creates an economic potential which the firm can rely upon in its value creation process. In fact, Baxter and Matear (2004) provide empirical evidence that the intangible value of business-to-business relationships leads to future financial performance. But, issues related to the present supply structure of the firm must be reviewed, as well as considerations about supplier relational process, outcomes of the relations with suppliers, and individual risk of each supplier at any certain moment.

The concept of social relational capital and its components

In the course of business activities, firms develop and establish a variety of inter firm social ties referred to as social relational capital. Nahapiet and Ghoshal (1998) define social relational capital as the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or organization. Social relational capital thus comprises of the relationship with external network and the assets that may be mobilized through that network. More so, Bourdieu and Wacquant (1992) describe social relational capital as the sum of resources, actual or virtual, that accrue to an organization or group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition. According to Putnam (1995), Social relations provide the organization with values such as solidarity and cooperation, especially when interactions fix patterns of obligations and expectations based on rules of reciprocity and equality (Adler and Kwon, 2002). Relationships benefit the corporative area of information, influence, control and power, possession of key information and the control of flows of information create business opportunities (Burt, 1992).

Furthermore, Lazerson (1995) argues that social relationships solve conflicts, improves consensus with surrounding organization, enhances the understanding with public administration, supports the development of business strategy, mitigates the imperfections of information in the market and reduces transaction costs. These actions benefit business activities, considering the citizen not only as citizen but as consumer and investor. In general, the market appears to reward socially responsible companies.

Nahapiet and Ghoshal, (1998) argued that networks of relationships constitute a valuable resource for the conduct of social affairs and much of this capital is embedded within networks of mutual acquaintances. Consistent with the above, Bontis et al., (2000) argued that it is this social relationship that increases the efficiency of action and aids co-operative behavior. Hinge (2006) further argued that network of relationships can yield tangible results if the parties involved are capable and willing to do so. Indeed, social capital theory puts emphasis on networks of mutual acquaintance and Hinge (2006) extends the argument that the parties in the partnership must be capable and willing to do so.

Thus, firm`s interaction with stakeholders outside its boundary are a source of knowledge (Nahapiet and Ghosgal, 1998). A firm’s networking partners are in many cases, the most important sources of new ideas and information that potentially could result in performance enhancing technology and innovations. By using networks to pool knowledge, gather and screen relevant information Ahuja, (2000) and by interacting with different partners, network ties situate firms at the confluence of different social domains. Relations focused on cooperation with several agents of the organizational environment as competitors, community, research centers, and so on, when they are run on a given on-going basis, are sources of, and important parts of organizational value. (Cic, 2003).

According to Gratton and Ghoshal (2003), it is argued that competitors can copy jobs, hire people and move their organizations to other countries where they pay less money to produce the same output, but they cannot produce long term and quality relationships overnight Nowadays it has been demonstrated that organizations must involve the general environment if they are to reach higher levels of performance. This way, the contribution relates to social responsibility of the firm with its financial outcomes, and Gatewood et al. (1993) focused on the role of corporate reputation in attracting and maintaining talented people. These issues also make it necessary to take into account the media treatment experienced by the firm, as a way to improve community relational processes.

Furthermore, the relationship with central government, provincial and county level government influences the decision-making of government officials who use personnel preferences in lieu of legal interpretation of rules. Governments at various levels have their own authority and powers in interpreting how they execute laws and regulations. Similar regulations can be interpreted differently by various bodies and may undergo particular processes under a specific bureaucracy. A firm that has good relationships with key bureaucrats will ease the risk of improper actions and will get things done by obtaining insightful information and scarce resources (Park and Luo, 2001). Therefore, when a subsidiary has increased the degree of relational embeddedness with government bodies it can enjoy the benefit of close relationships in order to facilitate its business operation.

Although having a good relationship with government bodies helps an organization’s capacity for acquiring new and valuable information to extend business operations, the firm should not be over-embedded with a specific group of government bodies. Over relating with government will cause counterproductive benefits as the firm only focuses on a specific group and pays less attention to others, which may also offer valuable information. Therefore, firms should have a balanced network with government bodies in order to optimize their activities. Aside from this, a firm is advised to focus on its resources and activities for business operation. Over relying on specific government bodies will distract the firm’s business operation that in turn hinders growth of the firm.

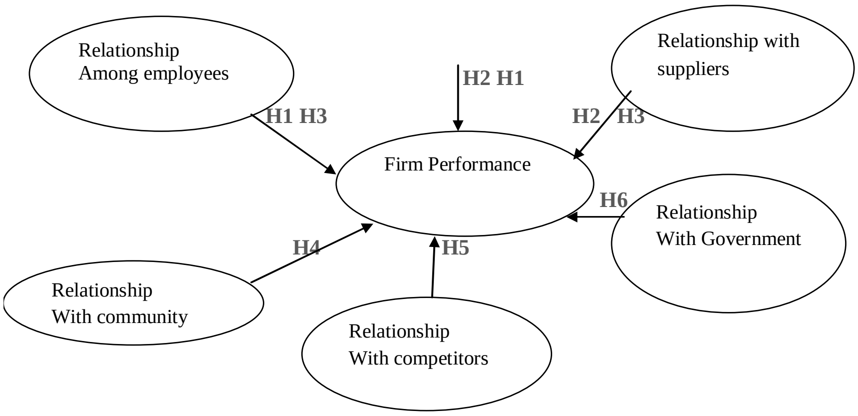

Figure 1. The conceptual model of relational capital.
Source: Adopted and modified from Euroform (1998), Cic (2003) and Tomas and Arkadiusz (2008).

Relational capital and firm performance

Relational capital may reduce organizational costs in many ways. The knowledge derived from employees, customers and suppliers and other business agents may result in process innovations that eliminate bottlenecks, increase output, 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 (Young and Snell, 2004). Additionally, relational capital should reduce organizational costs by increasing an organization's information processing capacity. Thus 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 information (De Declerq and Sapienza, 2006).

According to Maaloul, (2010), relational capital may affect customer satisfaction by increasing value that is offered at the market. It is thus worth noting that strong relational capital is instrumental in enhancing customer benefits by helping to increase quality and flexibility, creating value for the customers through production and service delivery process innovations. Furthermore, the networks with employees, customers and suppliers should be able to better identify as well as satisfy customer needs; this automatically promotes the turnover of organizations (Kijek, 2007) as shown in Figure 1.

Furthermore, relational capital components have a complementing effect on each other towards influencing firm performance. But research studies are inconclusive and provide mixed results.

For example, Welbourne (2008) observed that it is not the humans or people you hire that are assets but the relationships those people have that bring your company real value. He further observed that relationships, not just people, drive new sales and extend contracts; which are contrary to the observations of Wen-Yig et al., (2005) that the components of relational capital in influencing firm performance are not equally important. More so, Firer and Williams (2003) argued that in some industries and some countries relational capital constructs may play a more role than other intangible assets in enhancing firm performance.

Despite the relevance of all the existing literature, the fate of relational capital in influencing firm performance in less developed countries remains unclear. As pointed out by Kaufmann and Schneider (2004), more empirical research is needed to investigate the importance of different relational capital constructs on firm performance. The challenge now is to establish the significance of relational capital on performance of tea manufacturing firms in Uganda.

Hypotheses

The central hypothesis of the research considers relational capital as an essential component of intellectual capital that is assumed to improve performance of firms. Relational capital arises out of a relationship with business partners such as the relationship among employees, with customers, suppliers, community, competitors and government. The developments of the hypothesis presented here consider employees as central determinants of the relationships with all stakeholders in the company. The aforementioned assumption leads to the following hypothesis:

H_1: Relationship with customers positively influences firm performance
H_2: Relationship with suppliers positively influences firm

performance
H_3: Relationship among employees positively influences firm performance
H_4: Relationship with community positively influences firm performance
H_5: Relationship with competitors positively influences firm performance
H_6: Relationship with government positively influences firm performance
H_7: Relational capital positively influences performance of manufacturing tea firms

METHODOLOGY

Sample and data collection procedure

Tea manufacturing firms in Uganda are highly innovative because of the liberalization of industrial sector which brought competition in the region. These firms have been considered best choices for a detailed Relational capital study because networks are necessary to win over stakeholder to attain 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 that is limited to at least three senior managers per company, since the answer to most questions is not clear cut and therefore may depend on the perception of the person sampled. In order to increase the internal validity of the research, questionnaires were sent to multiple people of the same company.

To access information, we required a respondent with extensive knowledge of the firm's relational embeddedness with stakeholders in the network and these were considered to be managers. Moreover, the respondent needed to be able to perceptually evaluate the contribution of relational capital with regard to the performance of those tea firms (profitability).

The managers (at various levels such as estate managers, finance managers, field managers, human and administrative managers) 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 assess both the nature of the relationship and the gains (profits and sustainability) of the relationships developed over time by the firm. Such symmetry of information could not be as easily achieved by collecting data from other stakeholder such as suppliers, competitors, customers, community and others if the evaluation was to be made because little public information 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 measures (Brush and Vanderwerf, 1992; Lechner et al., (2006).

This approach consists of a selection of key information providers by virtue of their position, knowledge and information available (McEvily and Marcus, 2005).

RESULTS

The study has been answered by 17 firms (89%) and 59 (45%) managers from both public and private tea firms. Most managers studied 55% had worked in the tea firms for more than five years.

Testing the hypotheses

Principal component analysis was performed (Field 2006) and produced two factors of relational capital namely business relational capital with three components; customer capital (23.5%), supplier capital (18.7%), Internal network capital (17.1%) Appendix A and social relational which was explained by three components; competitor capital (25.1%), community capital (23.5%) and government capital (15.5%) Appendix B. Performance yielded two components (Appendix C) that explained 66.1% of variance as (profitability 46.4%, future viability 19.7%).

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 1 indicate that relational capital components of (customer capital $r=0.295$ $p<0.05$, Internal network capital $r=0.330$ $p<0.05$, competitor capital $r=0.434$ $p<0.01$ and community capital $r=0.293$ $p<0.05$) 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 like Kijek (2007), Bueno and Salmador, (2004) and Ulrich (1998). Other result; supplier capital $r=0.154$, and government relational capital $r=0.214$ indicate that there is no significant relationship with firm performance. This result disagrees with earlier findings made by Majorique (2010).

Regression results in Table 2 showed that relational capital components of customer capital ($Sig=0.044$, $p<0.05$), internal network capital ($Sig=0.032$, $p<0.05$) competitor capital ($Sig=0.024$, $p<0.01$) and community relations capital ($Sig=0.047$, $p<0.05$) significantly improve firm performance. Other results from the same table; supplier capital ($Sig=0.245$) and government relations capital ($Sig=0.936$) do not improve firm performance.

The overall regression results revealed that relational capital components put together account for 28.3% of the variation in firm performance.

DISCUSSION

Correlation results between the study variables

The study examined the relationship between relational capital components and firm performance in Uganda`s tea manufacturing firms. The results showed that relational capital components (customer capital, internal network capital, competitor capital and community relations capital) positively influence performance of tea manufacturing firms. This implies that when determining a mix of relational capital components that boosts performance, it must be done wisely and key attention should focus on only the significant variables.

Table 1. Zero order Pearson correlation matrix for the study variables.

Study variable	1	2	3	4	5	6	7
Customer capital (1)	1.000						
Supplier capital (2)	0.516**	1.000					
Internal network capital (3)	0.601**	0.519**	1.000				
Competitor capital (4)	0.438**	0.450**	0.508**	1.000			
Community capital (5)	0.487**	0.466**	0.453**	0.448**	1.000		
Government relations (6)	0.429**	0.357**	0.486**	0.324*	0.555**	1.000	
Firm Performance (7)	0.295*	0.154	0.330*	0.434**	0.293*	0.214	1.000

** Correlation is significant at the 0.01 level (2-tailed);* Correlation is significant at the 0.05 level (2-tailed).

Table 2. Regression model.

Model	Un standardized C		Standardized C	t. statistics	Sig.
	Beta	Std. error	Beta		
Constant	1.576	0.903		1.745	0.087
Customer Capital	0.187	0.222	0.172	2.314	0.044
Supplier Capital	0.246	0.209	0.192	1.177	0.245
Internal network capital	0.221	0.279	0.167	1.792	0.032
Competitor capital	0.357	0.153	0.357	2.324	0.024
Community capital	0.13	0.178	0.122	2.033	0.047
Government relations	0.019	0.239	0.013	0.081	0.936

R^2=0.231; Adjusted R^2 =0.283; F-Change=4.509.

Based on the regression analysis

As a whole, relational capital components account for 28.3% variance in firm performance. The 71.7% is suspected to be contributed by other intellectual elements of HC and SC which according to the findings of Kamukama et al. (2010) who argued that three elements of intellectual capital (HC, SC and RC) are important drivers to performance.

Results from Table 2 revealed a significant relationship between customers capital and firm performance. This result proves that ease in product access; product brand and packaging based on customer preference, handling complaints as they fall due, make customers buy again and again. This result supports H_1 and is further supported by the works of Fombrun and Shanley, (1990); Standifird, (2001) who stated that corporate reputation allows a surge of cross-selling, that it increases the number of loyal customers, or that it makes customers more willing to pay an over-price in acquiring products or services from top corporate reputation firms. If both theoretical frameworks are linked, this over-price will be the translation of the transaction cost reduction produced by the reputation to be involved in the transaction. Roberts and Dowling (2002) point out the value of reputation in differentiating products since reputation gives latent quality of products and customers would pay an overprice for these products.

The set hypothesis (H_2) did not show a significant relationship with firm performance and thus disagree with earlier results made by Kijek, (2007), Welbourne (2008), Tsai and Ghoshal (1998), Cousins et al., (2006) who argued that relying on value creators such as suppliers are a key to better performance. By engaging in a relationship with suppliers to win over them from competitors by paying a high price per kilo than it would have been, increases cash outflow that affects performance, yet the selling price per tonne of made tea does not increase because of stiffened competition. This is in conformity with Gregorio and Pedro (2005) who argued that there is need for less relevance to relations with the suppliers and if it is to be done, it needs special attention. It should be noted that this does not mean that the returns on relational investments are perceived as negative by the managers; it only indicates that there is a perception that the returns from such investment diminished when more capital is channeled to boost the relationships with suppliers. Therefore, H_2 has been rejected.

The results in Table 2 prove that the relationship among employees leads to improved firm performance. By this, the configuration of employees working in teams together with diverse culture composition is key ingredients to achieving internal networks and performance. These results concur with those made by earlier scholars such as Welbourne (2008), Tsai and Ghoshal (1998) who stated that teams rather than individuals and shared code of conduct among employees are key drivers of performance. The results provide a general support of H_3.

The tested results support the set hypothesis (H_4) and revealed a positive association between community/ social responsibility and firm performance. That the use of different strategies such as funding community activities and firms involvement in community works, results in reciprocity of wants that leads to improved performance. This concurs with McGuire et al. (1998) who argued that for organizations to reach higher levels of performance, there is need to be social responsible to citizens; this increases financial outcomes.

Empirical evidence from managers support H_5 which suggests that developing and maintaining durable relationships with competitors constitutes an important component of relational capital that improves firm performance. The relationship is built over time and the cost of building it is the capital involved in building a strong corporate brand, reputation and quick response to the market changes brought about by the industrial players. These findings are in agreement with Roberts and Dowling (2002) who argued that the value of reputation in differentiating products/services gives latent quality of products that would enable customers pay an over price for those products. Kogut (2000) from his study in computer and electronics manufacturing company found out that firms born in a certain industry can learn to operate in another one with the help of an appropriate ally, or simply from alliance networks to reinforce their competitive position.

Further too, the study finding revealed that there exist a weak relationship between government and firm performance, thus rejecting the set H_6. The use of different approaches that includes fulfilling government obligations as they fall due, paying taxes on time, affects the profitability and performance of the firm. There is a cost outflow (non quid proquo) that affects the profitability of firms by the 30% corporate tax to infant firms. These finding disagree with the findings of Rajan and Zungales (2000) who argued that ethics and corporate governance codes have a positive impact on creation of social capital, stimulating the solidarity and overcoming market imperfections. Additionally, good relationship may bring about tax waiving by the government, markets the firms products to the foreign markets, to only those that politically support them.

Finally, from the managers' perspective, the results in Table 2 revealed that a positive change in relational capital components boosts performance of tea manufacturing firms by 28.3%. These results imply that firms who value networks (with internal and external stakeholders) as part of their strategic chain model, their performance improves. The challenge with relational capital is that it comes at a cost (the theory of transactional cost by Coase, 1937). Maintaining a large network of business partners helps to spread generic relational investments across multiple relationships, but it also comes at a cost: managerial complexity (Hallikas et al., 2004). This complexity may counteract the anticipated economies of scale. Schuh et al. (2008) stresses the fact that the increasing complexity of collaborations in highly dynamic environments oftentimes is underestimated and that organizational transformation is necessary to co-ordinate the heterogeneity of a large portfolio of industrial collaborations. All these are regarded as high value creators which breed strong financial performance. These findings together with those made by other scholar`, support of H_7.

Conclusions

This research paper concentrated and explored the different components of relational capital and how they affect performance of tea manufacturing firms in Uganda. The paper concludes that relational capital and its components boost the association with firm performance by 28.3%. These findings help us to know the different relational capital components that contribute to performance. The ability to boost performance rests in the hands of managers in key strategic positions through team building, sharing organizational mission and values, and trust, and with customers through market orientation, that are key attributes of firm performance. Furthermore, firm managers who want to be business leaders must be socially responsible by relating with the community, build brand equity, produce long term quality products and focus on building corporate reputation. These are rare and difficult assets to imitate which key drivers are of performance (profitability and future viability). These findings are in line with the earlier made conclusions by Gratton and Ghoshal (2003), Hinge (2006). Thus, developing relationships with both internal and external stakeholders is an important necessity in the development of infant private sector in less developed countries of Uganda's nature to deliver and match stakeholder's expectations.

RESEARCH IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH

The study has introduced a clear understanding on the effect of relational capital on performance in tea manufacturing firms in Uganda. It also reveals that different components of relational capital are linked to firm performance. This promotes management efforts to improve performance which can be facilitated through the appropriate management of the leading components of relational capital in advance and input more resources in most important elements**.** Secondly, Management should endeavour to find and employ a viable relational capital mix component that increases firm value. Thirdly**,** the findings have contributed to the debate in the field of business on the factors that improve firm performance and lastly**,** Different scholars have provided different views on relational capital and its effect on firm performance, this study has brought to light the true composition of relational capital in the tea manufacturing sector in Uganda.

The study experienced the following limitations: The research design aimed at a multiple response per company (at least three senior managers per firm) to increase the internal validity of the study. This approach has an adverse effect on other external stakeholder. Secondary, this study collected data from 59 managers (45%) out of the total sample size of 132 managers. The response rate is sufficient for statistical analysis, a higher response rate would have been necessary to give the study more meaning. Thirdly, a single research methodological approach of data collection was used (structured questionnaire). This limited respondents' scope of answering since their views were predetermined. Lastly, A multiple regression for all the relational components was done thus producing a single R^2 for all the studied components. In addition the result (28.3%) for relational capital is relatively low an implication that there are other components of intellectual capital (human and structural capital) contribute to firm performance.

The study results may not be contingent on the manufacturing sectors and African countries, further research in different industries to confirm our initial findings are necessary. The respondent for the study be increased to cover other key stakeholders like customers, suppliers, community, government agencies. Secondary, a longitudinal study based on interview to the targeted respondents in manufacturing firms needs to be carried out over a length of time. Thirdly, an in depth hierarchical regression analysis for each of the component of relational capital against performance is required to determine the predictive power R2 of each component in firm performance.

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Appendix A

Rotated component matrix (a) for business capital.

Rotated component matrix (a)	Components		
	Customer Capital	Supplier Capital	Internal Network Capital
Our customers find it easy to access our products	0.804		
Our customers contribute a great portion to the factory profits	0.570		
In my factory, the average throughput time of invoicing is appropriate	0.615		
There are many clear openings to customers	0.595		
There are good network systems with customers	0.679		
The factory takes service nearer to customers	0.763		
We are highly royal to our customers	0.713		
New business ideas are usually got from customers	0.691		
The systems ensures that customers are always in touch with the factory	0.658		
Customers normally participate in deciding on the matters that affect them	0.798		
Existing customers help the factory to enroll or get new customers	0.579		
Customers help this factory to improve or update its services	0.828		
Customers' complaints are handled on time	0.628		
The collaboration contracts/agreements signed between suppliers and management is/are appropriate		0.543	
There exist clear openings with suppliers		0.562	
The factory pays suppliers promptly on time		0.504	
We have good relationship with suppliers		0.584	
Suppliers normally participate in deciding on the matters that affect them		0.812	
The factory networks with suppliers have made it what it is		0.712	
Our suppliers contribute to the factory profits		0.691	
Suppliers help this factory to improve on its product quality		0.561	
Informal activities (dinners, lunches, visits) are organized for employees			0.580
New employees find it easy to learn from old ones			0.616
Top managers mentor others in junior positions			0.784
In the factory, we have a high degree of team work			0.549
Our business unit discusses customers future needs with other department			0.675
We collaborate with members in our firm to solve problems			0.561
Eigen values	6.26	4.91	4.02
% Variance explained	23.51	18.70	17.11
% Cumulative variance explained	23.51	42.21	59.32

Appendix B

Rotated component matrix (a) for social relational capital.

Social relational capital	Component		
	Competitor	Community	Government
We have a strong corporate brand compared to competitors	0.858		
We are a reputable organization compared to competitors	0.896		
We are quick to respond to significant changes in our competitors pricing structures	0.608		
Our factory devotes an important part of its budget to funding community activities		0.639	
Our relationship with the community is good		0.642	
The government has helped our firm to be where it is			0.775
Our relationship with the government is good			0.576
We perform a lot of actions to spread our corporate values and beliefs			0.671
We pay our tax obligations to government on time			0.757
Eigen values	2.25	2.11	1.39
% Variance explained	25.09	23.45	15.49
% Cumulative variance explained	25.09	48.55	64.05

Appendix C

Rotated component matrix (a) for firm performance.

Firm performance	Component	
	Profitability	Future viability
Our factory is highly profitable	0.807	
Our factory has a positive stock (equity) returns	0.886	
Our factory has a higher market value	0.818	
We have a good return on investment (ROI)	0.875	
Our shareholders are happy with our policy on dividends	0.600	
We address the challenges of uncertain and dynamic business environment		0.729
Our going concern assumption is appropriate		0.678
Eigen values	3.24	1.37
% Variance explained	46.42	19.70
% Cumulative variance explained	46.42	66.12