

## **CHAPTER 1: INTRODUCTION**

### ***1.1.Contextual Background***

It has been observed that in many organizations there is lack of managerial awareness pertaining to the importance of relational capital. There are various scholars as well that have highlighted the benefits arising from the unaccounted for relational capital. It is believed that the portion of the value of company market that is attributable to its portfolios of business relationship that accounted for business account is represented by the relational capital, and there is widespread agreement on it (Siddiqui and Asad, 2014). CIC developed an intellectual model, and per this model, there are various layers where relational capital is put into.

The task related to the strategic factors' impact and the condition of industry on profitability and profits' persistence has garnered great significance. Furthermore, it is strongly believed that if managing the intellectual capital of the firm is effectively managed sustainable superior performance of the firm can be generated by it (Inkinen, 2015). Moreover, this management of intellectual capital is also considered as the most important strategic assets. The role of relational capital is indispensable in boosting the performance of the firm and its sustainability in the future (Sulait, 2010). There is no doubt that the post-modern form of the organisation is based on the structure of the networks are forecasted on successful relationship.

The level of uncertainty that cannot be dealt by the bureaucracy can be dealt by the organisation with the help of the network structures that are based on interconnection, which helps to enhance the effectiveness of the organisation. The organisation's tangible and non-tangible assets create the market value of the organisation. It is believe that virtually 80% market value of the organisation is resulted from the intangible assets of the organisation. The intellectual capitals of the organisation or the intangible assets are the joint assets of the

organisation, and these assets cannot be traced in the financial statement of the company. Nevertheless, the role of these assets is paramount and they greatly generate the future value of the organisation (Sulait, 2010). The intellectual capital is basically considered a difference between the market value and book value, and market value of the firm greatly hinges upon the intellectual capital of the firm. The future growth of the organisation is underpinned by the intellectual capital or relational capital of the firm, which is considered the most important financial resource and asset of the firm.

The value between the firm and its environment is referred to as the relational capital of the firm. The business capital and the relational capital are quite akin to each other. The firm's relational capital contribution to the value of organisation ought to be quantified by the firm. The intellectual capital is basically a broader term and the relational capital is come under the ambit of this term (Wang et al., 2016). In other words, the relational capital is basically a component of intellectual capital. Therefore, the performance of the firm can be evaluated from the potential of profit generating, value creation of stakeholders, and organisation's future viability.

### ***1.2.Problem Statement***

When it comes to the relationship between the relational capital and the firm performance, there is twofold impact of the relational capital and firm performance. Firstly, the cost reduction is resulted from the knowledge embedded in relationship among employees, suppliers and customers. Secondly, the satisfaction of the customers is affected by increasing the value of that is offered at the market (Kijek and Kijek, 2007). The cost of the organisation is reduced by the relational capital in many different ways. The organisation cost is reduced if there is effective management of relational capital, effective problem solving, better performance and troubleshooting (Díaz-Fernández, Gonzalez-Rodríguez and Simonetti, 2015). Furthermore, the

organisational cost is reduced when organisational's information processing capacity is increased by the relational capital.

The problem in this research was that the relationship between the relational capital and firm performance of automobile sector was quite conspicuous as there was direct relationship between them without the influence of any other variables. This direct relationship had become the subject of many researchers (Inkinen, 2015). There are sufficient amount of research that had focused on the direct relationship of relational capital and firm performance, but there had been very limited amount of study that focused on this relationship by considering the affect moderator (Wang et al., 2016).

The specific problem in this research was to relationship between the relational capital and firm performance by considering the moderating effects of the firm size on their relationship. In this manner, it could be analysed that how and to what extent the relationship between the relational capital and firm performance was moderated. Therefore, in this way the gap that had been existed in literature was filled.

### ***1.3. Aim and Objectives of the Study***

The main aim of the research was to analyse the relationship between the relational capital and firm performance by considering the moderating impact of firm size on their relation. Therefore, to attain the overriding aim of the research the following objectives were need to be fulfilled:

- To understand the concept relational capital, firm performance and firm size.
- To analyse the moderating effect of firm size on the relationship between relational capital and firm size.

- To highlight the significance of relational capital for the automobile sector of Pakistan.
- To provide set of recommendations to automobile sectors of Pakistan for improving the relational capital.

#### ***1.4. Research Questions***

There were following research questions:

- What are the concept relational capital, firm performance and firm size?
- What is the moderating effect of firm size on the relationship between relational capital and firm size?
- What is the the significance of relational capital for the automobile sector of Pakistan?
- What are relevant set of recommendations for automobile sectors of Pakistan for improving the relational capital?

#### ***1.5. Rational of the study***

The intent of this research was to depict the relationship between the relational capital and the firm performance, and to show the moderating role of the firm size in their relation. The main reason to conduct this research was to clearly demonstrate that how the size of the firm moderate the relationship between the relational capital and firm performance (Wang *et al.*, 2016). In various studies the relationship between the relational capital and firm performance had been focused on, but there were very few studies that had taken firm size into account to demonstrate the moderating role of firm size in the relationship between the relational capital and

firm performance (Youn, Hua and Lee, 2015). Therefore, this study focused on that what sort of moderating affect is imposed by the firm size on the relationship between the relational capital and firm performance, and to what extent.

### ***1.6. Significance of the Study***

There will be great significance of this research for the various stakeholders like top managers and various policy makers of the country. The upcoming decisions by the relevant stakeholders will greatly be supported by the main findings of the relational capital and firm's performance relationship and the moderating role of the firm size. Furthermore, the knowledge and understanding of strategies and polices that are necessary will be enhanced. The findings will provide great knowledge to the management and they will be able to employ these findings for the effective management of the relational capital, which will help to provide the firm performance that is sustainable. Lastly, the findings of the research will provide benefits to the future researchers for their purposes of future research.

### ***1.7. Structure of the Study***

The study was based on 5 different chapters. The chapters were:

**Introduction:** In this chapter the detailed overview of the study and the reason behind to conduct this research was focused on. In order to enhance the credibility of the research and to provide it broader picture, this chapter was divided into several parts, these parts were: Contextual background, problem statement, aim and objectives of the research, research questions, rational of the study and its significance.

**Literature Review:** In this section, the past and existing studies pertaining to the topic were reviewed. The review of literature helped to provide the strong foundation to carry out the research.

**Research Methodology:** In this chapter, different methods and procedures were discussed by the researcher to carry out the research. The justification for employing particular methods and approaches were also given in this section. Besides, it was also discussed in this chapter that through what way the data had been collected.

**Data Analysis and Discussion:** The focus on this chapter was on the findings of the study. In this the chapter the findings of the literature was focused on after interpreting the results that had been obtained through data collection. The findings of the research were also discussed in this chapter with respects to its relevant objectives.

**Conclusion:** This was the last chapter of the conclusion; in this chapter all the findings of the literature were concluded. Besides, the findings of the research were encapsulated in the form of summarised findings. In addition, the recommendations were provided to the relevant people, and future implications to the future scholars.