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Influence of relational capabilities on Business performance Case of: Kermanshah industrial city SMEs

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ABSTRACT: In today's dynamic business environment, due to the emergence of three influential trends including severe international competition, discrete markets and changing technology, the notion of firm performance is discussed more than ever. The trends have made business researchers pay special attention to the concept of relational capability as a critical factor in enhancing firm performance. And the concept has driven the firm performance towards market, customer and organizational relationships. Therefore the current researches study the effect of relational capabilities on the firm performance of small companies of Kermanshah Industrial city. Seven hypotheses were proposed for this purpose. The research method, according to the purpose of applied research and the manner of data collection is a descriptive and the analyzing of the model specifically is based on structural equation modeling (SEM) via AMOS software. The Statistical population included managers of small and medium industrial companies in the city of Kermanshah. Stratified sampling method, observations related to the questionnaire and variables of each question of the hypothesis were presented with a scale of 1 to 20. The results of the current research showed significant positive correlation between relational capabilities and firm performance. The overall obtained results of testing the research hypotheses were confirmed the proposed relations of the research. Establishing relationship with other companies predicts the maximum rate of changes in relational capabilities.

Keywords: Relational capabilities, Business performance and Industrial Small and Medium Enterprises (SMEs), Structural Equation Model (SEM).

INTRODUCTION

The needs and demands of our customers are always changing and understanding these changes is critical for the success of a firm. On the other hand, competitors are also looking for attracting more customers and in this way they will not spare any effort. Furthermore, changes in the conditions and rules governing the market, including technological changes, is effective on the success of firms at the market. Understanding and predicting these factors and providing a good solution in dealing with them play a key role in the success of the institution in target markets (Narver and Slater, 1990). How well a company can increase its competitive capacity is an issue that has been addressed in this paper. Several factors may be at work on improving the competitiveness of a business, such as international and national macro-environmental factors (economic, social, cultural, political, technological), micro-environmental factors or elements of the industry (suppliers, competition within the industry, the newly-arrived competitors, alternative products, sales intermediaries and customers) and factors related to the firm (both tangible and intangible assets and competencies) (Ali Divandri et al., 2008). Not only sensitivity to competition has increased in market in recent years, but also its nature changed, because firms' emphasis has changed from investments in tangible resources towards investments in intangible resources (Ramaswami and Srivastava, 2009). Of intangible resources in firm is capability to participate in organizational relations. The relation

capabilities are an advantage for a firm which can attract more vast business networks and relationships, and it is significantly related to the firm's capability to manage complex relationships (Ford et al., 2003, Moller and Torronen 2003). In commercial markets, such relation capabilities not only are considered as a guarantee for mutual (two-sided) understanding and interests in customers' relations, but also are the source of related market knowledge and strategic flexibility, and they are effective in formation of process (Webster, 1992, Hitt and Borza, 2001, Jacob 2006). Relation capabilities is a concept that in small and medium industrial enterprises is capable of regularly developing business transactions and further relationship with other firms and it facilitates achievement of goals by organization and its staff. In order to develop relational capabilities, a correct understanding of the market in a vast business network which includes the natural needs of investors is necessary (Farrell, Oczkowski, Kharabsheh, 2008; Green, McGaughey and Casey 2006; Nasution and Mavondo, 2008; Racela, Chaikittisilpa, and Thoumrungroje, 2007, Zhao and Cavugil, 2006). The present study focuses on the development of relational capabilities which help firm in establishing successful business relationships. Therefore, we attempted to investigate different concepts of the relational capabilities in Kermanshah small and medium industrial enterprises which give rise to systematic improvements in purposeful relational capabilities, supporting and enhancing business transactions and relationships with business partners, and eliminating the lack of information on competitors and reduce inattention to competitors. Therefore, considering the above, this study seeks to answer the question whether there is a relationship between relational capabilities and business performance or not.

Research literature
Relational capabilities

Relational capability means that partners active in business interaction can better understand specific information related to relationships and gain profits by collecting data. Another common feature in relational capabilities is the development of the firm's capabilities to communicate, collaborate and govern the mutual business relationships (Day and Van den Bulte, 2002, Dyer and Singh 1988, Jacob 2006, Paulraj, et al., 2008). Common element of the relationship capabilities focuses on the quick access to information, supporting new initiatives and new projects and competitive advantage of the achievements (Combe and Greenley, 2004, Fahy, et al, 2000, Lorenzoni and Lipparini, 1999, Weerawardena and O'Cass, 2004). Relational capabilities attempt to communicate with target customers to purchase from it (organization) again in the near future and encourage others to do so. The best approach to maintaining customers is creating greater satisfaction in them and attaching importance to what is considered valuable to him in order to establish strong customer loyalty towards the organization (Zohdi et al., «In press»). Relational capabilities have been found to play a key role in increasing sales volume or profits, gaining access to new markets, developing innovations (Ritter and Gemunden, 2003, Xu et al., 2008) Relational capabilities may enhance innovation and the co-creation of value – where small suppliers in relationship with their larger customers jointly create value in a relationship largely through cost or revenue benefits, building new competences and risk sharing (Ngugi IK. et al., 2010).

Business Performance

In an age of increasing globalization, competitiveness is a significant subject matter among the policy makers at different levels (national, industry and company) in different parts of the world (Shurchluu, 2002). Business is an enterprise approach to create incomes by a reasonable cost and to create or obtain value (Gambardella A. and McGahan, 2009). Most of marketing researchers argue that the subjective measures of performance such as customer satisfaction and customer loyalty are important factors affecting he objective criteria of performance such as profit margin ROI (Hooley GE, 2003).Many marketing activities directly affect the performance of customer such as satisfaction and loyalty; in addition, customer performance and market performance, influence firm's financial performance (Hooley GE, 2003). Therefore, the business performance consists of the three components market performance, customer performance and financial performance. In the performance of customer, customer loyalty and satisfaction are emphasized; the focus in the performance of the market is on value sales, sales growth and market share gains, and in financial performance, profit margin and ROI are focused (Hooley GE, 2003).Marketing researchers frequently have used the above criteria. Several studies also indicate reliability and validity of them (Slater SF, Narver JC, 2000).

Relational capabilities and Business performance

According to Lorenzoni and Lipparini (1999) there exists insufficient empirical evidence regarding the link between relational capabilities and firm performance, despite the growing literature on inter-firm relationships. However, most existing studies stress that for firms with high relational capabilities, superior benefits are expected. Specifically, Rodríguez-Díaz and Espino-Rodríguez (2006) argue that a particular competitive advantage, i.e.

associative advantage, is created through interactions with business partners and can only be achieved and sustained if firms develop dynamic capabilities to be able to continue such business relationships in the face of environmental changes. In cases of relationship dissolution, relational capabilities cannot immediately be reused and may be lost (Teece et al., 1997). Similarly, Dyer and Singh (1998) show that a relational advantage is created through the development of relational capabilities, and define it as "a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners" (p. 662).

the definition and importance of small and medium enterprises

The small and medium enterprises play an important role in the global economy and are one of the most significant factors in job creation, so they are increasingly receiving attention. In developing countries, small and medium enterprises play a significant role in employment creation, income generation and distribution (Ongori and Migiro, 2010). In Iran also more than 98 percent of the economy is dominated by small and medium enterprises (Sameni and Khoshalhan, 2009). United States has institutionalized its definition based on organization position in whole market and small and medium enterprises are said to be independently owned and not dominant in its field of operation. Quantitative methods are used more in Canada and England: small and medium enterprises have less than 50 employees are not subject to any other enterprise (Fathian et al., 2008).The importance of small and medium-sized enterprises is in summary as follows: an increase in the employment level more rapid than greater companies, an increase in the intensity of market competition, and reducing monopolistic competition (Todd and Javalgi, 2007).

Research background

The main research performed on the subject of the present study can be expressed as follows:
Maria Smimova et al., (2011) performed a study on "the impact of market orientation on the development of relational capabilities and performance output in the Russian industrial firms. The findings indicated that market orientation is an introduction to advancing relational capabilities and the performance of the Russian industrial firms. The study investigates the different effects of the components of market orientation including customer orientation, competitor orientation and inter-functional coordination either directly or indirectly. The study showing that in Russian industrial markets, competitor orientation directly has a positive impact on performance, while the other two components of market orientation (customer orientation and inter-functional coordination) have a more balanced impact on the performance of firms through the development of relational capabilities. Ngugi Ik. et al., (2010) in their study attempted to evaluate the productivity and innovation in SMEs and to examine those relational capabilities which were more developed by small and medium suppliers in relationship with customers. The results indicated that a known set of relational capabilities offered by small and medium suppliers enables them to inform and support the innovations conducted by firms, and also create an incremental value for the firms. In a study by Subramanian (2010) the relationship between market orientation and business performance in one hundred and fifty-nine intensive care units in U.S. hospitals is examined. In this study, in order to measure market orientation, structured scale is used and business performance is analyzed by the revenue growth criteria, return on investment and profit margin. The study hypothesis indicates a positive relationship between market orientation and business performance in these hospitals. Ali Divandri et al., (2008) in a study entitled "Market Orientation and Business Performance in Iran "concluded that according to experts, the conceptual model of market orientation and business performance in Iran is confirmed. All components of the model independently are important. About the relative importance, the two factors of market orientation and business performance are equally significant. The relative significance of the market orientation is respectively (1) response and strategic action, (2) coordinated systems and parts, and (3) culture and intelligent behavior. The relative significance of the components of business performance is respectively (1) the performance of the firm toward customer, (2) competitive performance (for competitor), (3) competitive performance (against opponent) and (4) the internal performance of firm.

The study conceptual model

A conceptual model is based on theoretical relationships among several factors that are diagnosed important in the study were diagnosed with. In such a model, showing the study variables, their relationship is taken into picture (Tabibi, SJ et al., 2009). This theoretical framework is circulated by reviewing research records in the subject reasonably. Given presented definition and prior research mentioned, researchers provided following conceptual model for relational capabilities influencing Business performance respect (figure 1):
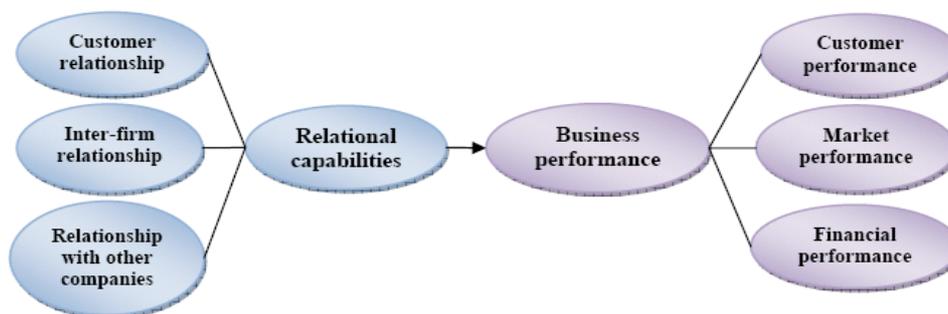
Figure 1. Research conceptual model

The Research hypothesis
1 the main hypothesis
There is a significant positive correlation between relational capabilities and business performance in Kermanshah small and medium firms.

the Sub-hypotheses
1) There is a significant positive correlation between customer relationship and business performance in Kermanshah small and medium firms.
2) There is a significant positive correlation between inter-firm relationship and business performance in Kermanshah small and medium firms.
3) There is a significant positive correlation between relationship with other companies and business performance in Kermanshah small and medium firms.
4) There is a significant positive correlation between relational capabilities and customer performance in Kermanshah small and medium firms.
5) There is a significant positive correlation between relational capabilities and market performance in Kermanshah small and medium firms.
6) There is a significant positive correlation between relational capabilities and financial performance in Kermanshah small and medium firms.

RESEARCH METHOD

This is an applied study which is descriptive-measurable in terms of data type. To investigate the relationship between the dependent and independent and study hypotheses using SPSS software, Pearson correlation coefficient is used. To test cause and affect relationships between the variables and studied components, multiple regression models were used, and ultimately to determine the optimal model, the relationships among variables were modeled by AMOS software (structural equation modeling). To determine how well a model works in explaining a set of observed data, particularly compared to other possible ones, the index values of (NFI), (RFI), (IFI), (GFI) and (AGFI) are used.

To test the above-mentioned hypothesis, a questionnaire was used as measurement instrument. Therefore, measurement of the method is based on field research. Data needed to test the hypothesis of research questions is used by a scoring method in the scale of 1-20. Therefore for the components of the relational capabilities variables 4, 4 and 5 questions were designed for customer relationship, inter-firm relationship and relationship with other agencies respectively, and for the components of the business performance variables respectively 4, 5, 4 questions were designed for the customer, the market and financial performance, respectively. And to assess the variables including relationship with customer, inter-firm relationship and business performance, the study conducted by Rezaei Dolatabadi and Khaefalahi, (2006) was used, and to assess the relationship with other firms Noorinya's study (2006) was used. In this study, Cranach's alpha was used to assess the reliability of the questionnaire and the obtained value is equal to 0.772, which indicates high suitability and reliability of the questionnaire.

In this study, statistical population included small and medium industrial enterprises in Kermanshah. Based on a report from the Kermanshah Industries and Mines Organization, 503 industrial units have been established in

the city, of them 456 units are small and medium industrial enterprises. To select the sample size for each class, proportional allocation method was used which is shown in Table 1.

Table 1. Sample size

Sample description companies	Class size(N_h)	Sample size(n_h)
Machinery	53	$n_1 = 132 \times \dfrac{53}{456} = 15$
Telecommunications	22	$n_2 = 132 \times \dfrac{22}{456} = 6$
Chemical industry	26	$n_3 = 132 \times \dfrac{26}{456} = 8$
Packaging	28	$n_4 = 132 \times \dfrac{28}{456} = 8$
Food industry	71	$n_5 = 132 \times \dfrac{71}{456} = 21$
Production of construction materials	33	$n_6 = 132 \times \dfrac{33}{456} = 10$
Wood working industry	19	$n_7 = 132 \times \dfrac{19}{456} = 6$
Appliance manufacturing	105	$n_8 = 132 \times \dfrac{105}{456} = 31$
Other	99	$n_9 = 132 \times \dfrac{99}{456} = 27$
Total	456	132

Data analysis

To analyze data, Pearson correlation coefficient is used. If significance level is less than 0.05, we conclude that a statistically significant correlation exists between the variables. The results of Table 2 indicate that at the significance level of (0.000), correlation coefficient between the relational capabilities and business performance is 0.571, which the calculated significance level is less than 0.010. Therefore, there is a positive and significant correlation between relational capabilities and business performance, i.e. by increasing relational capabilities in firms at internal and external organizational dimensions, business performance in industrial small and medium firms will be increased. The results from Table 2 show that at the significance level of (0.000), correlation coefficient between the variables is 0.571. Thus, there is a positive and significant correlation between customer relationship, inter-firm relationship and relationship with other firms, and business performance, i.e. by increasing customer relationship, inter-firm relationship and relationship with other organizations, the business performance in Kermanshah industrial small and medium firms will be increased. And in addition, results from the hypotheses 4, 5 and 6 in Table 2 indicate that the significance level among variables is less than 0.000, i.e. by increasing customer performance, market performance and financial performance in Kermanshah industrial small and medium firm will be increased. In general, the results and findings of study hypotheses test are summarized and presented in Table 2.

Table 2. Results of testing research hypotheses

Hypotheses	Research hypotheses text	Sig	Correlation Coefficient	Results
Major Hypothesis	There is a significantly positive correlation between relational capabilities and business performance in Kermanshah small and medium firms.	0/000	0.571	Not Rejected
Hypothesis 1	There is a significantly positive correlation between customer relationship and business performance in Kermanshah small and medium firms.	0/000	0.309	Not Rejected
Hypothesis 2	There is a significantly positive correlation between inter-firm relationship and business performance in Kermanshah small and medium firms.	0/000	0.389	Not Rejected
Hypothesis 3	There is a significantly positive correlation between relationship with other companies and business performance in Kermanshah small and medium firms.	0/000	0.536	Not Rejected
Hypothesis 4	There is a significantly positive correlation between relational capabilities and customer performance in Kermanshah small and medium firms.	0/000	0.397	Not Rejected
Hypothesis 5	There is a significantly positive correlation between relational capabilities and market performance in Kermanshah small and medium firms.	0/000	0.477	Not Rejected
Hypothesis 6	There is a significantly positive correlation between relational capabilities and financial performance in Kermanshah small and medium firms.	0/000	0.434	Not Rejected

Based on the results in Table (3) the best predictors of relational capabilities are relationship with other firms, inter-firm relationship, and relationship with customers. Based on the beta coefficient, for per unit increase in relationship with other organizations, relational capability of 0.324units will be increased, which predicts the maximum rate of the changes in the relational capabilities. The best predictors of business performance include market performance, financial performance and customer performance. Based on the beta coefficient, for per unit increase in market performance, relational capability of 0.218 units will be increased, which predicts the maximum rate of the changes in the relational capabilities.

Table 3. Predictors of relational capabilities and Business performance

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
Relational capabilities	(Constant)	6.867	1.272		5.399	.000
	Relationship with other companies	.324	.058	.425	5.576	.000
	Inter-firm relationships	.155	.052	.225	3.006	.003
	Customer relationship	.124	.061	.151	2.047	.043
Business performance	(Constant)	7.719	1.151		6.705	.000
	Market performance	..218	.060	.300	3.614	.000
	Financial performance	.190	.061	.252	3.126	.002
	Customer performance	.130	.055	.190	2.349	.020

Analysis of original model course and general fitness of research model

In this model, we aim to examine the relationship between the independent variables of the relational capabilities capability (customer relationship, inter-firm relationship and relationship with other organizations), with the dependent variable of the business performance (customer performance, market performance and financial performance). Thus, the multiple regression model is used and the desired model is as follows (Figure 2):
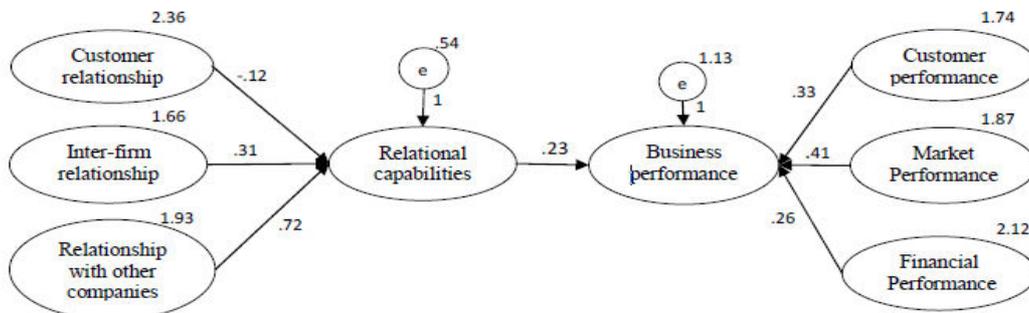

Figure2. Final model of research

Based on the model obtained it can be concluded that relational capabilities with regression coefficient 0.23 has an impact on business performance and showing that firms can improve their business performance by enhancing their relations. In this model, the highest regression coefficient effective on the relational capabilities is related to the relationship with other firms as a variable, which with the regression coefficient 0.72 has the greatest effect on the relational capabilities. Inter-firm relationship with the negative coefficient 0.12 indicates the lack of the effect of inter-firm relationships on relational capabilities. Customer relationship with a regression coefficient of 0.72 will affect the relational capabilities. The most effective factor on business performance is the market performance with the regression coefficient of0.41 and then the financial performance with the regression coefficient 0.33 and the customer performance with the regression coefficient of 0.26, respectively. In order to investigate the suitability of the model, the criteria in Table 4 are used. In the table, variables RFI, AGFI, GFI NFI, and IFI are large numbers confirming the suitability of the model, given the degree of statistics RMSEA is less than 0.05, the model is a good one.

Table4. Measure of final model fitness

RMR	AGFI	GFI	NFI	RFI	IFI	CFI	RMSEA	AIC
0.015	0.913	0.809	0.844	0.825	0.878	0.872	.035	77.94

RESULTS AND CONCLUSION

The findings of this study indicated that there is a significant positive relationship between relational capabilities and business performance, i.e. more increase in the scores of relational capability, the higher business performance of small and medium enterprises will be. The results are consistent with those of Maria Smirnova et al., (2011). The study results suggest that the notion of relational capabilities is a significant factor to gain competitive advantage and to succeed in small and medium enterprises. Obviously, establishing relational capabilities is time-consuming and it is not easily achieved, therefore, managers must more quickly before the establishment of a challenging competitive environment caused by newer advances in technology, expanding cross-border markets and globalization of business, achieve a better competitive position by means of consistent investment on relational capabilities, entrepreneurship and innovation, higher risk bearing of firms' managers, a more flexible organizational structure, rewarding system based on customer satisfaction and investing more time on issues related to relationship within and outside the organization and customer satisfaction and consequently improvement of inter-firm relation capabilities. The findings of this study show that managers' emphasis on improving relationships with other organizations as a key strategy for firm, boost success rate and enhance more the firm performance. The main assumption in the study is that the relational capabilities play a significant role in improving business performance and in this way it is possible to coordinate the individual and collective efforts of firm personnel in order to create superior value higher than competitors and achieve the optimum performance. Relational capabilities aim to develop inter-firm coordination and to coordinate activities between firms, which it could help the firm understand better each other and find two-sided helpful solutions. Managers can utilize relational capabilities as a as a leverage to increase their firms' potential interactions with business networks. The development of such capabilities makes corporate managers develop their ability to establish mutual relationship with economic partners. The results of the current study are consistent with those of Ngugi Ik. et al., (2010). The findings of this research show that the relational capabilities play key roles in the success of the firms.

Study suggestions
Based on the findings of the present study, following items could be suggested:
According to researchers, to advance the goals of the present study, it is suggested that small and medium industrial enterprises perform programs that based on relational capabilities could better improve business performance.
Staff training in the area of observing clients' respect, dealing with customers, identify customers' needs and demands, and solve their problems.
Creation and formation of work networks and the participation of employees in programs and organizational goals that will strengthen inter-firm relationships.
Holding teaching courses on inter-firm relationships for managers and companies officials.
To understand better customer performance in small firms it is proposed that the necessity and importance of emphasis on customer satisfaction is described by offering direct or indirect contacts and training of these factors for staff.
Achieving company's business reputation by offering high-speed and secure services for enhancing market growth and share
Corporate venture capital in financial and non-financial activities such as manufacturing, real estate, insurance and buy and sell stocks to achieve higher profits.

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