

The Role of Relational Capital for Entrepreneurial Firms

Entrepreneurial ventures play a vital role in any economy by providing essential goods and services, generating employment opportunities, and fostering competition with local and international giants.

They establish meaningful connections with internal and external stakeholders, which enable them to offer diverse and high-quality alternatives to consumers, ensuring their competitiveness. Okafor (2011) highlights the importance of relational capital, an integral component of intangible assets that reflects the relationships these ventures build within their environment. This capital comprises external and internal communication networks, all dedicated to nurturing long-term relationships with various stakeholders.

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This paper critically reviews existing literature, focusing on the significance of relational capital in entrepreneurial businesses. It explores how these relationships, whether with customers, suppliers, partners, or employees, create value for entrepreneurial ventures, contributing to their sustainable growth and competitiveness. Understanding the multifaceted role of relational capital empowers entrepreneurial firms to harness these assets effectively in the dynamic business landscape.

Aim and Methodology of the Literature Review

The objective is to investigate the significance of relational capital in the achievements of small and medium-sized [entrepreneurial ventures](#) (SMEs). To accomplish this, a comprehensive review of prior studies was conducted across various scholarly databases such as Google Scholar, Elsevier, Science Direct, and other online repositories of academic journal articles. The selection of journals primarily relied on

their inclusion in the ABS list, with a particular emphasis on major peer-reviewed journals specializing in entrepreneurship and small business.

The process of selecting articles was contingent on their relevance to the core theme, publication dates from 2010 onwards, and their coverage of various aspects associated with the implications of relational capital in the context of entrepreneurial ventures.

Relational Capital in Entrepreneurship

- Drawing from Okafor's (2011) research, relational capital is a facet of intellectual capital that burgeons through the influence of both internal and external relationships. External relationships are forged with entities like suppliers, customers, and even competitors. Moreover, the relationships within social circles, family, and external entities such as government institutions, regulatory bodies, and other community stakeholders hold significant value. These external connections not only contribute to the firm's and entrepreneur's reputation but also expedite the company's growth. Conversely, internal relationships encompass associations with employees, internal stakeholders, and the firm's partners.

In another study by Okafor (2012), the influence of relational capital on the success of small and medium enterprises (SMEs) in Nigeria was assessed. This study builds upon the prior research by Okafor (2011), which emphasized the importance of linkages with various groups and institutions such as government authorities, credit institutions, specialized organizations, town authorities, reputable firms, and individuals. These linkages provide SMEs with crucial information, knowledge, and essential resources. This perspective aligns with the viewpoint expressed by de Castro et al. (2004), which regards relational capital as a non-exclusive asset that fosters internal connections with proficient employees, access to knowledge, venture capital, and other resources in external markets. Furthermore, the article draws upon the assumptions of Ordonez de Pablos (2003) by underlining the role of information gathered from conferences and the policies devised by authorities and independent institutions in the progress of SMEs.

In terms of research methodology, Okafor (2012) selected 20 SMEs in two prominent Nigerian cities and conducted face-to-face interviews with either company owners or designated managers responsible for strategic decision-making. The quantitative data collected through interview questionnaires was analyzed using multiple regression analysis, chosen to assess the concurrent relationships between five independent variables and one dependent variable. The dependent variable measured the company's success, while the independent variables encompassed informal relations,

relationships with suppliers/customers, reputation, location, and [external relationships](#). The regression analysis results demonstrated two significant relationships: success with suppliers/customers' relations ($t=7.549$) and relations with external entities ($t=5.107$). The regression coefficient, $R^2 = .534$, indicated that slightly over 50% of the variance in success could be attributed to the independent variables. The paper concludes by recommending further future research to explore additional factors contributing to company success in relation to relational capital. These findings are consistent with the study conducted by Walker et al. (et al.), which underscores that firms cannot thrive in isolation and that their success is intricately tied to their relationships with stakeholders in both the external and internal environment.

Relational Capital Role in Collaborative Entrepreneurship

Entrepreneurs strive to gain resources and information from the environment to stay competitive in a rapidly changing business environment. Therefore, to access the resources that the business does not currently possess, materialising the formal and informal relationships is very important. According to Nunamaker et al. (2002), relationships with the environment are prompted more by collaboration and negotiation than competition. The role of relational capital in establishing collaboration with other firms and individuals helps to move forward and better coordinate with work. Also, Franco (2008) declared that partnerships, strategic alliances, and collaborative networks form productive inter-organizational collaborations but argued that entrepreneurial businesses, due to their financial and managerial restrictions, normally fail to establish relationships with all stakeholders in an institutionalised way. Hence, relational capital is linked with this relatively new field of study for SMEs. Though flourishing at a higher rate with the digital revolution and increased telecommunication resources, SMEs are quickly transforming ideas into business realities (Miles et al. 2006). So, the relational capital cap is a key player in building social interaction in collaborative networks.

Research on collaborative entrepreneurship by Welbourne and Pardo del Val (2013) suggests using a global network of companies to rapidly establish collaborative inter-firm relationships. The study also elaborated on the importance of human capital in establishing relationships for long-term success. For successful networks of SMEs, a continuous innovation strategy is also important to consider. This exploratory study was conducted with the senior leaders at a conference arranged by the Global Staffing Organization. The sample is selected from the attendees of the meeting. The total sample size finalised was 382 respondents who completed the entire survey, a

response rate of 19%. Though high-level executives were present at the conference, the purposive sampling and low response rate limited the scope of the research (Saunders et al., 2012). The findings of the paper help the authors to declare that human capital is not the only significant asset, but the relationships formed by that capital are the most important for a start-up business and SMEs. They also deduced that smaller companies focus more on establishing relational capital to survive in a competitive landscape.

Furthermore, another important discovery of Welbourne and Pardo del Val's (2013) paper was that relational capital is the most important factor in determining the success of small firms. This paper's primary finding and conclusion are that the speculative relational capital and the relationships formed should be in the right direction to complement management efforts. These results were used in several future studies, and this research has played an important fundamental role in determining the direction of studies. The limitation of the research was the inability to generalise any further due to the absence of control measures, lack of quantitative data, and limited selection of samples from a purposive technique. The complex questions could not be asked due to the parsimony approach used in data collection.

Relational Capital in Strategic Alliances

[Strategic alliances](#) and networking are essential in entrepreneurial business growth strategies. Liu et al. (2010) study is necessary to examine the impact of relational capital on the success of strategic alliances and the amount of knowledge transfer among the partners. The main proposition of the research was that a learning organisation that keeps high levels of internal and external learning could acquire knowledge from its strategic partners at a higher rate. The conceptual framework of this paper was based on the resource-based view, learning organisation theory, and relational view of intellectual capital. This empirical research has used a large sample of firms in the IT industry to collect quantitative data and then applied statistical tools. The results indicated that the active firms in gaining knowledge are active in information gathering and disseminating strategic alliances and joint ventures.

Relational Capital's Role in the Success of the New Venture

The success of a new entrepreneurial venture is one of the most important concerns in SME businesses. The paper of Hormiga et al. (2010) is selected to identify relational

capital as an important factor in assuring a new business's success. The evaluation of the most important factors for the entrepreneurial venture is challenging and requires ample information on the [environmental forces](#). The study used 130 new firms' samples to analyse the intangible assets on the success of the new ventures. The used statistical tool was Multiple Regression to test the stated hypotheses. This descriptive methodology-based research found that human capital was the most important aspect of business in the initial years.

On the other hand, human capital is closely linked with relational capital. It cannot work in isolation, and the role of knowledge acquisition and transfer is essential in external and internal environments. However, in the case of a project-oriented or team-based organisation, the role of the entrepreneur is shared by the team leaders. Furthermore, the role of relational capital becomes significant in the team-based organisation as a lack of intra-organization communication creates hindrances to the success of projects. The main limitation of the research is generalisations of results to all types of organisations, the impact of other environmental factors, and the role of other intangible assets not considered in the research.

In another research by Stettler and Schweiger (2012), establishing relational capital is a significant challenge in team-based entrepreneurial ventures. Shepherd et al. (2000) added that the teams in established and old businesses have well-defined procedures and practices compared to the new entrepreneurial companies. In contrast, the article of Stettler and Schweiger (2012) asserted that without defined structures and policies, entrepreneurial teams face difficulty in coping with challenging tasks. The issues with team management and the rapid changes in markets increase the importance of sharing relevant and updated information. This article has used the multiple-case study method and selected the Swiss firms operating in the German environment. This article declared relational capital as a necessary requirement to establish a successful complete team-based environment in new entrepreneurial ventures. The development of trust-based relationships was also evaluated in the teams of these similar-sized firms with teams' collaborations of at least six months.

Discussion of the Reviewed Literature

Okafar's (2012) study findings are important for entrepreneurs to evaluate the most important linkages in an external environment to create success in a shorter time. Also, the reputation of the business and entrepreneurs did not develop high relationships with success due to high rates of corruption and bribery in developing countries like Nigeria. Also, the role of relational capital in forming the firm's relationships as an important [intangible asset](#) is evident from this study. The limitation of the research is the small sample size, data collection in only two cities, and the interviewees' personal

perceptions about the condition and nature of relations also affected the results. Therefore, more research on the role of these variables in forming success and their direction of action is an important area for future research.

The main problem identified in available literature is that it is not systematically aligned in terms of the impact of relational capital on knowledge acquisition and the outcomes of strategic alliances. The main studies found in this regard are by Dyer & Hatch (2006) and Uzzi & Lancaster (2003) which draw the links between knowledge transfer and the development of relationships in strategic alliances. Also, Inkpen & Pien (2006) highlighted the connection between knowledge sharing and acquisition in joint ventures. The satisfaction drawn from the alliances in knowledge processing was found in the study by Norman (2004). On the other hand, these researches failed to remove a comprehensive link between relational capital and the behaviour of learning strategic organisation alliance in the article of Liu et al. (2010).

Moreover, the findings of Stettler and Schweiger's (2012) research demonstrated that contracting practices and team-based community structures are essential for entrepreneurial firms to build and maintain relational capital. In another research by Idowu and Ogundipe (2013), team-based relational capital-acquiring approaches are important in female-owned new entrepreneurial firms. The processes and procedures of information sharing and dissemination need to be clear and easy to implement.

Another important area discussed in the above review is the role of relational capital in building a collaborative network-based relationship in entrepreneurial ventures. The findings of Kale et al. (2000) in previous research account for the importance of respect, personal interaction, trust, and reciprocity in a professional environment. The findings of Welbourne and Pardo del Val (2013) were supported by the study of Thorgren et al. (2012). The [social dimension](#) plays an integral part in high-quality inter-firm relationships. Also, the study of Hormiga et al. (2010) supported the link between performance and the use of relational capital to act as a learning organisation. On the other hand, Hatch & Dyer (2004) argued that relational capital could not be built up in the short term, and effective networking and collaboration are required to establish the relationship. Hence, the assumptions of Hormiga et al. (2010) and Welbourne & Pardo-del-Val, (2008) are supported by other research that relational capital is one of the most critical assets and has a vital role in a company's success.

As relational capital generates value from relationships (Ordonez de Pablos, 2003), both in the external and internal environment of suppliers, customers, employees, and other stakeholders (Boedker et al., 2005), the direction of the establishment of the direction of this relationship is also very important (Marr and Roos, 2005). The outcomes of most of the research discussed above have declared the importance of this capital as an asset of the firm but also argued about the proper measurement and implication of this information sharing from the environment. Apart from personal

relationships, the exchange of knowledge related to the skills, location, and value of the firms, software, and ideas is also important to build trust and long-term relational capital.

Conclusion

In conclusion, relational capital is an important component of the [intellectual capital](#) of entrepreneurial businesses. The exchange of essential information with the environment positively impacts the new venture's performance. The role of suppliers, customers, and government bodies relationships are found to be most important in building up relational capital. Also, establishing the culture of a learning organisation is important to acquire knowledge in strategies of alliances and perform better in joint ventures. The team-based entrepreneurial business needs this capital to increase the efficiency of the communication process and team procedures.

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