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AN EXPLORATORY STUDY OF RELATIONAL CAPABILITIES AND BALANCED SCORECARD IN THE NIGERIA MANUFACTURING FIRMS

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Abstract

This study investigates the relationship between relational capabilities and balanced scorecard in the Nigeria manufacturing firms. A survey research method was used to generate data from employees working in various manufacturing firms in Nigeria. Simple and systematic sampling techniques were used to generate data from employees working in various Nigeria manufacturing firms. Responses from survey were statistically analysed using descriptive statistics, product moment correlation, and regression analysis with statistical package for social sciences (SPSS V.20). The results of the study confirms that a statistical significant relationship exist between relational capabilities and balanced scorecard in the Nigeria manufacturing firms. Thus, we suggest that firms should develop a good business relationship with their customers, develop good motivational skills and generally increase firm's performance.

Keywords: Relational Capabilities, Balanced Scorecard, Cooperative Relationships.

1.0 Introduction

The portent of cooperative relationships has become one of the most important areas in strategic management research in recent decades. It is broadly accepted that in a networked economy, in which pressures from globalization and technological change are more and more evident, value creation processes take place not only at the level of individual firms but also at the level of networks. Gnyawali and Madhavan (2001) define networks as cooperative relationships in which firms are embedded and which influence the flow of resources among them. Several literatures on cooperative relationships demonstrates that they enable firms to acquire important resources (including. technology, knowledge, and financial resources), gain access to new markets, increase responsiveness and flexibility, achieve greater efficiency of operations and in turn improve performance (Yli-Renko et al., 2002). These resources enable firm to gain competitive advantage in the industry.

The balanced scorecard was devised by Kaplan and Norton (1992), the balanced scorecard approach comprises four perspectives: learning and growth perspective, internal process perspective, customer perspective, and financial perspective (Kaplan & Norton, 1992). BSC is a strategic approach and performance management system which organizations can use for vision and strategy implementation. The BSC model comprises four new management processes that, separately and in combination, help link long-term strategic objectives with short-term actions (Kaplan & Norton, 1996). Numerous companies and industries have adopted BSC, which meets several management needs.

The BSC model is more than a collection of financial and non-financial measurements, and represents a translation of business unit strategy into a linked set of measures that define both long-term strategic objectives and the mechanisms for achieving and obtaining feedback regarding those objectives (Kaplan & Norton, 1996). Furthermore, Kaplan and Norton (2004) created a powerful new tool, strategy map, which companies can use to describe the links ~~between intangible assets and value creation wi~~th an unprecedented degree of clarity and precision.

Strategy map can be used to link processes with desired outcomes; to evaluate, measure, and improve the processes most critical to success, and to target investments in human, informational, and organizational capital (Kaplan & Norton, 2004).

The BSC model identifies four related perspectives on activities that are likely to be critical to most organizations and to all levels within organizations: (a) investing in learning and growth capabilities, (b) improving internal process efficiencies, (c) providing customer value, and (d) increasing financial success (Kaplan & Norton, 1992).

This article focuses therefore, firstly, on the potentially mediating effect of the development of relational capabilities and balanced scorecard in the Nigeria manufacturing firms which help companies build successful business relationships (Lorenzoni & Lipparini, 1999; Sivadas & Dwyer, 2000), and secondly, on the specific case of a transitional economy, i.e. Nigeria. Our objective is to investigate how different aspects of manufacturing firms contribute towards the systematic development of relational capabilities and balanced scorecard aimed at supporting and enhancing business interactions and relationships with various firms and improving performance (Hallén, Johanson, & Seyed-Mohamed, 1991; Ganesan, 1994; Araujo & Mouzas, 1997). These business relationships are based on inter-firm cooperation which has become an important means of competing nationally as well as globally (Achrol, 1997; Achrol & Kotler, 1999; Anderson, Håkansson, & Johanson, 1994; Håkansson & Ford, 2002; Uzzi, 1997). The advantages that a firm can gain from being embedded in business relationships and the wider business networks depends significantly on a firm's ability to manage within such complex relationships, i.e. a company's ‘relational capabilities’ (Ford, Gadde, Hakansson, & Snehota, 2003; Möller & Törrönen, 2003).

It is therefore against this background, that this paper investigates the relationship between relational capabilities and balanced scorecard in the Nigeria manufacturing firms. This study started with the introduction of relational capabilities and balanced scorecard relying on the works of past researchers. This was then followed by the literature review, research methodology, analyses of data and consequently the discussion/conclusion.

2.0 Literature Review

2.1. Understanding Relational Capabilities

Relational capabilities have been discussed in many different contexts. However, no single accepted definition of the terms has been developed. There are a few common aspects in how existing research defines relational capabilities constructs. The first common element is a focus on accelerating knowledge access, supporting innovativeness and competitive advantage creation (Combe & Greenley, 2004).

Thus, higher relational capabilities imply that partners involved in business exchange can better acquire relationship-specific information and gain benefit through knowledge integration. Another common dimension of relational capabilities highlighted in the literature is improvement of firm's ability to communicate, coordinate and govern business interactions (Day & Van den Bulte, 2002). For example, Jacob (2006) has developed a relational capability construct containing three key dimensions – process configuration capability, customer communication capability, and control capability.

These dimensions measure a firm's ability is to provide customized solutions for industrial customers as an indicator or relational capability. This approach is supported by Rodríguez-Díaz and Espino-Rodríguez (2006) who state that the development of relational capabilities leads to "integration of processes by related companies in such a way that greater integration means greater cooperation, higher commitment and trust, greater transfer of knowledge, greater innovation capability and a simplification or elimination of activities" (p. 489). Finally, relational capabilities are commonly associated with facilitating development of trust and reliance (Baker, 1992), increasing trustworthiness within relationships and readiness for further collaboration. Relational capabilities provide a specific issue in the context of business interactions in transitional economies such as Nigeria.

Several studies have focused on understanding firm behavior and the role of business culture in forming relationship practices in Russia (Ayios, 2004; Salmi, 2004). These have reinforced the view that the role of interpersonal relationships remains as important now as it was in Soviet time. This creates a unique feature of the Russian economy: there often exists insufficient trust or reliance among the firms, while high levels of trust nevertheless exist on an interpersonal level (Butler & Purchase, 2008). Farley and Deshpandé (2005) point in this context to the fact that firms in business-to-business markets in the Soviet time had a "supplier orientation" with the "customer absorbing almost all risk as well as tolerating poor quality and irregular delivery" (p. 7). It has been argued that within a centrally planned economy, as long as a firm accepted the plan, there was no need for firms to pay attention to planning interactions with business partners in a systematic way (Johanson, 2008).

Following the logic of business relationships culture development in Nigeria, it is important to investigate not only the ability to interact effectively with business partners as part of a collaborative relationship due to knowledge and experience at the interpersonal level (Salmi, 2004), but rather to analyze the firms' organization-wide competences, in the case of our research the relational capabilities based on the adaptation of routines, process configuration, communication systems, and control mechanisms (Jacob, 2006). For the purpose of this study, we therefore adopt the approach developed by Jacob (2006) in conceptualizing relational capabilities as a three-component construct. As stated above, this conceptualization of relational capabilities has already been empirically tested, and it allows analyzing the structural approach to developing relational capabilities by incorporating key sub dimensions and their level of development in a firm. Hence the following hypotheses were proposed:

2.2. The Balanced Score Card

The BSC was introduced by Kaplan and Norton (1992). It is a management approach that enables an organization to clarify its vision, develop and communicate a strategy to achieve that vision and translate that strategy into action. The BSC typically identifies four critical business functions and advances both financial and nonfinancial measures to guide implementation and evaluation. A primary objective of the BSC approach is to prevent dysfunctional management behavior and decision making fixated primarily or exclusively on short-term financial performance. A primary impediment to successful implementation of the BSC approach is the potential confusion and ambiguity caused by multiple performance measures (financial and non-financial). Multiple performance goals can lead to goal ambiguity that in turn can undermine a primary objective of a BSC (that is, a clarified and embraced vision and implementation strategy; Kaplan & Norton, 1996: 53).

Thus, effective communication of corporate strategy throughout the organization via such means as a pictorial strategy map is crucial to the success of a BSC implementation (Tucker, Meyer, & Westerman, 1996; West & Meyer, 1997). However, it is imperative that the strategy map communicate the intended prioritization or relative equality of goals. (e.g., the stakeholder approach: Atkinson, Waterhouse and Wells, 1997), the typical BSC consists of four perspectives: financial, customer, internal/process, and learning and innovation. Each perspective provides a different view of the organization, the related business processes and how these business processes contribute to the successful implementation of the corporate strategy. The financial perspective emphasizes financial objectives; and financial perspective metrics measure economic performance in terms of financial outcomes. Typical financial goals deal with profitability, return on investment, and growth. A second perspective is a customer perspective.

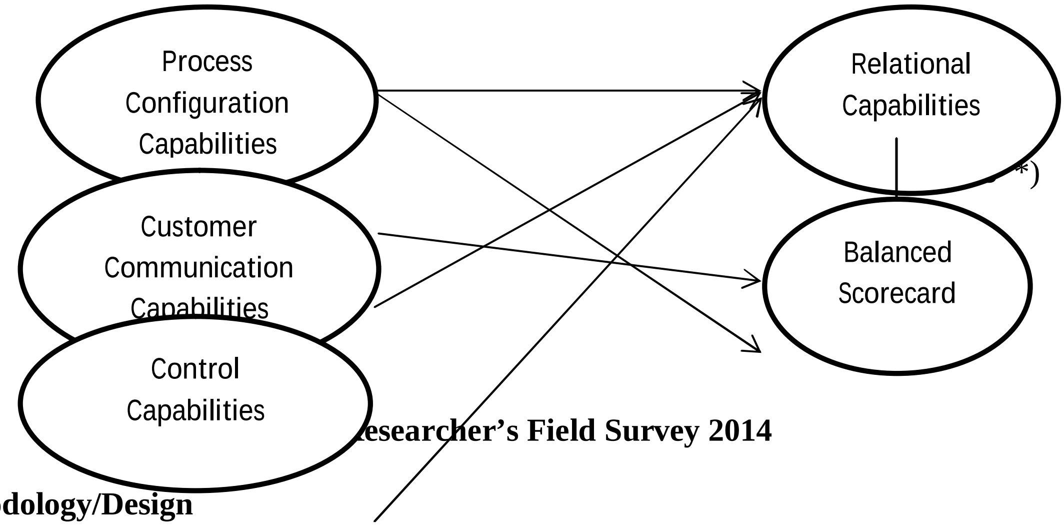
The customer perspective translates an organization's customer service mission into specific objectives and consists of metrics that are customer focused. Examples are consumer satisfaction indices and market share. A third, internal perspective focuses on defining critical internal operations (and objectives) that enable a company to increase shareholder value over time. As in the customer perspective, the related metrics may be quantitative, qualitative, financial or non-financial. Examples are employee safety and satisfaction indices and measures of corporate responsibility. A fourth and final perspective deals with the infrastructure that supports the strategic goals in each of the other perspectives. The fourth perspective, therefore, deals with learning and innovation. That is, it deals with the development of a set of organizational capabilities that ensure continuous improvement of human resource capabilities, knowledge management and sharing of information.

Hence the following hypotheses were proposed:

H_{o1}: There is no significant relationship between relational capabilities and balanced scorecard in the Nigeria manufacturing firms.

H_{o2}: relational capabilities and balanced scorecard has no significant impact on Nigeria manufacturing firms

H$_{o3}$: There is no significance difference between the mean of firms whose relational capabilities and balanced scorecard are high and those of firms whose relational capabilities and balanced scorecard are low.



Researcher’s Field Survey 2014

3 Methodology/Design

A cross sectional survey design was adopted to examine the relationships that exist between relational capabilities and balanced scorecard in the Nigeria manufacturing firms This study also follows an anova research strategy and helps in predicting behavior, thus justifying the use of survey research (Bordens & Abbott 2002). It also examine whether or not a relationship exists between the variables of study (Kerlinger, 1973). Data was generated from manufacturing firms across Nigeria on a wide basis relating to relational capabilities and balanced scorecard in the Nigeria manufacturing firm.

The study population considered of manufacturing firms in Nigeria. Since 55.2% of Nigeria’s 2,250 manufacturing firms are based in Lagos state (MAN, 1994, 2003). Lagos was considered a good representation of the manufacturing firms in Nigeria. Therefore the population sample was taken from Lagos state. With the help of field research assistants, the questionnaire was administered to the manufacturing firms.

The technique used in the selection of participating manufacturing firm was a simple and stratified random sampling technique. A total of 600 copies of the questionnaire were administered to the firms but 511 were completely filled and returned. This represent 85.2% response rate. Sampling is a part of the entire population carefully selected to represent that population. The justification for using simple random sampling technique is that it eliminates the likelihood that the sample is biased by the preference of the individual selecting the samples (Bordens and Abott, 2002). Another justification is that it is particularly essential when one wants to apply research findings directly to a population (Mook, 1983).

The participating manufacturing firms constituted the analysis. The administration of the questionnaire was done on one senior manager or CEO at each firm surveyed. The use of primary data method is justified since according to (Cowton, 1998). It is the quickest and simplest of the tools to use, if publication is the objective.

3.1 Analytical tools and Hypotheses Tests and Results

To derive useful meaning from the data, and examine the propositions of this study, data from the survey was analyzed using SPSS 17.0 (Statistical Package for Social Sciences) focusing on the descriptive and inferential statistics. Descriptive statistics such as mean, percentages and frequencies were employed in the study to measure demographic characteristics of respondents, to answer research questions relating to relational capabilities and balanced scorecard in the Nigeria manufacturing firm. They are not meant to test a formal research hypothesis, but rather the summaries from a sample that characterize that sample. Pearson Product-moment correlation was used to examine the existence of relationship between relational capabilities and balanced scorecard in the Nigeria manufacturing firms. Regression Analysis was used to ascertain the amount of variations in the dependent variable which can be associated with changes in the value of an independent or predictor variable in the absence of other variables

4.0 Results and Discussion

4.1 Socio-Economic Characteristics of the Survey

Table 1: Demographic Profile of Respondents

		Frequency	*Percent*
	Female	201	39.3
Sex	Male	310	60.7
	Total	**511**	**100.0**
	Less than 30	198	38.7
	30 but less than 40	110	21.5
Age (in years)	40 but less than 50	98	19.2
	50 but less than 60	70	13.7
	60 and above	35	6.8
	Total	**511**	**100.0**
	Single	358	70.0
	Married	118	23.09
Marital Status	Divorced	10	1.9
	Widower	15	2.9
	Widow	10	1.9
	Total	**511**	**100.0**
	Bachelor's degree or	315	61.6
Educational	equivalent	110	21.5
Qualification	Master Degree	86	16.8
	Professional qualification	**511**	**100.0**
	Total		

Source: Survey 2013

The demographic profile of respondents in Table 1 reveals that majority of the respondents were male, constituting 60.7% of all the respondents. Respondents who were 30 but less than 60 years old make up 54.4% of the entire respondents. Those who were less than 30 years old constitute only 38.7%, while 60 years and above constitute an insignificant proportion (6.8%) of the entire respondents. Majority of the respondents sampled were single and they constitute 70.0%, while 23.09% were single. The divorced constituted a percentage of 1.9% of the entire population, while the widower and widow make up only 4.8% each. Also, in terms of educational qualification, majority (61.6%) of them were Bachelor's degree or equivalent holders. Respondents who were holders of master's degree constitute 21.5% while those who had professional qualifications make up 16.8%.

4 Emperical Results

4.1 Variables and Measures

4.1.1 Relational Capabilities

Concerning, relational capabilities a five-point Likert scale involving three items developed Jacob (2006) was adapted. The scale range from "strongly agree" to "strongly disagree" was applied to assess a firm's emphasis on relational capabilities. Respondents rating on all items were summed up and averaged to obtain relational capabilities index. Relational capabilities index is classified high when the index is equal to or greater than 4.0 and low when it is lower than 4.0. A reliability score of 0.98 was obtained from the Cronbach;s alpha test using the adapted scale from Jacob (2006)

4.1.2 Balanced Scorecard

For balanced scorecard, a five-point Likert scale involving four items developed by Kaplan and Norton, (1992). The scale range from "strongly agree" to "strongly disagree". The scores of three items were summed up and average to determine the index of balanced scorecard relational. An index of less than 4.0 was considered as low balanced scorecard while an index of 4.0 and above was considered as high balanced scorecard. The scale has a reliability score of 0.85 generated from Cronbach's alpha test.

4.2 Mean Indices, Correlation Coefficient, Regression Analysis And Independent Samples Test

4.2.1 Tests For The First Hypothesis

Table 3: Mean index of Relational Capabilities

Entrepreneurship Skills Indicator	*Frequency*	*Average Weight*
1. Process Configuration Capability	511	4.04
2. Customer Communication Capability	511	3.70
3.Control Capability	511	4.12
Mean of Means	511	4.10
		4.12

Sources: Survey 2014

With respect to relational capabilities and balanced scorecard in the Nigeria manufacturing firms, the mean index of participating firms were 4.12 and 4.03 respectively (see Table 3 and 4) H1 was tested through correlations coefficient test. Pearson's product moment correlations coefficient (0.847**) indicates that relational capabilities and balanced scorecard are significantly and positively correlated with each other at 0.01 level of significance. Therefore, the null hypothesis of no significant relationship is rejected. Hence, there is a significant relationship between relational capabilities and balanced scorecard in the Nigeria manufacturing firms.

Table 4: Mean index of balanced scorecard

Firm performance indicator	*Frequency*	*Average weight*
Financial perspective	511	4.19
Customer perspective	511	4.24
Internal business process perspective	511	3.97
Learning and growth perspective		**4.03**
Mean of means		

Sources: Survey 2014

Hypothesis (Ho_2) was tested by a means of a Regression Analysis. The results of the regression analysis of the relationship analysis of the relationship between relational capabilities and balanced scorecard in the Nigeria manufacturing firms are shown in Table 3. Table 5 shows the analysis of variance of the fitted regression equation in significant with F value of 971.616. This is an indication that the model is a good one. It shows a statistically significant relationship between the variables at 95% confidence level. Therefore, the null hypothesis of no significant impact is rejected

The R^2 statistics in Table 5(a) indicates that the model as fitted explains 89.3 of the total variability of manufacturing firms. In order words, 89.3% of the total variability of manufacturing firm can be explained by relational capabilities and balanced scorecard. The value of R^2 = 0.893 shows that relational capabilities and balanced scorecard is a good predictor of manufacturing firms.

The standardised coefficients (Beta) value in Table 6(c) reveals that the independent variable is statistically significant at 0.05 significance level.

Table 5a: Model summary

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
R/P	.945[a]	.893	.892	.50823

Table 5b: ANOVA

Model		**Sum of square**		**Mean Square**	**F**	**Sig.**
R/P	Regression Residual	250.962 29.962 280.924	1 133	17564.687 24.284	773.304	.000

Table 5c: Coefficients

Model		**Unstandardized coefficients**		**Standardized Coefficients**		**Sig.**
R/P		**B**	**Std Error**	**Beta**	**T**	**P**
	(Constant) Relational Capabilities & Balanced scorecard	.033	.136	.847	.242	.000
		.996	.032		31.171	.000

Dependent Variable: Manufacturing Firms in Nigeria

$p < 0.05$

Table 6: Independent samples test on manufacturing firm that have high entrepreneurship skills and relational capabilities and those that have low entrepreneurship skills and relational capabilities

6 a: Group statistics

	Relational capabilities & Balanced scorecard	*N*	*Mean*	*Std. Deviation*	*Std. Error Mean*
Manufacturing firm	Low	511	4.2342	.89442	0.05726
Index	High	511	3.5674	.34401	0.01667

6 b: Independent samples test

	t-test for Equality of Means					
	T	**Df**	**Sig. (2-tailed)**	**Mean Difference**	**95% Confidence Interval of the Difference**	
					Lower	**Upper**
	-15.948	**668**	**.000**	**-.77495**	**-0.87036**	**-0.67954**

Hypothesis (Ho_3) was tested using independent sample test. The results of the independent sample t-test as revealed in Table 6(a) show that manufacturing firm mean index (4.23) of firms with high relational capabilities and balanced scorecard is different from the manufacturing firm mean index (3.56) of firms with low relational capabilities and balanced scorecard. The difference between the two mean was found to be statistically significant at $p < .05$ [Table 6(b)]. Therefore, the null hypothesis of no significant difference is rejected. Thus, there is a significant difference between the mean of firms whose relational capabilities and balanced scorecard are high and the manufacturing firms whose relational capabilities and balanced scorecard are low.

5.0 Discussion and Managerial Implications

This study has revealed the importance of relational capabilities and balanced scorecard in the Nigeria manufacturing firms. Findings reveal that there is a significant relationship between relational capabilities, balanced scorecard in the Nigeria manufacturing firms.

This study investigated the relationship between different aspects of relational capabilities and balanced scorecard on one hand, and performance implications for firms on the other. Specifically, the question as to whether relational capabilities and balanced scorecard has direct or indirect effects on firms in the Nigeria manufacturing firms. Indirect or mediating effects were tested via including the construct of relational capabilities which represent a company's abilities to foster collaborative business relationships. Therefore, this study contributes to a better understanding of the link between the different components of relational capabilities and balanced scorecard by identifying that both direct as well as indirect positive influences (via the development of relational capabilities and balanced scorecard) exist in the Nigeria manufacturing firms.

The major implication of this study to business managers is that in a planned economy personal relationships played an important role. With a freer hand in deciding with whom to do business, managers within Nigeria companies need to develop their own abilities to interact with economic counterparts, not just learning to interact 'better,' but also learning to choose better, that is identifying those potential partners that can enhance business performance the most (Butler & Purchase, 2008).

We conclude that investments in the development of firms performance and routines, aimed at improving long term survival, and better relationships capabilities are indeed paying off for Nigeria firms. A commitment to implementing such performance and capabilities indicates a long-term orientation and supports evidence of the changing nature of inter firm relationships in the Nigeria industrial markets (Shodiya, 2014)

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