Relational capital and intellectual capital management at enterprises in transitional countries: the case of Vietnam

Abstract. The paper aims at investigating current status of relational capital (RC) management as a part of intellectual capital management among enterprises of emerging economies given the increasing importance of this intangible asset and very limited research in this context. With a sample of 189 enterprises through various sectors in Vietnam, statistical method was employed to shed light on how they have been managing their intellectual capital (IC) and, more importantly, five different RC factors, including customer relationships, supplier relationships, public relationships, investor relationships and partner relationships. The findings witnessed that relational capital is the strength of firms, with customer relationship and supplier relationship being top performing factors. Based on the results, several recommendations are proposed to improve the RC management capability in transitional countries. RC management should be linked to strategic management, in which RC strategy must emanate from and towards achieving the strategic goals of firms. However, RC strategy and its development plan need to be built based on a comprehensive analysis of business strategy, competitive strategy, and intellectual capital analysis. There is also a need to raise awareness and understanding among managers about RC. Enterprises need to apply many measures to improve RC management capacity of managers.

Keywords: Intellectual Capital; Intellectual Capital Management; Emerging Economy; Vietnam; Human Capital; Structural Capital; Relational Capital

JEL Classification: L14; M10

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1. Introduction

Intellectual capital is all the knowledge that businesses use to gain competitive advantage [1-2]. Edvinsson [3] defines intellectual capital as the possession of knowledge, practical experience, technology, customer relationships and occupational skills, which gives a company a competitive edge in the market.

Knowledge is an important factor in creating competitive capabilities for firms. According to knowledge-based theories, the difference in performance between enterprises is due to the difference in intellectual capital between firms. Given the complexity and instability of economic, social and cultural conditions, competitiveness of enterprises depends not on only conventional material and financial resources but also on knowledge assets to create sustainable competitiveness [1]. In fact, a number of studies have been conducted to examine how intellectual capital contributes to business results and creates value for the company [3].

Due to pressures from intense competition and rapid development of information and communication technologies, it is imperative for firms to reconsider the origins of competitive advantage and the source of value creation. This has led to the emphasis on innovation. Unquestionably, knowledge is increasingly playing a particularly important role in the innovation process as well as support for enhancing the capacity for innovation [2; 4].

In emerging economies such as Vietnam, dynamic companies are drivers of growth [5]. In Vietnam, the number of companies has significantly increased in recent years and many have proven their success. However, even though there is a great deal of research carried out about intellectual capital, its constructs and management in the Western countries, there is limited research in emerging Asian economies that have experienced significant economic growth in recent years. In Vietnam, intellectual and especially relational capital research has not yet received adequate attention.

The authors have accordingly extended the focus on the relational capital as one of the elements responsible for value creation in the organisation. In fact, this paper first seeks to investigate how firms in Vietnam are managing their relational capital, which is a very distinctive and important type of intellectual capital. Actually, the attitude of managers about relational capital and its improvement has a huge impact on the importance of its management. Then, recommendations are suggested to improve their capabilities in managing this very valuable intangible asset so that they can improve their positions in the market and to achieve high efficiency in the context of greatly integrated economy.

Overall, the major implication of the paper is to advance knowledge and practice in the area of relational capital management by focusing upon empirical research and current issues in an emerging economy. The deepening of knowledge of how enterprises in emerging economies manage the relation of their businesses can contribute to the improved effectiveness of their policies.

2. Brief Literature Review

2.1. Intellectual capital and relational capital

In today’s knowledge economy, the most important asset of making the companies valuable and competitive are the intangible ones. These assets have been defined as intellectual capital since late 1990s [6-7]. Although there exists a variety of definitions for intellectual capital, “knowledge that can be converted into value” can be accepted as a comprehensive definition [6]. Intellectual capital is the sum of the knowledge assets of an organisation and has the most important contribution to improving the organisation’s competitive position through the creation of value for identified key stakeholders [8]. Intellectual capital is also defined as knowledge generation, knowledge about knowledge and how these processes can be leveraged into some form of social or economic value.

What constitutes intellectual capital is also varied among the authors. Smith and Parr [9] decompose the intangible assets to single out four elements: rights, relationships, un-defined intangibles and intellectual property. Blair and Wallman [10] identify ideas, special skills, organisational structures and capabilities, brand identities, databases and networks. Edvinsson [6] and Meritum [11] define intellectual capital in terms of human capital, structural and relational capital based on the knowledge contained.

Relational capital there are many different definitions about relational capital provided by different researchers. Initially, the emphasis is on the relationships with customers and suppliers [3; 6; 12-13]. Gradually, concepts such as commercial power, environmental activities, relationships with internal and external stakeholders as well as the relationship between the community and business agents are also reflected on relational capital [12; 15-16]. In this study, pursuant to the definition of Bonnits [13], relational capital is defined as all resources associated with external relationships of the business such as customers, suppliers and R&D partners. Relational capital includes a portion of human capital and structural capital that engages in business relationships with external stakeholders (investors, creditors, customers, suppliers, competitors, universities, etc.) along with their perception of the company.
However, relational capital is the most difficult of the three subcategories of intellectual capital (IC) to develop, since it is the most external part to the organisation’s core. Relational capital is a non-exclusive property of the firm [17]. This implies that it is even more important to consider an approach towards a high awareness of the relational capital of an organisation. After all, relational capital is knowledge embedded in relationship most external to the company [18].

2.2. Intellectual capital management and relational capital management in Vietnam

Most of the world’s current intellectual capital research is conducted with regard to Western countries. More specifically, intellectual capital research has been generally focused on the USA, the UK, Scandinavian countries, Australia, Canada, Austria, Ireland and South Africa [19], as well as some Asian countries, such as Malaysia and India [13]. In contrast, the research of intellectual capital in Vietnam has not yet received adequate attention.

Most works written on the transition of Vietnam toward the market economy tend to provide a general picture of economic development, with little focus on the role of intellectual capital in the transition stages.

At the industry level, the role of intellectual capital is evidenced in the development of the service sectors, many of which are intellectual capital intensive. The economy is divided into three main sectors: agriculture and aquaculture, industry and construction, and trading and services (such as retail trade and export services). However, in recent years the trading and services sector has been leading the economy. In 2018, 42.9% of GPD came from the service sector [20]. The growth of the service sector shows a remarkable development of the economy from sole reliance on traditional factors of production, such as land and machinery, towards a combination of tangible and intangible assets.

Also, it can be said that at the micro level there is a need for Vietnamese firms to invest in human capital, structural capital and, particularly, relational capital, especially in developing good personal and social relationships with trading partners and customers. Indeed, literature indicates that social relations and networks are strategically important for Vietnamese firms given the context of an even more competitive environment resulting from joining the ASEAN Free Trade Agreement (AFTA), signing the Bilateral Trade Agreement (BTA) along with the USA and the expected entrance into the WTO. This issue highlights the importance of relational capital for all companies, without which they could not hope to succeed in Vietnam.

Therefore, what is needed is a more systematic research on the current status of relational capital management in Vietnamese firms and on how Vietnamese managers perceive the role of relational capital management because perception will precede suitable action. From there, recommendations can be suggested to improve Vietnamese firms’ capability in managing and developing relational capital. Three research questions have been formulated to guide this study:

• How are Vietnamese enterprises managing their relational capital?
• Are there any strengths and weaknesses in their relational capital management?
• What are solutions to improve their relational capital management?

3. Conceptual framework

This research on the current status of Vietnamese enterprises’ IC management is based on the European Commission guideline, which originally consists of 5 intellectual capital components of relational capital (Figure 1).

Those IC factors are evaluated by self-assessment, i.e. each factor is evaluated with regard to its current existing quantity, quality and systematic management. Specifically:

- **Quantity question:**
  - Is the quantity/volume of this IC factor (replace appropriately) sufficient for achieving our strategic objectives?
  - Do we have enough of this IC factor (replace appropriately) to achieve our goals?

- **Quality question:**
  - Is the quality of this IC factor (replace appropriately) sufficient for achieving our strategic objectives?
  - Do we have the right factor and is the quality of this factor good enough in order to achieve our goals?

- **Systematic Management question:**
  - How systematically are we already developing this IC factor?
  - Are there defined, regular measures and routines to care for and improve this factor?

However, as stated in previous sections, given the purpose of this study, the authors are keen on providing detailed discussion about 5 IC factors of relational capital including: customer relationships, supplier relationships, public relationships, investor relationships and partner relationships.

4. Methodology

4.1. Questionnaire design and survey

The respondents were asked to assess the quality, quantity and systematic management of each of the IC components on the scale from 0 (absolutely not sufficient) to 10 (always/absolutely sufficient). To be specific, the respondents were asked to consider: Are both the quantity and the quality of the IC factor sufficient to achieve their strategic objectives? Do they have enough of this IC factor and is the quality good enough to achieve the goals? Regarding systematic management, they answered the question: How systematically are they already developing this IC factor?

Based on a convenient sampling method, research team selected a sample of 200 firms from the database provided by Business School of the National Economics University. The questionnaires were sent to high-level or middle-level managers in each firm via email and directly in person. The questionnaires were anonymous (not including the company’s name and the respondent’s name) to ensure that the respondents carry out assessments as objectively as possible. Data collection took place in July, 2018.

4.2. Sample description

At the end of the data collection period, the total number of respondents was 189, in which:

- Regarding the sizes of the enterprises, 4.5% of the sample are micro enterprises (with a total number of 10 employees or fewer), 25.8% are small enterprises (from 11 to 50 employees), 33.7% are medium-sized enterprises (between 51 and 300 employees), and 36% are large enterprises (over 300 employees).

- Regarding the business sectors, 42.7% of the enterprises operate in the manufacturing sector and 57.3% operate in the service sector. In terms of industries, 18.2% said they are in finance and banking, 17% in construction, 12.5% in commerce, 8% in pharmaceuticals, 8% in counselling and training, 6.8% in logistics, 3.4% in textiles and the same percentage is for telecommunications. Other industries such as paper production, electronics, food processing and waste collection account for 2.3%.

- In terms of operating time, 18.6% of the enterprises have operated for 5 years or less, 19.8% have operated from 5 to 10 years and 61.6% have operated for over 10 years.
In terms of the output market, 31.4% of the businesses operate in regional markets, 51.4% in the national markets, and 17.1% in international markets.

5. Results

5.1. Quality assessment

Figure 2 presents the average quality score of Vietnam enterprises’ 5 IC factors, including the 5 RC factors, namely customer relationship, public relationship, investor relationship, partner relationship, supplier relationship. As can be seen, the quality of these five RC factors is valued at around 7 points on the scale of 10.

In other words, the quality of relational capital of Vietnamese enterprises is generally perceived to be fairly good, in which the factors with the highest average scores are customer relationship, investor relationship, partner relationship and supplier relationship. All of these factors received ratings above 7. The one RC factor that has the lowest average score is public relationship.

5.2. Quantity assessment

Figure 3 shows that the quantity of RC factors in Vietnamese firms is generally above the average, which means they are not too scarce. Among which, the four RC factors with the highest average rating are customer relationship, supplier relationship, partner relationship and investor relationship. Interestingly, public relationship in Vietnamese firms appears to be in short supply in achieving the firms’ strategic goals.

5.3. Systematic management

Systematic management, on the other hand, answers the question how systematically Vietnamese firms are managing their RC factors, or whether they have established routines or procedures to care for and develop RC factors.

According to Figure 4, it can be implied that management of RC of Vietnamese enterprises is generally good with their rating being approximately 7 out of 10.

The three of the RC factors that received the highest assessment are customer relationship, supplier relationship and investor relationship. Meanwhile, the RC factor with the lowest average score is public relationship.

In the manufacturing sector (Figure 5), the three IC factors with the highest average rating are customer relationship, investor relationship and supplier relationship. On the contrary, public relationship received the lowest rating with regard to Vietnamese firms.

In terms of service factors (Figure 6), however, it is a little bit different with customer relationship receiving the highest systematic management rating. Supplier relationship, partner relationship and investor relationship are not perceived to be as important as in the manufacturing sector with a roughly similar rating (7.1 and 7.0 respectively). Also, public relationship does not appear to receive enough attention from Vietnamese firms since it still ranks very low compared to other RC factors.

This difference can be explained as follows. Firstly, the manufacturing sector generally requires large investments in factories, machines and equipment, which means that developing good relationships with investors is very important for firms in the manufacturing sector.

In the service sector, employees usually interact directly with customers and may handle unprecedented situations, which necessitates their being flexible and creative in handling those situations. Therefore, customer relationship and social skills/competence are more important in the service sector than in the manufacturing sector. Additionally, improving operational efficiency in order to reduce costs is also a constant pressure in the service sector. Without doubt, information technology and explicit knowledge enable service enterprises achieve this goal. Therefore, given the nature of service sector, it is understandable why Supplier relationship, Partner relationship, and Investor relationship are not as important.

5.4. Strengths and weaknesses of IC management in Vietnamese enterprises

The analysis of the strengths and weaknesses of IC management in Vietnamese enterprises is based on the application of QQS (quality - quantity - systematic management) assessment. Specifically, the «mean value» aggregates all three QQS dimensions (quality, quantity and systematic management) into one value. **Improvement potential** shows the gap in achieving the three QQS dimensions.
between the mean value and 100%. The highest mean values (low improvement potential) indicate strengths; the lowest mean values (high improvement potential) indicate weaknesses. In other words, IC factors with low mean values represent weaknesses. Yet they have high potential to improve and vice versa.

In general, quality, quantity and systematic management of all the RC factors are fairly similar, but there are significant gaps between their current performance levels and Level 10 (Figure 7). For example, public relationship is not high in all the three dimensions: quantity, quality and systematic management. This shows that Vietnamese enterprises still face many challenges in both present and future in achieving their strategic objectives and improving their competitiveness.

Among the 5 RC factors, customer relationship and supplier relationship have the highest mean values followed closely by partner relationship and investor relationship. Meanwhile, the bottom factor is public relationship.

Overall, QQS indicates that Vietnamese firms have strengths in relational capital, including customer relationship and supplier relationship, and weaknesses in public relationship.

6. Conclusions and Recommendations

6.1. Conclusions

This study explores the concept of relational capital in the context of Vietnamese enterprises. As argued, relational capital is part of intellectual capital or an intangible value of a company. The knowledge of the intangibles of a company has been of increasing importance in the last years. In fact, intellectual capital in general and relational capital in particular play important role in creating competitive advantage and business success for firms. Specifically regarding relational capital, no firm may function efficiently on an isolated island entirely by itself in the globalized society of today. Here are some conclusions drawn from the research.

Relational capital appears to be the strength of Vietnamese firms, especially for those in the manufacturing sectors. Currently, firms have established routines to care for their relational capital. To be specific, among the 5 RC factors customer relationship and supplier relationship are top performing factors in all the three dimensions: quality, quantity and systematic management. On the other hand, public relationship received the lowest assessment compared to the requirements of strategic goals. Therefore, the quantity and quality of public relationship are not good enough for Vietnamese firms to achieve their strategic goals. At the same time, they do not have well-built routines or procedures to either care for or develop this particular relational capital.

Even though RC in general is the strength of Vietnamese firms, there is still a significant gap between their current performance and the absolute level. This means there is still potential to improve these RC factors.

Results of several empirical researches on Vietnamese enterprises show that intellectual capital in general has not received sufficient attention from business executives. In order to further enhance competitiveness, Vietnamese enterprises need to pay due attention to management of intellectual capital in order to develop and exploit this valuable intangible asset effectively.

6.2. Recommendations

In order to further enhance Vietnamese firms’ efficiency in managing their RC, several recommendations are made as follows:

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Fig. 6: Systematic management assessment of all IC factors in the service sector

Source: Compiled by the authors based on survey data, 2018

Fig. 7: QQS bar chart

Source: Compiled by the authors based on survey data, 2018

Relational capital should be considered as important business resources in achieving strategic goals, therefore RC should be managed strategically. RC management should be linked to strategic management, in which RC strategy must emanate from and towards achieving the strategic goals of firms. However, RC strategy and its development plan need to be built based on a comprehensive analysis of business strategy, competitive strategy, and intellectual capital analysis.

There is also a need to raise awareness and understanding among firm managers about RC, as well as its nature, role and requirements of RC management. Enterprises need to apply many measures to improve RC management capacity of managers. Organising training courses for business managers on RC management for instance is a necessary step.

Senior managers need to develop a strong commitment to relational capital development, since intellectual capital and relational development are highly dependent on the will of senior executives. This can be done through formal announcements or other concrete action plans in practice.

Also, since customer relationship, partner relationship and investor relationship are already the strengths of Vietnamese firms, these factors should be maintained at their current level, given firms’ limited resources. On the contrary, firms are not doing as well with public relationship; this RC should be analysed in detail in case it is important for specific development measures by indirectly affecting the development other factors.

Each company should regularly carry out a systematic RC analysis so that a checklist of activities can be drawn to develop their IC. Based on the checklist, a company should know what factors need to be intervened given their limited resources.
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