RELATIONAL CAPITAL AND FIRM PERFORMANCE:
A CASE OF MANUFACTURING TEA FIRMS
IN UGANDA

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2007/HD10/11386U

A DESERTATION SUBMITTED TO THE GRADUATE SCHOOL IN
PARTIAL FULFILLMENT FOR THE REQUIREMENT OF
THE AWARD OF A MASTERS DEGREE IN
BUSINESS ADMINISTRATION OF
MAKERERE UNIVERSITY

OCTOBER, 2010
DECLARATION

I, Sulait Tumwine declare that this dissertation is my original work and has never been presented or published anywhere and in any institution of higher learning for academic purposes/award.

Signature……………………………..  Date……………………………..

Sulait Tumwine

2007/HD10/11386U
APPROVAL

This is to approve that this dissertation titled “Relational Capital and Firm Performance”, a case study of manufacturing tea firms in Uganda has been conducted under our supervision and is now ready for submission as part of the requirement for the award of a degree of masters in business administration of Makerere University.

Signed……………………………….  Signed…………………………..

Mr. Nixon Kamukama          Dr. Joseph Ntayi

Date…………………………………  Date…………………………….
Dedication

To my lovely family

Atuhaire Pamela, Asiimwe Sadiq and Aikiriza Rehema

And to my parent

Maimuna kamondo and Yusufu Kamondo
Acknowledgement

To the Almighty God, who made every thing possible for me

I would like to thank all those who contributed towards the success of my studies.

Special thanks go to my supervisors; Dr. Joseph Ntayi and Mr. Nixon Kamukama for their tireless efforts in guiding me throughout this study and was able to achieve my dream.

I also thank my colleagues Garshom Agaba, Richard Tumusiime and Arnest Abaho whose support enhanced me greatly and was able to complete this study.

I wish to thank all the respondents in the manufacturing tea firms in Uganda who diverted their time towards filling my questionnaires.

I would like to thank my beloved wife, Atuhaire Pamela for the care, support and encouragement she extended to me during my study.

I finally thank my parents, Mr. and Mrs. Yusufu Kamondo and my brothers and sisters, my uncle Mugabe and my mother in law (Mbabazi Oliva) for their support, parental love and encouragement. May God bless you.
CHAPTER ONE

Introduction
1.1 Background to the study ......................................................... 1
1.2 Statement of the problem ...................................................... 4
1.3 Purpose of the study ............................................................. 4
1.4 Objectives of the study .......................................................... 4
1.5 Research questions ............................................................... 5
1.6 Scope of the study ................................................................. 5
1.7 Conceptual framework .......................................................... 6
1.8 Significance of the study ......................................................... 7

CHAPTER TWO

Literature review
2.1 Introduction ............................................................................ 8
2.2 Relational capital ................................................................. 8
2.3 Business relational capital components .................................. 10
2.4 Social relational capital components ...................................... 14
2.5 Firm performance ............................................................... 16
2.6 Relational capital and firm performance .................................. 20
2.7 Conclusion ............................................................................. 23

CHAPTER THREE

Research Methodology
3.1 Introduction ............................................................................ 24
3.2 Research design ..................................................................... 24
CHAPTER FOUR
Analysis and presentation of findings

4.1 Introduction
4.2 Descriptive statistics
4.3 Factor analysis
4.3.1 Business relational capital
4.3.2 Social relational capital
4.4 Findings on firm performance
4.5 Relationships between variables
4.6 Regression analysis

CHAPTER FIVE
Discussions, Conclusions and recommendations

5.1 Introduction
5.2 Discussion of the findings in respect to study objectives
5.3 Conclusions
5.4 Recommendations
5.5 Suggested areas for further research

References
Appendices
Appendix 1: Research questionnaire
Appendix 2: Performance of firms
Appendix 3: Introductory letter
LIST OF FIGURES AND TABLES

Figure 1 Conceptual framework .......................................................... 6
Table 1 Sample of Population size ......................................................... 25
Table 2 Reliability and validity test ......................................................... 28
Table 3 Response rate of respondents ..................................................... 31
Table 4 Gender distribution of the respondents ...................................... 32
Table 5 Age of the respondents ............................................................ 33
Table 6 Educational background ......................................................... 33
Table 7 Legal ownership of firms ........................................................ 34
Table 8 Duration of firm/factories ....................................................... 34
Table 9 Work experience of respondents .............................................. 35
Table 10: Number of employees employed by the firm ......................... 36
Table 11: Capital employed by shareholders ...................................... 36
Table 12 Rotated component matrix of business relational capital .......... 38
Table 13 Rotated component matrix of social relational capital .......... 42
Table 14 Rotated component matrix for firm performance .................. 44
Table 15 Pearson correlation matrix .................................................. 47
Table 16 Regression analysis (Model i) ............................................... 50
Table 17 Regression analysis (Model 2) ............................................... 51
ABSTRACT

The purpose of this study was to establish the relationship between relational capital and firm performance in manufacturing tea firms in Uganda. To help in the study, the study objectives were formulated together with a conceptual framework that linked relational capital and its components to firm performance. Firm performance was measured using attributes like profitability and future viability.

A cross sectional, descriptive and analytical research design was adopted using a representative sample of 17 manufacturing tea firms and 59 respondents from these firms. Data was collected using a self administered questionnaire to the tea firms under study. The data was analyzed using SPSS (version 16.0), then manipulated using cross tabulations, factor analysis, Pearson’s correlation coefficient and the regression to determine the relationship between the independent variables impact on the dependent variables.

The findings revealed that there was a significant relationship between social relational capital and firm performance, which means that when social relational capital improves, firm performance increases. The results further revealed that business relational capital is significantly related to firm performance. The regression analysis showed that a combination of business relational and social relational capital predicted up to 28.3% of the variation in firm performance. However, it was social relational capital that was a significant predictor of firm performance.

Therefore, managers should intensify initiatives to encourage greater understanding and acceptance on relational capital elements, employ a viable relational capital composition that includes building strong social relational ties with the community and competitors, and pay attention to customers and employees in order to identify their needs and provide optimal value for them. This is likely to increase firm performance.
CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The impact of strategic factors and industry conditions on profitability and persistence of profits have become the main tasks on the executive agenda (Waring, 1996) and it is accepted that managing intellectual capital of the firm is a major strategic asset capable of generating sustainable superior firm performance (Barney, 1991). To fully maximize the firm’s profitability and enhance a firm’s future, relational capital which gathers the value of the relationship with external agents (business activity close by or with other more distant social agents, Cic, (2003) has to be maintained. It is now broadly recognized that post modern organizational forms based on network structures are predicted on successful relationships (Gulati et al., 2000, and Macmillan et al, 2000). The interconnection of network structures are thought to enable organizations cope with levels of uncertainty that bureaucracy could never handle, hence making a critical contribution to organizational effectiveness (Graen and Scandura, 1987).

The market value of the organization is the result of adding tangible and intangible assets (Edvinsson and Malone, 1987), and approximately 80% of the market value of an organization is thought to reside in intangible assets (Fornell, 2000). According to Bueno (1998), intangible assets or Intellectual capital are those joint assets of an organization, which are not recorded in a company’s financial statements but have generated or will generate value to the organization in the future. The difference between market value and book value is intellectual capital which improves the market value of the firm. It is the firms’ assets or non financial resources that underpin future growth (Levi, 2000)
According to Sterwart, (2001), there are three main components of intellectual capital: human capital, relational capital and structural capital. However, the concern of this research dwells on relational capital.

Relational capital (RC) refers to the value of the relationship between the firm and its environment (Cic, 2003). Relational capital can be business capital i.e. the value the relationship that the organization maintains with the main agents connected with its business processes, and social relational capital which the organization maintains with other social agents and it’s surrounding (Euroforum, 1998). A firm needs to quantify their relational capital contribution to the value of the organization and consider how the assets compare to those of their competitors; reflecting the recognition that relational capital is the most impediments to the long term rates of return associated with unique endowments, positions and strategies of individual businesses, (Rumelt, 1991). Therefore relational capital as a component of intellectual capital is accepted widely as a major corporate strategic asset capable of generating sustainable superior firm performance. (Barney, 1991). Ranzijn and Verboom (2004) described firm performance to be the bottom line, which means profit. Thus, performance of a company might be judged from the profit generating potential, shareholder value creation and future viability of an organization.

Although it is not clear of the importance of relational capital in generating positive firm performance, Day (2000), recognizes the importance of customers and suppliers because of their direct relationship with financial performance and long term survival of the organization. Askome Corporation (2000), reports that the average fortune 500 companies lose $64m per year because of ineffective knowledge sharing with
employees, customers and suppliers in the organizations. Venkat Ramaswany (2004), in his Nike study asserts that, the components of value creation and profitability now entail global resource networks of partnering firms and suppliers as well as communities outside the firm. In addition, according to Perrin (2000), based on survey carried out on 51 companies in the UK, up to 56% of their revenue is already contributed by intellectual capital.

In Uganda, a number of firms have a challenge of poor relationship management in terms of business and social relational capital and this has an effect on performance Badagawa, (1999). For example, in a case sited in manufacturing tea firms in Uganda, a summary of Igaara Growers Tea Estate Audited financial report (2005), noted its declining profitability performance from Ushs.589.9millions in 2003 to Ushs.106.6million in 2005. This declining profitability is therefore, suspected to have been caused by the way the firm relates with its stakeholders, but it is more difficult to ascertain the extent to which relational capital played a role.
1.2 STATEMENT OF THE PROBLEM

Many private firms in Uganda have failed to perform above average in terms of profitability in order to sustain their stay in business. According to the profitability trend arising from the leading tea producer in Uganda (Igaara Growers Tea Factory), it has shown a declining trend of profitability performance from 2003 – 2005 (Ugx 589,970,003, Ugx 321,333,724, and Ugx 106,671,418 respectively). This, because of low profitability, has lead to many firms extend/fail to pay dividends to shareholders, low prices to suppliers, low wages to employees, poor quality products to customers and a doubtful future. This declining trend of profitability is suspected to be caused by insufficiency in the relationships between the firm and its stakeholders (suppliers, employees, customers, competitors, the community and the government). This therefore, has prompted the researcher to carry out a study to establish the extent to which relational capital components affects firm performance.

1.3 PURPOSE OF THE STUDY

The purpose of the study was to establish the relationship between relational capital components and firm performance of the manufacturing tea firms in Uganda.

1.4 OBJECTIVES OF THE STUDY

(i) To establish the relationship between business relational capital components and performance of manufacturing tea firms.

(ii) To establish the relationship between social relational capital components and performance of manufacturing tea firms.
(iii) To establish the relationship between relational capital components and performance of manufacturing tea firms.

1.5 RESEARCH QUESTION

(i) What is the relationship between business relational capital components and performance of manufacturing tea firms?

(ii) What is the relationship between social relational capital components and performance of manufacturing tea firms?

(iii) What is the relationship between relational capital components and performance of manufacturing tea firms?

1.6 SCOPE OF THE STUDY

1.6.1 Subject scope.

There may be other factors to explain firm performance like political and economic stability, human capital, structural capital and others; this study was designed to establish the relationships that relational capital components has on performance of manufacturing tea firms in Uganda. The study aimed at establishing the extent to which relational capital components contributes to firm performance. Relational capital is restricted to Business relational capital that includes the relationship among Employees in the organization, Customers, Suppliers and Social relational capital that includes among others relationships with the Community, Government and Competitors whereas Firm performance is restricted profitability and future viability.
1.6.2 Geographical scope

The study was carried out in all the manufacturing tea firms in Uganda. This is because networking in these tea firms is considered a strategic asset that causes their existence and these firms depend much on different stake holders (both internal and external; from whom they buy materials from, the ones they sale to, the community in which they are situated e.t.c) for their survival and growth. It is therefore from these strong relationships maintained that the tea firms can perform better. They were also chosen because they would act as a representative sample of other manufacturing companies in Uganda whose networking is deemed important for their survival and growth.

1.7 CONCEPTUAL FRAMEWORK

<table>
<thead>
<tr>
<th>Independent variables</th>
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<td>Relational Capital</td>
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The research model explains the relationship that exists between relational capital components and firm performance, and brings out two different aspects of relational capital as Business and Social relational capital. Business relational capital is composed of relationships among employees (internal networks) embodied in attributes like shared code that facilitates common understanding of collective goals (Tsai, Ghoshal, 1998), supplier capital and customer capital. Social relational capital is composed of the relationship of the organization with the community, competitors and government. Firm performance is the firm’s profitability and future viability.

1.8 SIGNIFICANCE OF THE STUDY

(i) The findings of the study will interest top managers, policy makers, relevant stakeholders and researchers in the country. The findings into the relationship between relational capital and firm performance will contribute to the upcoming decisions, which will be made by companies concerning the areas

(ii) The findings will enhance the understanding of necessary strategies and policies that can be used to increase organizational effective management of relational capital in attainment of sustainable firm performance.

(iii) The study will also act as a basis for further research in the areas of relational capital in service organizations.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of related literature as was given by several scholars about relational capital and firm performance. The review focuses on relational capital and its component parts which include the relationships that exists among employees, between the organization and its suppliers, customers, community, government and competitors, and also focuses on firm performance in terms of profitability and future viability.

2.2 Relational Capital

Relational capital is defined as the organizational association with internal and external stakeholders of the firm, including with customers, employees, suppliers, industry associations, stakeholders, and strategic alliance partners (Kannan & Aulbur, 2004; Ordonez de Pablos, 2003).

It is the value of the relationships between the firm and its environment. The main indicators are reputation, strategic alliance, customers, suppliers and connection to other agents (Eduardo et al., 2004). Thus, we can see a firm as a nexus or network of relationships that consist of intangible processes and activities useful for generating intangible resources (Bueno, 2002). However, Bueno, (2002) attempted to divide relational capital into business capital and social capital. Furthermore, he subdivided social capital into social integration capital and social innovation capital.
The main theme of relational capital is the level of mutual trust, respect and friendship that arises out of close interactions between internal and external partners (Kale et al., 2000). Morgan and Hunt, (1994) define trust as existing when one party has confidence in an exchange partner’s reliability and integrity. Trust is embedded in a particular exchange relation, and becomes a fundamental basis of long-term relationships between partners. Thus, in the context of internal and external stakeholders, it can be argued that enterprise’s relational capital is represented by relationships among employees and within customers and suppliers (Tomasz & Kijek, 2008).

Relational capital includes company image, customer loyalty, customer satisfaction, and interaction with suppliers by employees, negotiating capacity, distribution channels, supplier channels, licensing agreements, and franchising agreements (Starovic & Marr, 2003). Relational capital is the knowledge accumulated by the firm as a result of its exchanges with third parties and the potential for future knowledge accumulation as a result of such exchanges. Its value to the firm is directly related to the length of the relationship with third parties (Ordonez de Pablos, 2004).

The relationships among employees are embedded in attributes like a shared code or a shared paradigm that facilitates a common understanding of collective goals and proper ways of acting in a social system (Tsai & Ghoshal, 1998).

One of the two external elements of relational capital is the relationships with customers that often are referred to the market orientation concept and direct interaction with customers, for a variety of different purposes, including feedback and issue reporting. According to Kohil and Jaworski (1990), market orientation is defined as the organization wide generation of market intelligence pertaining to the current and future
needs of customers. The dissemination of this intelligence must be done vertically and horizontally within the organization so as to create a competency in responsiveness to market changes.

Firms must make connections in order to develop (Tang et al., 2008). Through interactions with other firms and partners, firms can achieve a better understanding of industry benchmarks and competitive trends. Firm interactions are also sources of knowledge (Nahapiet and Ghoshal, 1998). A firm’s networking partners are in many cases, the most important sources of new ideas and information that potentially could result in performance enhancing technology and innovations.

By using networks to pool knowledge, gather and screen relevant information Ahuja, (2000) and by interacting with different partners, network ties situate firms at the confluence of different social domains, create opportunities for novel combination and recombination of ideas, integrate best-of-breed solutions that originate from different resource bases and knowledge bases of different partners, trigger new ideas that challenge existing knowledge and understanding, and encourage creativity and novel solutions to existing problems. Firms can and should use external as well as internal ideas to advance their technology, and integrate external resources into a firm’s innovative process to increase the number of possible sources of innovation (Chesbrough, 2003).

2.3 Business Relational capital components

2.3.1 Supplier capital

Relational capital encompasses the relationships with suppliers. Applying the concept of socialization to the buyer – supplier relationships, it is convincing to define
supply chain relational capital as the configuration and social structure of the group through which resources are accessed. The level of supply chain relational capital may be assessed by the degree of mutual respect, trust and interactions that exists between organization and its suppliers (Cousins et al., 2006)

According to Cic, (2003), suppliers are partly responsible for the relations with the organization and its production factors supply (whatever it will be: goods or services, with financial or non-financial nature, or with tangible or intangible characteristics). Once more, issues related to the present supply structure of the firm must be reviewed, as well as considerations about supplier relational process, outcomes of the relations with suppliers, and individual risk of each supplier at any certain moment.

2.3.2 Internal networks (relationships among employees)

The relationships among employees, board of directors are embodied in attributes like a shared code or a paradigm that facilitates a common understanding of collective goals and proper ways of acting in social systems (Tsai, & Ghoshal, 1998). Inside an enterprise a set of common values helps develop the trusting relationships that erase the possibility of opportunistic behavior (Ouchi, 1980). Moreover, the compatibility of individuals’ values with an enterprise’s allows the employees to trust one another and pursue the collective goals by sharing knowledge and team working.

Communities of practice (employees) are not recent phenomenon, Cohen et al., (1996) having spread from Japan and the US (quality circles) into Europe. They have been considered as a fundamental unit to develop learning processes and other production activities (Jenkins, 1994). An external Community of practice is a group whose members
clients and employees) regularly engage in sharing and group learning based on common interest, mutual trust and collaboration.

By considering the market orientation, Cegarra et al. (2001) suggests that communities of practice afford a number of psychological and social benefits to employees by helping new employees to foster relationships with customers and established employees and foster a sense of pride in belonging to an organization in which all departments and individuals work towards the common goal of satisfying customers that in turn increases the performance and profitability of the organization. According to Kohli and Jaworski, (1990) market orientation can be seen through three sets of activities as; organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and wide organization responsiveness to market intelligence.

2.3.3 Customer capital

Achieving competitive advantage requires focused attention on consumer trends and the market. This has become increasingly complex since the globalization of business environments, which has compelled organizations to compete and co-operate internationally (Charles. Egbu, 2001b).

Customer capital encompasses the external intangible assets of an organization. External forces play a part in determining the market position and strength of an organization. Customers are the principal determinants of this position (Smith & Saint-Onge, 1996). This component has been termed as relational capital to characterize the particular relationships an organization has with the external environment, e.g. Kaplan
and Norton (1996) argue that there is a casual relationship between employee satisfaction and customer satisfaction, leading to customer royalty and better financial performance.

Narver and Slater (1990) suggested a link between organizational learning and business performance and more recently Sabater et al (2002) have provided some empirical evidence to support this link. Day (2000) also recognizes the importance of customers because of their direct relationship with financial performance and long term survival and Bueno (1998) suggests that the three key components of relational capital are: Quality, market reputation and customer satisfaction.

According to transaction costs economics Standifird, (2001), it seems convincing that a positive reputation contributes to the reduction of transaction costs related to the exchanges in which the firm and its customers take part. Corporate reputation transfers different kinds of information, reducing customer efforts to gather information, making easier the willing to contract, and acting as some kind of guarantee for corporate products or services subject of the transaction. The resource-based view, from its origins, has proposed the treatment of corporate reputation as a strategic asset. In this sense, Hall (1993) argues that managers assess product reputation as one of the most valuable assets.

Other works of Fombrun and Shanley, (1990); Standifird, (2001) show that corporate reputation allows a surge of cross-selling, that it increases the number of loyal customers, or that it makes customers more willing to pay an over-price in acquiring products or services from top corporate reputation firms. If both theoretical frameworks are linked, this over-price will be the translation of the transaction cost reduction produced by the reputation to be involved in the transaction.
A little time after, contributions to the intellectual capital field show a greater interest in the relations that the organization maintains further the customer’s line. This way, Stewart (1997) includes alliances and partnerships, and Brooking (1996) identifies market assets, taking into account product branding, corporate image, product portfolio, business partnerships, and alliances. Nevertheless, both proposals keep on with the analysis of the customers as a critical agent for the firm.

Roberts and Dowling (2002) point out the value of reputation in differentiating products since reputation gives latent quality of products and customers would pay an overprice for these products.

2.4 **Social relational capital components**

According to Cic (2003), this is the relationship the firm maintains with other Social agents and its surroundings. The surroundings in which the firm operates is constituted of the community, the government and the competitors. Firm interactions are a source of knowledge (Nahapiet and Ghosgal, 1998). A firm’s networking partners are in many cases, the most important sources of new ideas and information that potentially could result in performance enhancing technology and innovations. By using networks to pool knowledge, gather and screen relevant information Ahuja, (2000) and by interacting with different partner, network ties situate firms at the confluence of different social domains. Relations focused on cooperation with several agents of the organizational environment as competitors, suppliers, research centers, and so on, when they are run on a given on-going basis, also are sources of an important part of organizational value. (Cic, 2003)
According to Cic (2003), Government agencies play a big role in regulating firms (market regulators). The value that arises from the organizational relations maintained with any kind of government agency or with market regulators centered in quality, competency or customer affairs issues, must be assessed too. However, the issue of the effect of government’s taxation on performance is ignored and in actual sense, according to Uganda’s tax structure, high taxes have affected performance in one way or the other. Nowadays it has been demonstrated that it is critical for organizations to reach higher levels of involvement in their general environment. This way, the contribution of McGuire et al. (1988) relates social responsibility of the firm with its financial outcomes, and Gatewood et al. (1993) focus on the role of corporate reputation in attracting and maintaining talented people. These issues also make it necessary to take into account the media treatment experienced by the firm, as a way to improve community relational processes.

Social capital provides the organization with values such as solidarity and cooperation, especially when interactions fix patterns of obligations and expectations based on rules of reciprocity and equality (Adler and Kwon, 2002). Social capital benefits the corporative area of information, influence, control and power. Possession of key information and the control of flows of information create business opportunities (Burt, 1992)

As Lazerson (1995) remarks social capital solves conflicts, improves consensus with surrounding organization, enhances the understanding with public administration, supports the development of business strategy, mitigates the imperfections of information in the market, and reduces transaction costs. Social actions benefits business activities,
considering the citizen not only as citizen but as consumer and investor. In general, the market appears to reward socially responsible companies.

2.5 Firm performance

Ranzijn and Verboom (2004), understood firm performance to be the bottom line, which means profit. Thus, performance of a company might be judged from the profit generating potential of an organization. However, according to IAS 1, the purpose of preparing financial statements is to ascertain the financial performance (profit and loss) and the financial position, (solvency and survival), indicating how rich or poor the firm is at a given period of time. On the other hand, IAS 7: Cash flow statements, aims at predicting the cash flow potential of an organization. As a result, financial analysts use a number of techniques to establish a firm’s performance among which is ratio analysis. An example of this is the return on Capital employed (ROCE) and net profit margins (NPM) (Ranzijn and Verboom, 2004). Several measures of firm performance are given by Spivey and McMillan (2002) that include profitability measures like earnings per share, net profit margin and return on capital employed; Cash flow measures and growth measures as earnings growth and sales growth.

Performance is an element of financial statements and frequently the maximization of profits is regarded as the determinant of financial performance or as a basis of other measures. A company should earn profits to survive and grow over a long period of time (Pandey, 1996). Information about firm performance of financial character is analyzed using financial performance which is useful in predicting the capacity of the firm to generate cash flows from existing resource base. Measuring firm performance is
based on accounting information contained in financial statements used by management, investors and others to form judgments about how companies perform.

Edwards (2004) asserts that consequently, profitability, size and future viability are essential in monitoring and measuring the overall financial performance of companies. These measures should provide concrete answers to the following types of questions: Is the business profitable?, Is the business big enough to generate an acceptable level of income?, What changes in operating performance can be made to increase the income generating capacity of the business?, Can the business grow to maintain or improve its long term competitive position?, What sustainable rate or future viability does the business have?. Literature provides financial indicators such as profitability (Barnes, 1983, Frank and Alan, 1999)

2.5.1 Profitability

Profitability is the ability of a firm to earn a return. The return is normally a margin of sales, proportion of capital invested and proportion of assets used. Profitability measures the extent to which a business generates net income or profit from the use of its resources (Pandey, 1996). Profitability as a measure of performance is widely accepted and used by company owners, management, investors and others since they are interested in knowing the firms returns, which is normally a margin of sales.

In order to summarize the large quantities of financial data and make qualitative judgments about the firm’s performance, ratio analysis is very useful. They are particularly useful for the purpose of comparing performance from year to year and the performance of different companies (Underdown, 1986)
Most companies according to Carlos (2004), emphasis measuring profitability in terms of Gross profit margin, Net profit margin, Return on capital employed and administrative expenses to sales ratio

Net profit margin ratio tells the relative efficiency of the firm after taking into account all expenses and income taxes, but not extraordinary charges.

It is calculated as;

**Net Profit Margin = Net Incomes x 100%**

**Net sale**

The industrial average is 4.7% meaning that the rate below 4.6%, the company is performing below average and therefore a bad state, at 4.7% the company is average and above 4.7% the company is doing better

Return on capital employed (ROCE) also referred to as return on investment (ROI) tells the relative profits being earned on the total capital employed and rates profits to capital invested in the business.

It is calculated as;

**Return on Capital Employed (ROCE) = Profits before Interest & Tax x 100%**

**Total Assets – Current Liabilities**

The higher the ratio, the more profitability the resources of the company have been used.

**2.5.2 Future viability**

Manufacturing companies should determine their future viability and this should be sufficient enough such that they do not collapse. A firm has to be producing enough revenues to meet all of its estimated needs and by this, it may have an opportunity of increasing gross revenues and hence the profits and be in position to pay shareholders
dividends, interest on any borrowed funds. Bernestein (1989) confirms that firms need to plan and monitor its sales (revenues), so that earnings will have the potential to grow over time and thereby creating a stable future.

To determine the future of organizations, Altman (1968) developed a multi-discriminate model basing on scores. This score is a measure of a company’s health and utilizes several ratios for its formation and includes five key ratios of working capital to total assets, retained earnings to total assets, profits before interest and tax to total assets, market capitalization to book value of debts and sales to total assets.

It is calculated as:

\[ Z\text{-Score} = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5 \]

These by explanation are;

(i) \( X1 \) is defined as: Working Capital/Total Assets
(ii) \( X2 \) is defined as: Retained Earnings/Total Assets
(iii) \( X3 \) is defined as: Earnings Before Interest & Tax/Total Assets
(iv) \( X4 \) is defined as: Market value of Equity/Total Liabilities
(v) \( X5 \) is defined as: Net Sales/Total Assets

- The Z-Score above 3.0, the company is considered safe based on the financial figures
- The Z-Score between 2.7 & 2.99, the company is in an area where one should exercise caution
- The Z-Score between 1.8 & 2.7 is the good chance of the company going bankrupt within 2 years of operations from the date of the financial figures given
- The Z-Score below 1.8, the probability of financial embarrassment is very high.
Tyles et al., (2002), cite Grossman (2000) who uses an example based on return on investment ratio (ROI), linked to a program of investment in human resource and others. Lev (1998, 2001) has proposed a knowledge scorecard, which seeks to derive the net present value (NPV) of intangible assets (Mintz, 1999). The methodology begins by averaging the last three years actual earnings, and then the theoretical return on non intangible assets is calculated. Lev (2001), assumed 7% for tangible assets and 4.5% for financial assets. Earnings not accounted for by these non-intangible assets are therefore assumed to attributable to intangible assets.

2.6  **Relational capital and firm performance**

Relational capital may reduce organizational costs in many ways. The knowledge derived from employees, customers and suppliers may result in process innovations that eliminate bottlenecks, increase output, reduce variation and etc. Moreover, the higher level of relational capital, the better planning, problem solving and troubleshooting, all of which most likely increase production and service delivery efficiencies and thereby, reduce organizational costs (Young & Snell, 2004). Additionally, relational capital should reduce organizational costs by increasing an organization’s information processing capacity. Trust in relationships among employees and within suppliers and customers facilitates both efficient exchange of information by reducing the need for time consuming and costly monitoring and the effective exchange of information by removing the perceived need to veil or hide sensitive information (De Decker & Sapienza, 2006).

Relational capital may also be instrumental in enhancing customer benefits by helping to increase quality, reliability, and flexibility, creating value for the customers,
through production and service delivery process innovations (Kijek, 2008). Furthermore, the networks of employees, customers, suppliers should be able to better identify as well as satisfy customer needs. Relationships with suppliers and customers aid in identifying idiosyncratic customers’ needs as well as facilitate the development of novel solutions to address those needs.

In global knowledge – based economy, the issue as to why some firms are more competitive and perform better than others is likely to be a crucial one. This question is in the centre of analysis of many business disciplines and the subject of never-ending debate. In particular, strategic management field has traditionally focused on business concept that affects firm competitiveness and firm performance. Since the mid 1980s the Resource Based View of the firm and subsequently the Dynamic Resource – Based View and the Dynamic Capabilities Approach are dominant paradigms explaining those issues. The Resource Based View of the firm (hereafter RBV) (Wernerfelt, 1984, Barney, 1991, Grant, 1991, Peteraf, 1993, Amit and Schoemaker, 1993, Collis, 1994) focuses on internal, firm-specific factors and their effect on performance.

The study of Bontis, Keow and Richardson (2000) show the positive significant relationship between intangible assets and firm performance for both service and non-service industries. Carmeli and Tishler (2004) and riahi-Belkaoui (2003) proved the positive association between intangible assets and firm future performance. On the other hand, the research suggests that the relationship might be industry and country specific. Still in some industries and some countries tangible assets may play more important role than intangibles in enhancing firm performance and firm competitiveness (Firer and
Williams, 2003). Moreover, in some industries intangibles can even lock firms in persistent disadvantages (Villalonga, 2004).

Despite the relevance of all these works, still more empirical research is needed to test the link between intangible assets and firm performance in issues related to human resource and structural (Bontis, Keow and Richardson, 2002, Firer and Williams, 2003). The challenge appear to further investigate the link between intangible assets and firm competitiveness and performance.

Bontis (1998) in his exploratory pilot study showed a valid, reliable, significant and substantive causal link between dimensions of intellectual capital and business performance. In addition, the study confirmed that those three constructs (human capital, relational capital and structural capital) affect each other, for example human capital without the support of relational capital is practically useless, relational capital without the support of structural capital is also useless etc. Carmeli and Tishler (2004) go on further on the argument of the importance of interactions between intangible elements and they found that those relations enhance organizational performance, that is, the effect of any intangible organizational element on the organization’s performance is larger, and the larger are the effects of the other organizational elements. Wang and Chang (2005) and Engstrom, Westnes (2003) further showed the importance of relationships among the elements of intellectual capital.

In general the studies prove the main contention of the resource based view positive relationship between intangibles and firm performance (Bontis, Keow and Richardson, 2000, Riahi-Belkaoui, 2003, Li and Wu, 2004, Chen, Cheng and Hwang, 2005). Different dimensions of firm current and future performance are considered, like
survival and profitability (Delios and Beamish, 2001) or firm’s market value and financial performance (Chen, Cheng and Hwang, 2005). On the other hand, Villalonga (2004) indicate that the relationship between intangibles and performance might vary between sectors as the negative associations for some sectors sub samples or for some intangibility measures were found. In this way, the study suggests that intangibles can also lock firms into kind of disadvantage.

2.7 Conclusion

The battle for relational capital management in many organizations as a topic is worthy the management discussion and serious academic investigation has largely been won but never studied and put into practice. The challenge in companies is to establish the extent to which relational capital yields profits and the extent to which the profits made can sustain the organization in the future and how also relational capital can be measured and improved. In the market based economy, the customer is the reason why the company exists, at the same time the company can not exist without suppliers and this also cannot happen without the company allying with other company's in the same market. This therefore has been the main executive task of many managers on their executive agenda (Cic, 2003, Teece, 1998). This together with the impressive valuation of relational capital and its relationship with firm performance warrant further research.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the manner in which the study was conducted. It contains the research design, Study population, Sample size and selection procedure, Sources of data, Methods of data collection, Measurement of variables, reliability and validity of the instruments, procedure of data collection, data processing and analysis and limitations to the study.

3.2 Research design

The approach and design that best met the research objectives and research was the use of cross sectional design combined with descriptive and analytical research design. Descriptive research design helps in establishing the characteristics of the variables and their relationships respectively while analytical research design was used to establish the quantitative relationship between relational capital components and firm performance in manufacturing tea firms in Uganda.

3.3 Study population

The study population consisted of twenty two (22) manufacturing tea firms in Uganda. They were cross sectionally chosen in order to get a wider view on how they perform and relate with external and internal agents. The list and address of the tea firms was obtained from Uganda Tea Authority (UTA). Further to this, the population of 200 employees in senior management position was targeted because they are responsible for
strategic matters within the estate. They comprised of (from each estate), estate manager, finance manager, factory/production manager, human resource manager, field manager, sales and marketing manager, procurement and logistics manager, community development manager and administrative and public relations manager.

3.4 Sample size and selection procedure

The study selected respondents from 21 tea manufacturing firms/estates with 127 employees; this was determined using Krejcie & Morgan (1970) table. The firms (unit of analysis) were chosen using simple random sampling technique whereas respondents (unit of inquiry) were chosen using purposive sampling technique to ensure that top managers in senior management positions from the entire factories were considered for the study because they were considered to know much about the relationship the firm has with its stakeholders.

Table 1: Sample of population size

<table>
<thead>
<tr>
<th>Details</th>
<th>Population (p)</th>
<th>Sample (s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tea Estates</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td>Employees</td>
<td>200</td>
<td>127</td>
</tr>
<tr>
<td>TOTAL</td>
<td>222</td>
<td>148</td>
</tr>
</tbody>
</table>

Population source: Uganda Tea Authority directory, 2007

3.5 Sources of data

Both primary and secondary data were used for this study
Primary data

This was obtained straight from the field (respondents) by the use of self administered questionnaires to the estate manager, finance manager, Human and administrative manager, marketing manager and the field manager in each of the factories under study.

Secondary data

This was obtained through the review of publications such as journal articles on intellectual capital, press publications, company reports about performance. These reports were mainly got from the James Finlay estates, Igaara growers, Kayonza, Mpanga, Mabale tea estates and other estates that were studied.

3.6 Methods of data collection

Questionnaires were used to obtain perception from the sample selected. This is because the questionnaires help to cover a large number of respondents relatively in a short time. It was pre tested through a pilot study to get rid of any possible errors so as to improve its viability and reliability. The questionnaires were administered to all the targeted respondents by the researcher in order to get primary data. The questionnaires were type set in English for convenience of all the respondents.

3.7 Measurement of variables

The independent variable is Relational capital and the dependent variable is firm performance.
Relational Capital

Relational capital was measured using business relational and social relational capital components. Business relational capital was measured based on customer capital, employee network capital and supplier capital whereas social relational capital was measured based on competitor relations, community relations and government relations. In line with the measurement of items, a five point likert scale developed by Rensis Likert in 1930s was adopted for all item scales anchored on a five point ranging from 1-5 (Strongly agree to strongly disagree). The criterion was developed with consideration for such circumstances as the research study objectives and questions, data availability and the underlying conceptual framework.

Firm Performance

Firm performance was measured on the works of Ledger wood (1999) and from the financial point of view; ratios are appropriate performance measures because they eliminate the effect of the size (F-Jardon et al., 2009). A likert scale running from 1-5 (Strongly agree to strongly disagree) was used to establish the perceived firm performance in relation to profitability and future viability.

Profitability

Profitability of the firm was measured using the ratio analysis and the key focus was on Net Profit Margin and Return on Capital Employed (ROCE)

Future Viability

A multi-discriminate model developed by Altman (1968) was used to determine the future viability of the firm. This score is a measure of a company’s health and utilizes several ratios for its formation. Edward Altman (1968), Professor of Finance at New
York University School of Business, developed the model. The generic model that considered for both private and public companies takes into consideration five key ratios to calculate the Z-score equal to: \[ Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5 \]

### 3.8 Reliability and validity of the instruments

Reliability of the instrument was tested using Cronbach`s alpha (a) coefficient to test for consistency. This was to ensure that the instruments used were accurate and reliable. By performing Cronbach`s Alpha test, below were the findings

**Table 2: Analysis of constructs using Cronbach’s Alpha**

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Cronbach's Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Relational Capital</td>
<td>17</td>
<td>3.77</td>
<td>.426</td>
<td>.881</td>
</tr>
<tr>
<td>Social Relational Capital</td>
<td>17</td>
<td>3.95</td>
<td>.496</td>
<td>.746</td>
</tr>
<tr>
<td>Performance</td>
<td>17</td>
<td>3.72</td>
<td>.528</td>
<td>.897</td>
</tr>
</tbody>
</table>

**Source: Primary data**

The research reliability by using Cronbach’s Alpha value as observed from the results in table 2 above indicate that business relational capital, Social relational capital and firm performance all the variables had Cronbach’s Alpha coefficients well over 0.7 proving that the research instrument used to collect data from the respondents was appropriate. This is also in line with Nunnally, 1978.
3.9 Data collection procedure

A letter of introduction was obtained from Makerere University Business School for which I attached on to the questionnaires that were delivered by the researcher to the targeted respondents. The questionnaires were later collected from the respondents after two weeks.

3.10 Data processing and analysis

Data collected passed through several stages before analysis and these include; compiling, sorting, editing and coding in order to have the required accuracy, quality and completeness. Editing was done the very day questionnaires were collected. Quantitative methods were used to measure the relationship between business relational capital, social relational capital and firm performance. The data that was derived from the questionnaire was further analyzed SPSS (version 16.0). The data was manipulated using cross tabulations, Principal component analysis approach and Varimax rotation methods to determine those factors that explain business and social relational capital and firm performance. Microsoft Excel analysis was used to compute profitability and the firm’s future viability.

Pearson correlation coefficient was then used to establish the relationship between the independent variables (relational capital components) and the dependent variable (firm performance), a multiple regression analysis was conducted to determine the contribution of relational capital to firm performance.
3.11 Limitations of the study

(i) The sample of the study was drawn from manufacturing tea firms/estates, thus, the study results may not be generalized to other manufacturing companies.

(ii) In most organizations in Uganda, intellectual capital and performance measurement based on intellectual capital is still in its infant stage.

(iii) Few studies have been carried out in Uganda about relational capital and firm performance; therefore the results cannot be compared with those of developing countries.

(iv) One of the possible reasons for the valid results of the study is the methodology used for measuring relational capital. Although the constructs have been defined as precisely as possible by drawing relevant literature and validated by practitioners, the measurement used may not perfectly represent all the dimensions.
CHAPTER FOUR

ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter analyses and presents the results from the study and the variables analyzed were relational capital and firm performance. It begins with descriptive statistics, Factor analysis of constructs, correlation analysis and the regression analysis of the study variables.

4.2 Descriptive Statistics

In this section, the researcher presents the demographic characteristics pertaining to the response rate of respondents, gender, age and level of education. These were followed by the characteristics of the firms such as the type legal ownership, duration of existence of the factory, number of year’s employees has worked in the factory, number of employees employed in the factory and capital invested by shareholders/owners in the factory.

4.2.1 Response rate of respondents

132 questionnaires were distributed to the sample of the respondents selected in the 21 tea firms in Uganda. 17 tea firms responded (81%), and only 59 responded by filling the questionnaires (47%) as shown in table 3 below;

<table>
<thead>
<tr>
<th>Details</th>
<th>Population (p)</th>
<th>Sample (s)</th>
<th>Responsiveness</th>
<th>%age rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tea Estates</td>
<td>22</td>
<td>21</td>
<td>17</td>
<td>81%</td>
</tr>
<tr>
<td>Employees</td>
<td>200</td>
<td>127</td>
<td>59</td>
<td>47%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>222</td>
<td>148</td>
<td>76</td>
<td>64%</td>
</tr>
</tbody>
</table>

Source: Primary data
The table above shows that 17 out of 21 manufacturing tea firms were studied giving a response rate of 81%, and 59 respondents responded out of 127 giving a response rate of 47%. These included top managers like the estate manager, finance manager, marketing and sales manager, field manager, Administrative and human resource manager from each estate. Most employees failed to answer the questionnaire because they lacked information and would refer me to those having concrete data like the finance and estate manager who knew how the estates performed, marketing and sales manager because he deals better with customers, Administrative and human resource manager because he deals directly with employees and the field manager who deals with suppliers and leaf pluckers.

4.2.2 Gender distribution

The gender of the respondents was established and below is a table that shows the results.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency (f)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>51</td>
<td>86.4%</td>
</tr>
<tr>
<td>Female</td>
<td>08</td>
<td>13.6%</td>
</tr>
<tr>
<td>Total</td>
<td>59</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Primary data

The results in table 4 above showed that the majority of the respondents were the males (86%) while few females were employed and these comprised of only 14% of the respondents. This signifies that the gender balance of senior management officers was not balanced.

4.2.3 Age of the respondents

The age of the respondents was established to determine the employee’s maturity on the job and the results were as below;
Table 5: Age of the respondents

<table>
<thead>
<tr>
<th>Age of respondents</th>
<th>Frequency (f)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25 years</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>25-35 years</td>
<td>20</td>
<td>33.9%</td>
</tr>
<tr>
<td>35-45 years</td>
<td>19</td>
<td>32.2%</td>
</tr>
<tr>
<td>45-55 years</td>
<td>13</td>
<td>22.0%</td>
</tr>
<tr>
<td>Above 55 years</td>
<td>07</td>
<td>11.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>59</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*Source: Primary data*

The results in table 5 above; reveals that the majority of the respondents were between 25-35 years (33.9%) that is 20 respondents out of 59. These were followed by the age bracket of 35-45 years (32.2%) representing 19 respondents out of 59, followed by the age bracket of 45-55 years (22.2%) that is 13 out of 59 respondents and the rest 7 employees were above the age 55 years presenting a response rate of (11.9%) These reflect that most employees are mature and are able to give information they know about the firm with confidence.

4.2.4 Education of the respondents

The education level of the respondents was used to establish their level of competence as regards the subject matter and the results are indicated in the table below.

Table 6: Education Background of the respondents

<table>
<thead>
<tr>
<th>Educational level</th>
<th>Frequency (f)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate</td>
<td>03</td>
<td>5.1%</td>
</tr>
<tr>
<td>Diploma</td>
<td>13</td>
<td>22.0%</td>
</tr>
<tr>
<td>Degree</td>
<td>31</td>
<td>52.5%</td>
</tr>
<tr>
<td>Masters</td>
<td>11</td>
<td>18.7%</td>
</tr>
<tr>
<td>Others</td>
<td>01</td>
<td>1.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>59</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*Source: Primary data*

The results in table 6, above revealed that the majority of the respondents had at least a degree (53%) that is 31 respondents out of 59 while only 5% that is 3 respondents out of 59 of the respondents had a certificate as the highest level of education. Those with
other qualifications were less than 2% that is 1 respondent out of 59 of the entire respondents. Therefore, since the majority had a degree as the highest qualification, it signified that they were knowledgeable enough and understood what they were doing.

4.2.5 Legal Ownership of the firms studied

Table 7: Distribution of firms by their legal ownership

<table>
<thead>
<tr>
<th>Legal Ownership</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public owned</td>
<td>04</td>
<td>23.5%</td>
</tr>
<tr>
<td>Private owned</td>
<td>13</td>
<td>76.5%</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Primary data

The results in table 7 above shows that majority of the firms studied are private owned (76.5%) totaling to 13 and the remaining 4 firms are public owned representing 23.5%. This reflects that the majority private owned have higher interests in making a return as a pre-liquisite for their stay in business.

4.2.6 Duration of the factories.

Table 8: Responses by how long the factories have existed

<table>
<thead>
<tr>
<th>Duration in years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1 – 10 years</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10 – 20 years</td>
<td>02</td>
<td>11.8%</td>
</tr>
<tr>
<td>20 – 30 years</td>
<td>03</td>
<td>17.6%</td>
</tr>
<tr>
<td>Over 30 years</td>
<td>12</td>
<td>70.6%</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Primary data

The study sought to ascertain how long the tea producing firms have been in business in Uganda and the more the years in business, the more the strength the relationship are with stakeholders. The results showed that the majority of the firms (70.6%) have existed for over 30 years and this provided a better study because the
The majority of firms have abundant knowledge on relational capital, while a few 12% had existed for a period between 10-20 years.

### 4.2.7 Work experience of the respondents

The duration of respondents' work experience with the firm was studied and below are the findings.

<table>
<thead>
<tr>
<th>Number of years worked</th>
<th>Frequency (f)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>02</td>
<td>3.4%</td>
</tr>
<tr>
<td>Between 1-5 years</td>
<td>15</td>
<td>25.4%</td>
</tr>
<tr>
<td>Between 5-10 years</td>
<td>17</td>
<td>28.8%</td>
</tr>
<tr>
<td>Between 10-15 years</td>
<td>20</td>
<td>33.9%</td>
</tr>
<tr>
<td>Above 15 years</td>
<td>05</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

**Total** 59 100.0%

*Source: Primary data*

The table above reveals that the majority of the respondents had work experience of between 10-15 years (34%) who represent 20 respondents out of 59. These were followed by respondents with work experience between 5-10 years (29%) that is 17 respondents out of 59, next were those between 1-5 years (25%) representing 15 respondents out of 59, followed by 5 respondents with work experience above 15 years (8.5%) while 2 respondents had work experience of less than one year (3%). Since the majority of the respondents had work experience above 10 years, it implies that they had a true understanding of operations of the tea estates under study.

### 4.2.8 Number of employees working in the firm/factory

The number of employees working in each firm/factory was established and below is the results.
Table 10: Number of employees employed in the firm/factory

<table>
<thead>
<tr>
<th>No. of employees</th>
<th>Frequency (f)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 1–400</td>
<td>02</td>
<td>11.8%</td>
</tr>
<tr>
<td>Between 400–800</td>
<td>08</td>
<td>47.0%</td>
</tr>
<tr>
<td>Between 800–1200</td>
<td>05</td>
<td>29.4%</td>
</tr>
<tr>
<td>Between 1200–1600</td>
<td>02</td>
<td>11.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Primary data*

Table 10 above shows that the majority of the firms had employees ranging between 400–800 (47.0%) that is 8 firms out of 17. This was followed by those between 800-1200 (29.4%) representing 5 firms out of 17, followed by those between 1-400 and 1200-1600 (11.8%) all representing 2 firms out of 17. This indicates that firms have enough employees to boost the working capacity and produce at optimum.

4.2.9 Capital employed by shareholders/owners in the firm

The study sought to ascertain how much capital was invested by the shareholders in the tea estates. The results were as follows.

Table 11: Capital employed by shareholders/owners

<table>
<thead>
<tr>
<th>Capital employed in Ugx.”000”</th>
<th>Frequency (f)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 1,000,000-3,500,000</td>
<td>01</td>
<td>5.9%</td>
</tr>
<tr>
<td>Between 3,500,000-7,000,000</td>
<td>08</td>
<td>47.1%</td>
</tr>
<tr>
<td>Between 7,000,000-10,500,000</td>
<td>04</td>
<td>23.5%</td>
</tr>
<tr>
<td>Above 10,500,000</td>
<td>04</td>
<td>23.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Primary data*

The results show that majority of the firms had capital between 3.5bn to 7bn (47.1%) representing 8 firms out of 17 firms studied. These were followed by those having capital between 7bn to 10.5bn and above 10.5bn (23.5%) representing 4 firms for each range out the total 17. The least in this category was one firm which had capital employed of 3.5bn representing 5.9%. These results signify that there is some ample
capital shareholders have committed to the survival of their firms, though not good enough.

4.3 **Factor Analysis**

Factor analysis was performed to identify the patterns in data and to reduce data to manageable levels (Field, 2006). The factor analysis analyzed the factors that measured business relational capital, social relational capital and firm performance. The results were generated using the rotational Varimax methods to explore the variables contained in each component for further analysis. Factors with Eigen values (total variance) greater than 0.5 were extracted and coefficients below 0.49 were deleted from the matrix because they were considered to be of no importance. Below were the study findings:

### 4.3.1 Business Relational Capital

The rotated component matrix was used to extract the factors that measure business relational capital in manufacturing firms using the principal component analysis and Varimax rotation methods. The results were extracted as below
Table 12: Rotated Component Matrix (a) for Business capital

<table>
<thead>
<tr>
<th>Rotated Component Matrix(a)</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Customer Capital</td>
</tr>
<tr>
<td>Our customers find it easy to access our products</td>
<td>.804</td>
</tr>
<tr>
<td>Our customers contribute a great portion to the factory profits</td>
<td>.570</td>
</tr>
<tr>
<td>In my factory, the average throughput time of invoicing is appropriate</td>
<td>.615</td>
</tr>
<tr>
<td>There are many clear openings to customers</td>
<td>.595</td>
</tr>
<tr>
<td>There are good network systems with customers</td>
<td>.679</td>
</tr>
<tr>
<td>The factory takes service nearer to customers</td>
<td>.763</td>
</tr>
<tr>
<td>We are highly royal to our customers</td>
<td>.713</td>
</tr>
<tr>
<td>New business ideas are usually got from customers</td>
<td>.691</td>
</tr>
<tr>
<td>The systems ensures that customers are always in touch with the factory</td>
<td>.658</td>
</tr>
<tr>
<td>Customers normally participate in deciding on the matters that affect them</td>
<td>.798</td>
</tr>
<tr>
<td>Existing customers help the factory to enroll or get new customers</td>
<td>.579</td>
</tr>
<tr>
<td>Customers help this factory to improve / update its products</td>
<td>.828</td>
</tr>
<tr>
<td>Customers' complaints are handled on time</td>
<td>.628</td>
</tr>
<tr>
<td>The collaboration contracts/agreements signed between suppliers and management is/are appropriate</td>
<td>.543</td>
</tr>
<tr>
<td>There exist clear openings with suppliers</td>
<td>.562</td>
</tr>
<tr>
<td>The factory pays suppliers promptly on time</td>
<td>.504</td>
</tr>
<tr>
<td>We have good relationship with suppliers</td>
<td>.584</td>
</tr>
<tr>
<td>Suppliers participate in deciding on the matters that affect them</td>
<td>.812</td>
</tr>
<tr>
<td>The factory networks with suppliers have made it what it is</td>
<td>.712</td>
</tr>
<tr>
<td>Our suppliers contribute to the factory profits</td>
<td>.691</td>
</tr>
<tr>
<td>Suppliers help this factory to improve on its product quality</td>
<td>.561</td>
</tr>
<tr>
<td>Informal activities (dinners, lunches, visits) are organized for employees</td>
<td></td>
</tr>
<tr>
<td>New employees find it easy to learn from old ones</td>
<td></td>
</tr>
<tr>
<td>Top managers mentor those in junior positions</td>
<td></td>
</tr>
<tr>
<td>In the factory, we have a high degree of team work</td>
<td></td>
</tr>
<tr>
<td>Our business unit discusses customers future needs with other department</td>
<td></td>
</tr>
<tr>
<td>We collaborate with members in our firm to solve problems</td>
<td></td>
</tr>
<tr>
<td>Eigen values</td>
<td>6.26</td>
</tr>
<tr>
<td>% Variance explained</td>
<td>23.51</td>
</tr>
<tr>
<td>% Cumulative variance explained</td>
<td>23.51</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 10 iterations.

Source: Primary data
Factor analysis performed identified and reduced data to three patterns as seen from table 12 above and the three pattern/elements were interpreted as Customer capital with variance explained of 23.51%, Supplier capital with variance explained of 18.7% and Internal network capital with variance explained of 17.11%. This therefore shows that business relational capital is measured by how the organization relates with customers to whom they sale their products to, suppliers to whom they buy raw materials from and relationships among employees within the organization.

Thirteen items loaded on the component termed as customer capital. The item with the highest loading was that customers help the factory to improve or update its products (0.828). This means that firms with closer contacts with customers have benefited from information sharing concerning the products to be produced. The second highest loading was that our customers find it easy to access firms products (0.804), meaning that firms have many retail outlets through which customers can access products from. The third item loading was that customers normally participate in deciding on the matters that affect them (0.798). This means that management in firms allows customers to air out their views on how to get a better deal. The fourth item loading was that the factory takes services nearer to customers (0.763). This implies that the customers do not have to labour when looking for firms products. This was followed by; we are highly royal to our customers (0.713) meaning that management of the firms are keen to serving customers interests.

Other items included, new business ideas are usually got from customers (0.691), meaning that firms modify their products and packages according to the customers likes. There are good network systems with customers (0.679) meaning that the employees
within the estates have good linkages with the customers. The system ensures that customers are always in touch with the factory (0.658), this means that the firm produces good quality products at affordable prices that customers wouldn’t want to leave. The other loading on customer capital was that customers complaints are handled on time (0.628), this implies that firms are keen to solving customer’s complaints as they are presented. Another loading was that in my factory, the average throughput time of invoicing is appropriate (0.615) meaning that it takes less time for the firm to prepare an invoice in demand of payments from the customers with minimal errors, the last item loading on customer capital was that our customers contribute a great portion to the factory profits (0.570). This means that customers by their regular buying of made tea, contribute profits to the firms.

Eight items loaded on the component termed as supplier capital. The item with the highest loading was that Suppliers participate in deciding on the matters that affect them (0.812) meaning that suppliers always send their views to management as regards price for green leaf, quality of raw materials and mode of material delivery. The second loading was that the factory networks with suppliers have made it what it is (0.712), means that the factory has for all the time been relying on suppliers for raw materials. The third item was that our suppliers contribute to the factory profits (0.691), this means that the better quality raw materials supplied are transformed into better quality products that fetches a high price on the market. The fourth item loading was that we have good relationship with suppliers (0.584) this means that the firms constantly up date suppliers on the raw materials required and pay them appropriately on time. The other loadings were that there exists clear openings with suppliers (0.562), this means that suppliers
increasingly select the firm. Suppliers help this factory to improve on its product quality (0.561), this means that the firms are in closer contacts with those suppliers who supply them two leaves and a bud since they are the key to quality made tea. The collaboration contracts/agreements signed between suppliers and management is/are appropriate (0.543) it means that the terms and conditions offered by suppliers to management and likewise are always appropriate and affordable to both parties. The other item loading was that the factory pays suppliers promptly on time (0.504), this means that the firm pays suppliers averagely on time for the supplies.

Six items loaded on the component internal network capital. These elements were according to the highest loading that top managers mentor those in junior positions (0.784) which mean that top managers groom those junior managers below them for the survival and continuity of the firm. The second loading was that our business unit discusses customers future needs with other departments (0.675), this means that employees in all departments always strive to achieve customer satisfaction by involving and discussing their needs amongst themselves. The third item loading was that new employees find it easy to learn from old ones (0.616). This means that the firms’ senior employees share experience with others to make better product quality for the customers. The other item loading was that Informal activities (dinners, lunches, visits) are organized for employees (0.580), which also mean that there are constant interactions among employees both within and outside work environment. Another item loading was that we collaborate with members in our firm to solve problems (0.561), this means that the firm emphasizes employee participation in solving business problems. The last item loading
on this was that in the factory, we have a high degree of team work (0.549), which symbolizes unit amongst the work force within the firm

### 4.3.2 Social relational capital

Factor analysis was used to extract factors that measure social relational capital using the principal component analysis and varimax rotation methods, and the findings are in the table below.

**Table 13: Rotated Component Matrix (a) for Social relational capital**

<table>
<thead>
<tr>
<th>Components</th>
<th>Competitor</th>
<th>Community</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have a strong corporate brand compared to competitors</td>
<td>.858</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We are a reputable organization compared to competitors</td>
<td>.896</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We are quick to respond to significant changes in our competitors pricing structures</td>
<td>.608</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our factory devotes an important part of its budget to funding community activities</td>
<td>.639</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our relationship with the community is good</td>
<td>.642</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The government has helped our firm to be where it is</td>
<td></td>
<td>.775</td>
<td></td>
</tr>
<tr>
<td>Our relationship with the government is good</td>
<td></td>
<td>.576</td>
<td></td>
</tr>
<tr>
<td>We perform a lot of actions to spread our corporate values &amp; beliefs</td>
<td></td>
<td>.671</td>
<td></td>
</tr>
<tr>
<td>We pay our tax obligations to government on time</td>
<td></td>
<td>.757</td>
<td></td>
</tr>
<tr>
<td>Eigen values</td>
<td>2.25</td>
<td>2.11</td>
<td>1.39</td>
</tr>
<tr>
<td>% Variance explained</td>
<td>25.09</td>
<td>23.45</td>
<td>15.49</td>
</tr>
<tr>
<td>% Cumulative variance explained</td>
<td>25.09</td>
<td>48.55</td>
<td>64.05</td>
</tr>
</tbody>
</table>

*Source: Primary data*

The factor analysis results from table 13 above reduced data to manageable three levels of social relational capital, which were interpreted as competitor relations capital.
(25%), community relations capital/social responsibility (23%) and government relations capital (16%). These components explained about 64% of the total variance in social relational capital of a firm.

Three item scales loaded on the component termed as competitor relations capital. The item with the highest loading on this was that we are a reputable organization compared to competitors (0.896), meaning that their firm is highly valued, with good quality products good marketing attributes, good personnel and customer care compared to others in the industry. The second item was that we have a strong corporate brand compared to competitors (0.858). This means that the firm produces a good product above average and customers always want to associate themselves with that firm’s product. The last item was that firms are quick to respond to significant changes in our competitors pricing structures (0.608) meaning that firms are able to study their pricing strategies in relation to what their competitors offer the market and change appropriately.

Two items loaded on the component community relations capital (Social responsibility). The item with the highest loading was that our relationship with the community is good (0.642). This means that firms strive to relate with the neighbors as possible for labour force and security of their tea plantations and infrastructure. The last item to load on community relations capital was that the factory devotes an important part of its budget to funding community activities (0.639) which implies that firms contribute a portion of their profits towards financing the community work in which they operate in order to have a common understanding with their neighbors.

Four items loaded the component Government relations capital. These included that the government has helped our firm to be where it is (0.775) meaning that the
infrastructure, security and tax exemptions where necessary has enabled the firms growth in terms of market coverage, sales and stability. The second item was that we pay our tax obligations to government on time (0.757) meaning that firms are supporting the government through financing it on the profits they make. The last item was that the firm’s relationship with the government is good (0.576), which means that firms operate fairly and support government programmes.

4.4 Findings on Firm performance

Firm Performance

The factor analysis was used to measure firm performance using the principal component analysis and varimax rotation methods and the following results were extracted as in the table below.

Table 14: Rotated Component Matrix(a) for firm performance

<table>
<thead>
<tr>
<th>Components</th>
<th>Profitability</th>
<th>Future viability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our factory is highly profitable</td>
<td>.807</td>
<td></td>
</tr>
<tr>
<td>Our factory has a positive stock (equity) returns</td>
<td>.886</td>
<td></td>
</tr>
<tr>
<td>Our factory has a higher market value</td>
<td>.818</td>
<td></td>
</tr>
<tr>
<td>We have a good return on investment (ROI)</td>
<td>.875</td>
<td></td>
</tr>
<tr>
<td>Our shareholders are happy with our policy on dividends</td>
<td>.600</td>
<td></td>
</tr>
<tr>
<td>We address the challenges of uncertain and dynamic business environment</td>
<td></td>
<td>.729</td>
</tr>
<tr>
<td>Our going concern assumption is appropriate</td>
<td></td>
<td>.678</td>
</tr>
<tr>
<td>Eigen values</td>
<td>3.24</td>
<td>1.37</td>
</tr>
<tr>
<td>% Variance explained</td>
<td>46.42</td>
<td>19.70</td>
</tr>
<tr>
<td>% Cumulative variance explained</td>
<td>46.42</td>
<td>66.12</td>
</tr>
</tbody>
</table>

Source: Primary data
The factor analysis results from table 14 above identified two patterns of firm performance as; Profitability (46.42%) and Future viability (19.70%) which in total all constituted up to 66% of the total variation in firm performance. These results showed that while measuring performance of a firm, the most important component is Profitability which contributed about 46% of the total variance in performance, followed by Future viability which contributed about 20% of the total variance explained in firm performance.

Five items loaded on the component profitability. These included that our factory is highly profitable (0.807) which means that sales made by the factory are translated into more profits, the second item loading was that our factory has a positive stock (equity) returns (0.886) meaning that the factory has enough earnings that are capable of servicing the equity invested in, the third item was that the factory has a high market value (0.818) which implies that customers frequently buy from the factory, this was followed by the factory has a good return on investment (0.875) meaning that the profits made are enough to service the capital employed in the factory by lenders and shareholders and the last item loading on this was that shareholders are happy with the policy on dividends (0.600) meaning that the factory discloses and pays dividends to shareholders timely.

Two items loaded on the component future viability and these are; the company addresses the challenges of uncertain and dynamic business environment (0.729) which means that the firms are able to provide solutions to issues concerning their business in order to stay safe in business, the last item loading on this was that the firms going concern assumption is appropriately (0.678) meaning that firms have, and are committed to having a continuous operations both today and in the future.
Profitability and future viability of the firms were further analyzed and an attachment is in appendix ii

4.5 Relationship between variables

The objective of the study was to establish the relationship between business relational capital components and firm performance, social relational capital components and firm performance, relational capital components and firm performance. To achieve this, a Pearson correlation matrix was used to test the relationship that exists between the independent variables (Business and social relational capital components) against the dependent variable (Firm performance). The results of the study are shown in the table below
Table 15: The Pearson correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer capital (1)</strong></td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Supplier capital (2)</strong></td>
<td>.516**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Internal network capital (3)</strong></td>
<td>.601**</td>
<td>.519**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business relational capital (4)</strong></td>
<td>.920**</td>
<td>.777**</td>
<td>.765**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Competitor capital (5)</strong></td>
<td>.438**</td>
<td>.450**</td>
<td>.508**</td>
<td>.526**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Community capital (6)</strong></td>
<td>.487**</td>
<td>.466**</td>
<td>.453**</td>
<td>.552**</td>
<td>.448**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Government relations (7)</strong></td>
<td>.429**</td>
<td>.357**</td>
<td>.486**</td>
<td>.488**</td>
<td>.324*</td>
<td>.555**</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Social relational capital(8)</strong></td>
<td>.572**</td>
<td>.546**</td>
<td>.607**</td>
<td>.663**</td>
<td>.792**</td>
<td>.846**</td>
<td>.729**</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td><strong>Firm Performance (9)</strong></td>
<td>.295*</td>
<td>.154</td>
<td>.330*</td>
<td>.302*</td>
<td>.434**</td>
<td>.293*</td>
<td>.214</td>
<td>.409**</td>
<td>1.000</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Source: Primary data

4.5.1 Business relational capital components and firm performance

Table 15 above revealed that there was a significant and positive relationship between customer capital and firm performance (r=0.295*; p-value<0.05). The result implies that the greater the level of capital invested in building customer relations, the greater the level of firm performance is likely to be realized.
Manufacturing tea firms in Uganda showed an insignificant relationship between supplier capital and firm performance \((r=0.154)\). This implies that investing capital in building suppliers relationships, the level of firm performance does not improve.

Furthermore, the results from table 15 above revealed that there was a significant and positive relationship between internal network capital and firm performance \((r=0.330\); \(p\)-value<0.05). This result implied that investing capital in building employee networks, firm performance is likely to increase.

From the correlation matrix in table 15 above, the results revealed that there was a significant and positive relationship between business relational capital and firm performance \((r=0.302\); \(p\)-value<0.05). This result implies that investing more capital in a way of building strong ties with customers and with employees, the more likely will be performance of the firm.

### 4.5.2 Social relational capital components and firm performance

It was revealed from table 15 that manufacturing tea firms have a significant and positive relationship between competitor relational capital and firm performance \((r=0.434\); \(p\)-value<0.01). This implied that investing capital in building corporate reputation, strong brand and responding to significant market changes brought about by competitors in the industry, increases firm performance.

Still from table 15, the result from the correlation matrix shows that there was a significant and positive relationship between community/social responsibility capital and firm performance \((r=0.293\); \(p\)-value<0.05). This result indicates that dedicating part of the firms’ budget in a way of paying back to the community, increases the level of firm performance.
Still from the above table, it reveals that there was an insignificant relationship between government relational capital and firm performance ($r=0.214$), which implies that an outflow towards the government in form of paying taxes, reduces the firms profits hence affecting the firms performance.

Generally, table 15 reveals that social relational capital significantly and positively affects firm performance ($r=0.409**$; $p$-value 0.01). This result means that when manufacturing firms invest capital in a way of winning over competitors and becoming socially responsible firms, the level of firm performance increases.

4.5.3 Relational capital (components) and firm performance

From table 15 above of the correlation matrix, relational capital components (Business and Social relational capital) significantly and positively improves firm performance ($r=0.302^*; p$-value$<0.05$ and $r=0.409^{**}; p$-value$<0.01$). This means that when shareholders and managers invest more capital in building strong relationships with internal and external stakeholders/agents, the level of performance of manufacturing tea firms is likely to increases in return.
4.6 Regression analysis

4.6.1 Regression Analysis for relational capital components and firm performance

A multiple regression analysis was used to analyze the third objective, the statistical relationship to which the predictors which are; Business relational capital and Social relational capital explain Firm Performance. Below are the output results

Table 16: Regression Analysis for relational capital components and firm performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Adjusted R^2</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.507</td>
<td>.570</td>
<td>2.01</td>
<td>.009</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social relational capital</td>
<td>.521</td>
<td>.232</td>
<td>.344</td>
<td>2.94</td>
<td>.008</td>
<td>.283</td>
<td>.000(a)</td>
</tr>
<tr>
<td>Business Relational capital</td>
<td>.098</td>
<td>.246</td>
<td>.093</td>
<td>.43</td>
<td>.833</td>
<td>11.48</td>
<td>.000(a)</td>
</tr>
</tbody>
</table>

*Dependent Variable: PERFORMANCE

*Source: Primary Data

The results in table 16 above show a linear relationship between relational capital components and firm performance of manufacturing tea firms (F=11.48, Sig.0.000). A combination of business relational capital and social relational capital (relational capital) accounts for 28.3% of the variation in firm performance.

The table above further shows that social relational capital significantly and positively affected firm performance (Beta=0.344, Sig.0.008) and investing capital in business relations proved to have an insignificant effect on firm performance (Beta=0.093, Sig.0.833)
Therefore, Social relational capital remains the only significant predictor of firm performance with significance level of less than 0.05 while business relational capital proved to have no effect on firm performance with significance level above 0.05.

Overall, the regression model indicated that relational capital accounts for 28.3% of the observed variance in firm performance. (Adjusted R Square=0.283)
CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of the findings, conclusions and recommendations arising out of the research findings in chapter 4 and suggests areas for further research. The study has generated findings several of which are in line with the existing literature and the research questions.

5.2 Discussion of the findings with respect to the study objectives

5.2.1 The relationships between business relational capital components (customers, suppliers, employees) and firm performance.

The findings revealed three (3) elements that explained 59.3% of the variance in business relational capital. These were presented in their order of score as customer capital (23.51%), supplier capital (18.7%) and internal network capital (17.1%). This signals that business relational capital is measured by how the firm orientates itself towards internal and external agents whom they relate with for a profit objective.

The study revealed that there exist a significant and positive relationship between a firm’s Customer capital strength and Firm Performance; that a change or boost in customer capital leads to a positive change in firm performance. The results imply that firms which invest capital to strengthen their relationships with customers by way of building strong quality and having wider distribution channels, their performance increases. Tobin’s “q” coefficient study also is in agreement with Pearson’s matrix that firm performance is contributed by the relationship the firm maintains with its customers.
Most tea firms survive on customers who buy the output (made tea), therefore, the firm’s exposure to customers makes them buy repeatedly and this increases sales, which in turn increases the firm’s profitability. This is in line with Bontis (1998) who stated that knowledge of marketing channels and customer relationships play a major role in enhancing firm performance.

Thus, the more capital that the firm puts in building networks with customers through building strong distribution channels where customers can easily access products, handling customers complaints as they come, allowing them chance to participate in decision making, makes customers come to buy again and again. Kijek (2006) on his study in the Polish food processing companies is in agreement with the above, and found out that companies with high-level customer satisfaction perform better and are more eager to seek and fulfill customer needs.

The other element measuring business relational capital was supplier capital. From the study findings, it was found out that engaging in a relationship with the suppliers does not increase the level of firm performance. This is because it involves winning over suppliers from competitors by paying a high price than it would have been. This is in conformity with Gregorio Martin and Pedro Lopez (2005) who argued that there is need for less relevance to relations with the suppliers and this needs special attention in respect to other external agents such as relationship with customers or other allies.

The third element that measured business relational capital was internal network capital which includes the relationship that exists among employees within an organization
Results from the study revealed that there exists a significant and positive relationship among employees (internal networks) and firm performance. This is in support with Tsai, Ghoshal (1998) who argued that the relationships among employees facilitate a common understanding of collective goals and proper ways of acting in a social system that in turn propels an organization to higher performance effort of profit maximization.

Further to this, managers that embraced strong ties among employees such as learning from one another’s experience, creativity and teamwork; and have invested heavily in sustaining these, holds a strong position among other firms in the industry and have maneuvered a higher return. This finding concurs with Kijek (2008) who argued that the high level of relationship among employees is sufficient condition for the knowledge flow from the environment to the organization.

5.2.2 The relationship between social relational capital components (competitors, community and Government) and firm performance.

The findings from the factor analysis revealed three (3) components that explained 64.2% of the variance in social relationship capital and these were Competitor relationship (25.1%), Community/social responsibility (23.5%) and government relationships (15.5%). The findings on this objective show that there exists significance and positive relationship between social capital and firm performance.

By discussing each construct that measured social relational capital, the results show that there exists a significant and positive relationship between competitor capital and firm performance. This means that manufacturing firms which are in regular contacts with fellow firms in the industry and benchmark from them, experiences better
performance. By way of benchmarking other firms in the same industry, it has helped them package their products appropriately in terms of weight, and have learnt to operate with each other all of which has built a strong reputation. These findings are in agreement with Roberts & Dowling (2002) who argued that the value of reputation in differentiating products/services gives latent quality of products that would enable customers pay an over price for those products.

However, a few firms that did not take seriously their competitors and failed to benchmark on them, their performance did not improve and some are being pushed out of the industry in a way that they are selling off their firms to other investors and also those that are still in the market, their future viability is in doubt.

Kogut (2000) from his study in computer and electronics manufacturing company stated that firms born in a certain industry can learn to operate in another one with the help of an appropriate ally, or simply from alliance networks to reinforce their competitive position.

Findings from the study further revealed that there exists a significant and positive relationship between community/social responsibility and firm performance. This means that manufacturing firms that use different strategies of associating with the community such as funding community activities in order to woo them to buy their products, experiences a high performance. This concurs with McGuire, et. al, (1998) who asserted that it is critical for organizations to reach higher levels of involvement and by this way, social responsibility of the firm relates highly with the firm financial outcomes.

Further too, social relational capital findings reveal that there exists an insignificant relationship between government relationships and firm performance. The
use of different approaches that includes fulfilling government obligations as they fall due in one way or the other, paying taxes on time, affects the profitability and performance of the firm. However, the good relationship may bring about tax waiving by the government, markets the firms products to the foreign markets. This finding concurs with Rajan & Zungales (2000) who argued that ethics and corporate governance codes have a positive impact on creation of social capital, stimulating the solidarity and overcoming market imperfections.

5.2.3 The relationships between relational capital components and firm performance

The study findings from the correlation established a significant relationship between business relational capital and performance of tea manufacturing firms ((r=0.302*; p-value<0.05). This indication implied that when firms invest capital in strengthening their relationship with customers (whom they sale to) and among employees, their performance increases.

The findings reveal that manufacturing firms which invest in social relational capital in a way of building relationship with the social agents (community and competitors), performance improved (r=0.409**, p-value<0.01). This is in agreement with Lazerson (1995) who stated that social capital solves conflicts, improves consensus with surrounding organizations, enhances understanding with public administration, mitigates the imperfections in the market and reduces transaction costs. These actions benefit the investor as the market rewards socially responsible companies.
The overall results indicate that relational capital components significantly affect firm performance. The components of relational capital namely business relational capital (relationship with customers and employees) and social relational capital (relationship with competitors and community) positively correlated with firm performance.

Generally, the regression analysis shows that relational capital and its components are significant predictors and accounts for 28.3% in firm performance. Relational capital therefore is increasingly being recognized as an important strategic asset for sustainable firm performance. The study further provides evidence that key customers place high emphasis on those firms with better relational capital efficiency and firms with such efficiency have a greater profitability and stable today and in future. This finding is in line with Kaplan and Norton (2004) from the study carried out in the Taiwanese limited companies that relational capital is being increasingly recognized as the major drive for corporate and national growth.

Further to the above, not all the components of relational capital as per the regression model proved to predict firm performance. Social relational capital was the only significant predictor of firm performance; business relational capital was not a significant predictor of firm performance.

5.3 Conclusions

Relational capital management in a number of tea manufacturing firms in Uganda is low and this has affected the performance of many firms. The profitability of many firms is low indicating low profit margin and return on capital employed (see appendix 11) and the future viability of some firms is in doubt in the next two years. The overall cause of
this is that it involves the outflow of financial resources and managers in these firms do not appreciate the real importance of relational capital because of its intangibility and the value resulting from it is not recorded in financial statements so it is difficult to measure and attach value. This is in line with IAS 38 which refrains companies from recording intangible assets in their financial statements. Therefore, the failure to recognise this puts the firm performance in a weak position.

To some firms, the objective of relational capital is to increase sales and safeguard shareholders capital.

Therefore, the nature of manufacturing tea firms is that they survive on the relationships they maintain with different stakeholders and this requires strong relationship with the agents to include internal and external agents and managing these relationships appropriately well for better performance.

### 5.4 Recommendations

The following recommendations have been suggested based on the findings:

The study has shown a clear understanding of relational capital components and they influence firm performance. This promotes the efforts of managers to improve their firms’ performance which can be done through appropriate management of relational capital components. Thus, management should intensify initiatives to encourage greater understanding and acceptance of relational capital components that boosts performance in the Uganda tea manufacturing sector.
In order to boost the wealth of manufacturing tea firms, management should endeavour to find and employ a viable relational capital composition that increases firm performance. Therefore, management should mainly focus on;

Increase on the budget towards funding social activities. This will enable the community to have the company at heart and will always buy from them as a way of pay back.

Since there was a significant and positive relationship between competitor relational capital and firm performance, more capital should be invested in research and product development, product pricing, differentiation, branding, packaging and market penetration both locally and internationally without relying on Mombasa action sales in order win the competitors, attract more customers and sale highly in the local market.

Since there was a significant and positive relationship between customer capital and firm performance, Managers should strengthen and invest more capital in building the relationships with customers, identify their needs and provide optimal value for them in terms of quality, affordable price, and right package and provide for an open culture where employees and customers share product quality in common.

5.5 Suggested areas for further research

The study concentrated on relational capital components and firm performance of manufacturing tea firms. A further study needs to be carried out on how to improve relational capital in manufacturing companies not necessarily tea firms. This is necessary because most managers in this region do not know that relational capital is worth of value to the company and are even not acquitted with what it needs to have the relationships.
alright. An in depth research on exactly on “**How to improve relational capital in manufacturing companies in order to sustain companies in business**” is necessary.

Further research should be carried out to establish how relational capital can be measured over time and how the results from the measurement can improve on managerial decision making for companies.

A third study needs to be carried out on relational capital and its effects on service provision firms in the region.
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IAS 7: Cash flow statement


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Manuel Garcia-Ayuso (2003); Intangibles: Lessons from the past and a look into the future; Journal of intellectual capital Vol. 4, pp. 597-604


Requests, (Managers, Heads of section) am SULAIT TUMWINE a final year student (Masters of Business Administration) of Makerere University pursuing a study on RELATIONAL CAPITAL AND FIRM PERFORMANCE IN THE MANUFACTURING TEA FIRMS IN UGANDA. Relational capital is the relationship that a firm maintains with external and internal agents (customers, suppliers, employees, competitors, community, and government). Of recent, relational capital has been identified as a component in a company that is most valuable and greatly affects the performance of the company in terms of its profitability and future viability.

The study is purely an academic research, your participation in filling this questionnaire is highly appreciated, and the information given will be kept confidential.

SECTION A: BACKGROUND INFORMATION (Tick as appropriate)

(b) Age of the respondent

<table>
<thead>
<tr>
<th>Below 25years</th>
<th>25-35years</th>
<th>35-45years</th>
<th>45-55years</th>
<th>Above 55years</th>
</tr>
</thead>
</table>

(c) Education Background

<table>
<thead>
<tr>
<th>Certificate</th>
<th>Diploma</th>
<th>Degree</th>
<th>Masters</th>
<th>Others</th>
</tr>
</thead>
</table>

(d) In what type of legal ownership does your firm/factory belong to…………………

(e) For how long has this firm/factory existed?

<table>
<thead>
<tr>
<th>Less than 1year</th>
<th>1-10years</th>
<th>10-20years</th>
<th>20-30years</th>
<th>Over 30years</th>
</tr>
</thead>
</table>
(f) Number of years of your relationship with the factory

<table>
<thead>
<tr>
<th>Less than 1 year</th>
<th>1-5 years</th>
<th>5-10 years</th>
<th>10-15 years</th>
<th>Above 15 years</th>
</tr>
</thead>
</table>

(g) How many employees in total does your firm/factory employee

(h) Indicate in Ugandan shillings, how much capital the shareholders/owners have invested/employed in the firm/factory

SECTION B: Business relational capital and Firm performance

Guidelines: The table below shows alternative responses; evaluate each statement and tick in the appropriate box based on the following scale.

<table>
<thead>
<tr>
<th>I strongly disagree</th>
<th>I disagree</th>
<th>I am not sure</th>
<th>I agree</th>
<th>I strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

**Customer Capital**

1. There are many clear openings to customers
2. There are good network systems with customers
3. The factory takes service nearer to customers
4. We are highly royal to our customers
5. New business ideas are usually got from customers
6. The systems ensures that customers are always in touch with the factory
7. Networks with customers have made the factory what it is
8. Customers normally participate in deciding on the matters that affect them
9. We have good relationship with customers
10. Existing customers help the factory to enroll or get new customers
11. Customers help this factory to improve or update its products
12. Our customers find it easy to access our products
13. Customers complaints are handled on time
14. Our customers contribute a great portion to the factory profits
15. In my factory, the average throughput time of invoicing is appropriate

**Supplier Capital**

1. There exists clear openings with suppliers
2. We have good network systems with suppliers
3. The factory pays appropriate price per kilogram of green leaf to suppliers
4. The factory pays suppliers promptly on time
5. We have good relationship with suppliers
6. Suppliers help this factory to improve on its product quality
7. Suppliers participate in deciding on the matters that affect them
8. The factory networks with suppliers have made it what it is
9. Suppliers complaints are always handled on time
10. The collaboration contracts/agreements signed between suppliers and management is/are appropriate
11. Our suppliers contribute to the factory profits

<table>
<thead>
<tr>
<th>Internal networks</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Our business unit discusses customers future needs with other departments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. We collaborate with members in our firm to solve problems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Informal activities (dinners, lunches, visits) are organized for employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Our firm periodically circulates documents to other employees to provide information on customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Our relationship with the company owners is good</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. New employees find it easy to learn from old ones</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Top managers mentor those in junior positions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. The composition of employees in the factory is diverse</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. The efforts in creating and sustaining the factory lies in the hands of the employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Our relations have a greater impact on the factory profits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. In the factory, we have a high degree of team work</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SECTION C: Social relational capital and Firm performance**

**Guidelines:** The table below shows alternative responses, evaluate each statement and tick in the appropriate box on the basis of the following scale

<table>
<thead>
<tr>
<th>I strongly disagree</th>
<th>I disagree</th>
<th>Iam not sure</th>
<th>I agree</th>
<th>I strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

**Competitors**

| 1. We have a strong corporate brand compared to competitors |   |   |   |   |   |
| 2. We are a reputable organization compared to competitors |   |   |   |   |   |
| 3. Our factory recognizes the value of competitors & general public |   |   |   |   |   |
| 4. We are quick to respond to significant changes in our competitors pricing structures |   |   |   |   |   |
We perform a lot of actions to spread our corporate values & beliefs

Our firm develops more ideas and products than any other firm in our industry

Our factory devotes an important part of its budget to funding community and green actions

Our relationship with the community is good

Our factory is highly profitable

Our factory has a positive stock (equity) returns

Our factory has a higher market value

Our transaction costs per tonne produced is high

We maximize our factory’s performance

The factory is more inclined to decisions that enhance returns on its physical capital rather than relational capital

We address the challenges of uncertain and dynamic business environment

We have a good return on investment (ROI)

Our shareholders are happy with our policy on dividends

Our going concern assumption is appropriate

We have competitive advantage and superior firm performance
For the following, provide answers in the space provided using your latest financial statements in Uganda shillings.

13. From your latest financial statements, please state:
   (a) Net sales
   (b) Total Operating expenses
   (c) Profit before tax
   (d) Net profits
   (e) Retained earnings
   (f) Total equity
   (g) Total assets
   (h) Total liabilities
   (i) Rate of return on capital
   (j) Profitability trend for the last 3 years
   (k) Rate of return on investment

14. Please provide a copy of your latest audited financial statements.

Thank you once again for your cooperation.
APPENDIX 11

PERFORMANCE OF MANUFACTURING FIRMS

Net Profit Margin and Return on Capital Employed

<table>
<thead>
<tr>
<th>No. of Firms</th>
<th>Net Profit Margin Net Profit*100% /Net Sales</th>
<th>Return on Capital Employed EBIT*100%/Capital Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24.5%</td>
<td>27.9%</td>
</tr>
<tr>
<td>2</td>
<td>4.1%</td>
<td>4.7%</td>
</tr>
<tr>
<td>3</td>
<td>28.3%</td>
<td>32.2%</td>
</tr>
<tr>
<td>4</td>
<td>14.0%</td>
<td>15.9%</td>
</tr>
<tr>
<td>5</td>
<td>24.0%</td>
<td>27.4%</td>
</tr>
<tr>
<td>6</td>
<td>4.1%</td>
<td>3.4%</td>
</tr>
<tr>
<td>7</td>
<td>4.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>8</td>
<td>-3.7%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>9</td>
<td>12.6%</td>
<td>14.3%</td>
</tr>
<tr>
<td>10</td>
<td>14.6%</td>
<td>19.1%</td>
</tr>
<tr>
<td>11</td>
<td>-19.2%</td>
<td>-13.3%</td>
</tr>
<tr>
<td>12</td>
<td>-6.9%</td>
<td>-4.8%</td>
</tr>
<tr>
<td>13</td>
<td>18.6%</td>
<td>16.8%</td>
</tr>
<tr>
<td>14</td>
<td>3.01%</td>
<td>2.5%</td>
</tr>
<tr>
<td>15</td>
<td>2.41%</td>
<td>3%</td>
</tr>
<tr>
<td>16</td>
<td>3.47%</td>
<td>3.3%</td>
</tr>
<tr>
<td>17</td>
<td>16.45%</td>
<td>17.3%</td>
</tr>
</tbody>
</table>

*Source: Primary Data*
Computed Z-scores for the Companies studied

<table>
<thead>
<tr>
<th>No. of companies</th>
<th>1.2X1</th>
<th>1.4X2</th>
<th>3.3X3</th>
<th>0.6X4</th>
<th>1.0X5</th>
<th>Z-Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>0.08</td>
<td>0.05</td>
<td>0.09</td>
<td>10.23</td>
<td>0.41</td>
<td>10.86</td>
</tr>
<tr>
<td>2</td>
<td>0.20</td>
<td>0.15</td>
<td>0.37</td>
<td>6.43</td>
<td>1.09</td>
<td>8.24</td>
</tr>
<tr>
<td>3</td>
<td>0.11</td>
<td>0.14</td>
<td>0.21</td>
<td>6.48</td>
<td>0.9</td>
<td>7.84</td>
</tr>
<tr>
<td>4</td>
<td>0.09</td>
<td>0.11</td>
<td>0.23</td>
<td>6.73</td>
<td>0.58</td>
<td>7.74</td>
</tr>
<tr>
<td>5</td>
<td>0.18</td>
<td>0.09</td>
<td>0.16</td>
<td>6.43</td>
<td>0.33</td>
<td>7.19</td>
</tr>
<tr>
<td>6</td>
<td>0.20</td>
<td>0.09</td>
<td>0.11</td>
<td>6.13</td>
<td>0.28</td>
<td>6.81</td>
</tr>
<tr>
<td>7</td>
<td>0.28</td>
<td>0.11</td>
<td>0.18</td>
<td>4.90</td>
<td>0.58</td>
<td>6.05</td>
</tr>
<tr>
<td>8</td>
<td>0.15</td>
<td>0.05</td>
<td>0.22</td>
<td>3.14</td>
<td>0.68</td>
<td>4.24</td>
</tr>
<tr>
<td>9</td>
<td>-0.04</td>
<td>0.04</td>
<td>0.17</td>
<td>2.83</td>
<td>0.59</td>
<td>3.63</td>
</tr>
<tr>
<td>Category B</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>-0.03</td>
<td>0.12</td>
<td>0.02</td>
<td>2.33</td>
<td>0.36</td>
<td>2.80</td>
</tr>
<tr>
<td>11</td>
<td>-0.04</td>
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<td>0.02</td>
<td>2.18</td>
<td>0.45</td>
<td>2.63</td>
</tr>
<tr>
<td>12</td>
<td>0.19</td>
<td>-0.07</td>
<td>0.03</td>
<td>1.92</td>
<td>0.42</td>
<td>2.49</td>
</tr>
<tr>
<td>Category C</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
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<td>0.01</td>
<td>0.02</td>
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<td>0.59</td>
<td>1.69</td>
</tr>
<tr>
<td>14</td>
<td>0.25</td>
<td>-0.20</td>
<td>0.03</td>
<td>1.07</td>
<td>0.21</td>
<td>1.56</td>
</tr>
<tr>
<td>15</td>
<td>0.07</td>
<td>-0.01</td>
<td>0.07</td>
<td>0.73</td>
<td>0.31</td>
<td>1.17</td>
</tr>
<tr>
<td>16</td>
<td>0.16</td>
<td>0.08</td>
<td>0.23</td>
<td>-0.27</td>
<td>0.17</td>
<td>0.37</td>
</tr>
<tr>
<td>17</td>
<td>-0.00</td>
<td>0.08</td>
<td>-0.02</td>
<td>0.04</td>
<td>0.28</td>
<td>0.38</td>
</tr>
</tbody>
</table>

Source: Primary data

**Category A:** Safe and healthy companies that will continue in operation

**Category B:** Companies that are uncertain about their future in the next two years

**Category C:** Companies that have a high risk of closure any time from the date this research was carried out