The Impact of Relational Capital as an Important Instrument of Increasing Competitiveness On Balanced Scorecard Performance in Life Insurance Agency in Malaysia

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Abstract

In today's competitive environment, in which creativity and innovation play an important part, organizations are becoming increasingly aware that their physical and financial assets are incapable of generating competitive advantages that are sustainable and perceive that it is their intangible assets which allow value to be created for their products and services. Relational capital is one of the crucial elements of intellectual capital especially in the service industry. The main objective of this paper is to investigate the impact of relational capital on the balanced scorecard performance of life insurance companies in Malaysia. There are 5 hypotheses for this study. The researcher used the Smart-PLS software to generate answers for five hypotheses (H1 to H1d). The managers highlighted the importance of meeting their client's need and wishes, of fostering client loyalty, of collecting and disseminating their feedback and improvement in quality. The main conclusion from this study is that relational capital gives significant and positive impact on life insurance company performance.

Keywords: Relational Capital, Balanced Scorecard Performance, Financial and Non-financial Performance

Introduction

Organizations are starting to move to a knowledge-based economic phase, and the economy refers to intangible assets and knowledge that is seen as an essential element and as an advantage in competing with other organizations. The current environment is defined as an economy where strategic resources are par excellence of the intangible type rather that the tangible one and where the business environment is extremely competitive. Furthermore, we

are living in a so-called connected economy that tends to become more virtual. In this context, the relationships that companies develop with their clients, competitors, shareholders, strategic alliance partners, and public administrations, among others, become extremely important. These relationships make up the relational capital of the company (Collins, Smith, & Stevens, 2001; Razalli, Anal, Mamat, & Hashim, 2018)
Creating good communication and having strong relationship with customers, consumers, shareholders, and others can bring more benefits and profit to the organizations.

Diverse theories have been expounded to analyze and describe the contribution of intellectual capital in connection to value creation. Every theory describes these ideas in various phrasing, distinctive way, and from alternate points of view in light of various usage by financial expert or investors. For instance, this research examined the value-relevance of intellectual capital asset by utilizing theory of resource-based view (RBV) and theory of intellectual capital (ICV). However, a few researchers expressed that to comprehend and break down such intellectual capital for estimating, overseeing, and uncovering resources require more multi-theoretical approach (Green, 2008; Vergauwen, Bollen, & Oirbans, 2007; Papavasileiou, 2018; Njimu, Theuri, Kiragu, 2018)
Thus, the advancement of research hypothesis that are related with this research depends on two fundamental theoretical viewpoints known as theory of intellectual capital and theory of resource-based view.

Literature Review
Worldwide, life insurance has been one of the fastest growing sectors in recent decades. In Malaysia particularly, it is one of the country's economic activities that can generate income to the nation and a strategic area for the competitiveness of the economy. The industry must have a strong relationship and good communication with customers and local community to increase their market share and sales**.** This communication presents part of the results of a comprehensive study analyzing the impact of intellectual capital (human capital, structural capital, and relational capital) on the organizational performance of the life insurance companies in Malaysia. The results that are reported are only those concerning relational capital, an invaluable and scarce resource that is hard to imitate, transfer, or replace, and has long-life expectancy.

Relational Capital and Its Component
A few researchers gave the same definition of customer capital and relational capital (Bontis, 1998; Ngah & Ibrahim, 2011; Phusavat, Comepa, Sitko-Lutek, & Ooi, 2011) which are intangible assets that are created by the good relationship between a firm's agent with an external environment such as a customers, suppliers, or stakeholders (Delgado-Verde, Castro, & Navas-Lopez, 2011). This relationship capital can be regarded as the ability of an organization to build a good reputation and communication with external stakeholders and to enhance the human capital and structural capital. These include resources related to firm relationships with its customers, suppliers, partners, and local residents, and this good relationship is able to further enhance the internal knowledge of an organization (Bontis, 1998). This proves that the relational capital is very significant and important for services-oriented organizations where they need to meet their customers' needs and wants, and the products offered by such organizations should

be able to provide customers with satisfaction. Higher demand will follow when an organization has a close relationship with customers and suppliers in terms of relationship quality and mutual understanding (Kianto, Hurmelinna-Laukkanen, & Ritala, 2010).

According to Grasenick and Low (2004), quoted by (Alipour, 2012), relational capital affects the value that are related with a business entity, created through the relationship between the organization and the surrounding area, in line with the relationship with potential suppliers, shareholders and other individuals. In general, it involves the relationship between the organization and society. The quality of relationships and the ability to create new developments is the main factor in the success of an organization (Montequin, Fernandez, Cabal, & Gutierrez, 2006). In addition, relational capital can be recognized as a firm's ability to create and develop a good reputation and communication with external stakeholders such as customers, suppliers, communities, and governments.

Relational capital reflects the value of organizational relationships with the main focus on relationships with customers. Relational capital is divided into two categories, which are internal relational capital (IRC) that refers to the knowledge which is generated through and embedded in the networks of relationships amongst the employees of the company (Kianto & Waajakoski, 2010), and external relational capital (ERC), which in contrast, comprises the knowledge and resources residing in the webs of relationships the company maintains with external partners, such as customers, suppliers, other agents ,and the local community (Buenechea-Elberdin, Sáenz, & Kianto, 2018). It is not considered a source of knowledge unless good relations are built with external parties. It spreads though interaction and meeting with others. For example, customers and suppliers learn about business as they mix with others. Good rapports with these customers and suppliers promote a sharing of knowledge environment that act as a medium of discussion about other products, technology, interest, need and preference which will benefit both parties. The final stage of this good rapports will increase their wealth of organization and enhance their financial and non-financial performance.

Balanced Scorecard Performance
The Balanced Scorecard (BSC) approach balances financial and non-financial measures and contains four processes of new management that can help to achieve their goals for the short-term actions with long-term strategic. Balanced Scorecard (BSC) was created by Robert S. Kaplan and David P. Norton in year 1992. The balanced scorecard approach includes four points of view which are internal process perspective, learning and growth perspective, customer perspective, and financial perspective in the company's strategy management. A lot of organizations have utilized the balanced scorecard measurement and it satisfies the few management needs.

The vital part of balanced scorecard in the context of knowledge management is the estimation or measurement of intangible asset. Numerous literary works have examined the relationship between intellectual capital and balanced scorecard (Bose & Thomas, 2007; Emadzadeh et al., 2013; Sveiby, 2010). Balanced scorecard is a measurement tool for intellectual capital and the intangible assets (Mouritsen, Larsen, & Bukh, 2005). This model can interpret the business unit strategy into a connected arrangement of measures that estimate the goals of the long-term strategy and can be the component to get the information and criticism in regards to those goals (Huang, Lai, & Lin, 2011). Financial perspective point of view under balanced

scorecard demonstrates the results of actions that have already been taken. Financial perspective complements operational perspective, for example, consumer loyalty, interior process, innovation, development and enhancement activities of organization in the operational perspective are drivers for future financial performance.

Most firms have utilized the balanced scorecard to support a variety of strategic organizational goals including the life insurance industry in Malaysia. Life insurance and family takaful have collaborated and build The Life Insurance and Family Takaful Framework (LIFE Framework) that will altogether influence the future scene of the business (LIAM, 2016). As indicated by LIAM, LIFE Framework intends to help the economic improvement and advancement in the business while offering some advantage of incentives to buyers or policyholders. Together with the National Association of Malaysia Life Insurance and Family Advisors (NAMLIFA), they have chosen to utilize balanced scorecard (BSC) as one of the key measures to strengthen practices and as the premise to repay the middle individuals. BSC furthermore proposed to enhance the quality of service to clients and improve the professionalism. Accordingly, the usage of a balanced scorecard approach can quantify the performance of the organization in a more balanced way including financial and non-financial techniques.

A few firms have implemented the balanced scorecard as a device of strategic management to create employee incentive system (Awadallah & Allam, 2015), to improve the management of intellectual capital (Bose & Thomas, 2007), and to help leadership to make decisions at the management level (Murby et al., 2005). Moreover, utilizing balanced scorecard demonstrates that relational capital is more important and significant for the companies focused on service-oriented, and they need to fulfill their customers demand and satisfy them with the product that the companies offer. More substantial demand can happen when the companies could create a closer interaction between the customer and suppliers in terms of mutual understanding and relationship quality (Hurmelinna-Laukkanen & Ritala, 2010). Thus, the managers of Life Insurance Company need to aim on relational capital management principally to enhance their company performance.
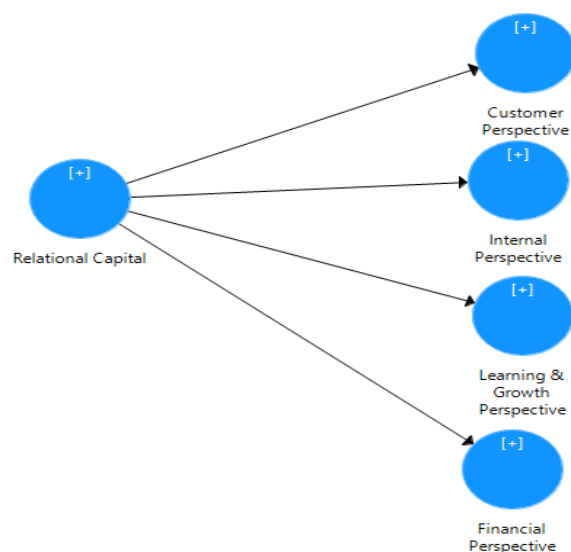
Figure 1. Theoretical model for relational capital and balanced scorecard performance

Based on the above model, the following research hypotheses were constructed
   H1: Relational Capital has positive effect on Balanced Scorecard Performance
   H1a: Relational Capital has positive effect on Customer Perspective
   H1b: Relational Capital has positive effect on Internal Perspective
   H1c: Relational Capital has positive effect on Learning and Growth Perspective
   H1d: Relational Capital has positive effect on Financial Perspective

Methodology
The researcher collected the data through a combination of primary sources collection which consisted of 100 sets of questionnaire that were sent to agency sales manager of life insurance agencies in Malaysia and secondary sources collection containing data which was gathered from articles, journals, reference books, annual reports, websites, and other materials related to the study. The questionnaire used quantitative approach, distributed using online survey, and was based on 5-point Likert scale. The study has utilized the snowball sampling technique. The researcher chose this technique due to difficulty to access email address and contact number among them. By using this technique, the first sample respondents will spread the links of the questionnaire to their multiple referrals/samples. Each new referral is explored until primary data from sufficient number of samples are collected. Data were compiled and then classified using SPSS version 23 and Smart-PLS 3.0.

Results
Under the reflective measurement model, two types of validity are used known as convergent validity and discriminant validity. Convergent validity is the degree to which indicators of a specific construct converge or share a high proportion of variance in common (Ramayh, Cheah, Chuah, Ting, & Ali Memon, 2016). As suggested by Hair et al. (2014), cited by Ramayh et al. (2016),

factor loadings, composite reliability (CR), and average variance extracted (AVE) are used to assess convergent validity. The presentation of results is shown in Table 1.

Table 1.
Measurement Model

Construct	Items	Loadings	AVE	CR
Relational capital (RC)	RC4	0.605	0.605	0.901
	RC5	0.817		
	RC6	0.734		
	RC7	0.840		
	RC8	0.806		
	RC9	0.839		
Customer perspective (CP)	CP1	0.882	0.768	0.908
	CP2	0.904		
	CP3	0.842		
Internal process perspective (IP)	IP1	0.889	0.722	0.886
	IP2	0.877		
	IP3	0.778		
Learning and growth perspective (LGP)	LGP1	0.618	0.882	0.902
	LPG2	0.861		
	LGP3	0.827		
Financial perspective (FP)	FP1	0.883	0.824	0.903
	FP2	0.930		

All the loadings which exceed the recommended value of 0.70 (Hair et al., 2014) were retained. Items with low loadings were subsequently dropped. Moreover, all construct had met the threshold value for CR and AVE, where all CRs were greater than 0.7 and all AVEs were greater than 0.5 after the process of item deletion (Hair et al., 2014). It was concluded that the constructs meet reliability and convergent validity requirement at this stage.

Next, discriminant validity of the model was assessed. Indicators should load more strongly on their own constructs than on other constructs in the model, and the average variance shared between each construct and other constructs (Fornell & Larcker, 1981). Table 2 indicates that all constructs exhibited sufficient or satisfactory discriminant validity (Fornell & Larcker, 1981), where the square root of AVE (diagonal) is larger than the correlations (off-diagonal) for all reflective constructs.

Table 2.
Discriminant validity using Fornell and Lacker Criterion

	CP	FP	RC	IP	LGP
CP	**0.876**				
FP	0.654	**0.907**			
IP	0.379	0.535	**0.849**		
LGP	0.423	0.559	0.544	**0.776**	
RC	0.459	0.547	0.545	0.498	**0.778**

The researcher evaluated the model's predictive accuracy via the coefficient of determination score. R^2 is a measure of the model's predictive accuracy and it can also viewed as the combined effect of exogenous variables on endogenous variables. In other words, the determinant score represents the amount of variance in the endogenous constructs explained by all of the exogenous constructs linked to it. The effect ranges from 0 to 1 with higher values indicating higher levels of predictive accuracy. Table 3 shows the result of R Square. The R^2 values of FP and NFP can be considered substantial (Cohen, 1988).

Table 3.
R Square results

Constructs	R Square
CP	0.277
FP	0.415
IP	0.403
LGP	0.375

An addition, the predictive relevance of the path model has been analyzed. If the resulting Q^2 value is larger than 0, then it indicates that the exogenous constructs have predictive relevance for the endogenous construct under investigation (Ramayh et al., 2016). Table 4 indicates the total result of Q^2. The results are in the right column (1- SSE/SSO). The predictive relevance Q^2 of CP, FP and NFP were significant because the Q^2 values were considerably higher above zero.

Table 4.
Total result of Q^2

Constructs	SSO	SSE	Q^2 (=1-SSE/SSO)
CP	300.000	255.842	0.147
FP	200.000	154.133	0.229
IP	300.000	240.780	0.197
LGP	300.000	266.450	0.112

Table 5 indicates the path coefficients between intellectual capital and balanced scorecard performance. The results of path coefficients show that almost all constructs had positive effects on balanced scorecard performance. However, the results also showed that human capital (HC) had a negative effect on internal process perspective (IP), and that structural capital (SC) also had negative effect on customer perspective (CP).

Table 5.
Path Coefficients

	Original sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	T Table
RC -> CP	0.459	0.473	0.073	6.255	1.96
RC -> FP	0.547	0.559	0.072	7.628	1.96
RC -> IP	0.545	0.559	0.076	7.188	1.96
RC ->LGP	0.498	0.512	0.086	5.820	1.96

From an analysis of path coefficients, the researcher concluded that all hypotheses had been accepted. Figure 2 portrayed the final model of the study.
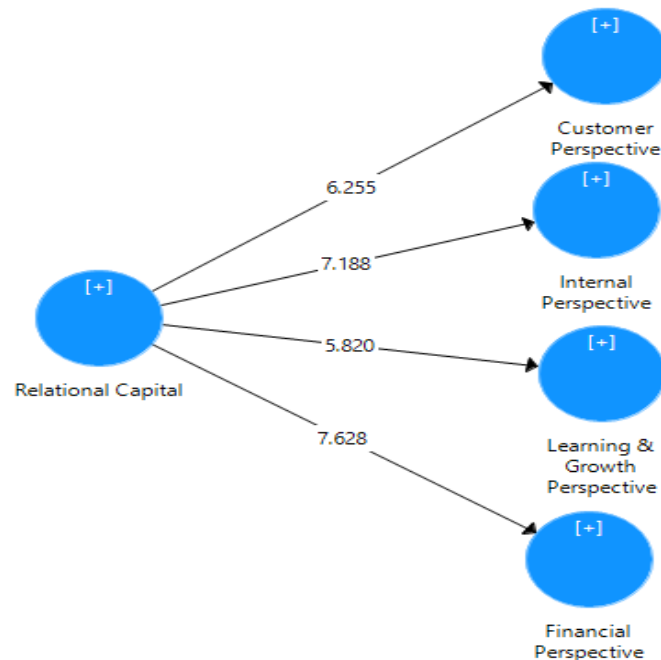

Figure 2.
Path Relation of the Model
Note: *significant; ns: not significant at p<0.05, t Statistic > 1.96

All results and findings for H1, H1a, H1b, H1c and H1d were based on Smart-PLS outputs as depicted in Table 6.

Table 6.
Results of hypotheses testing

Independent variable (IV)	Dependent variable (DV)	Result
Relational capital (HC)	Customer Perspective (CP)	H1a : Accepted
	Financial Perspective (FP)	H4a: Accepted
	Internal Process Perspective (IP)	H2a: Accepted
	Learning & Growth Perspective (LGP)	H3a: Accepted

Discussion and Conclusion
Relational capital is often reflected in commitment and trust from stakeholders resulting in a firm's reputation and customers' brand loyalty, thereby influencing the firm's financial and operational results (Mention & Bontis, 2013). Having good relationships with customers will consequently establish brand loyalty to a product (Dessi & Floris, 2010). Also, by creating a good relationship with customers, the desire of existing clients to influence others to make purchases of the product or service is high; thus, allowing the firm to increase their production and sales.

Furthermore, networking with external parties in the same industry, government department and business support organizations provide opportunities and access to outside knowledge which is sometimes hard to access. Establishing good relationships with them opens the door for discussions, negotiations and cooperation, and consequently will assist firms not only to grow knowledge of employees but also to facilitate in getting other things done. Therefore, firm should build strong networking with external parties to reap such benefit.

Nowadays, the internet has become a digital infrastructure that can accommodate a high level of competition and is capable of influencing the way an organization is doing business through improved communication and connectivity tools. This will ultimately lead to a relationship in the internet environment that can be an important driver of performance improvement and become a phenomenon of the digital relational capital of a modern organization (Molodschik, Paklina, & Parshakov, 2018). Therefore, the firm should manage their digital relational capital properly by developing tactics and strategy in building relationships in a digital environment. It is therefore important for a company to know how they can continue operating well within the environment to continue to be competitive.

The objective of this study was to examine the influence of relational capital on balanced scorecard performance in life insurance companies in Malaysia. The empirical results of the study showed that relational capital give a positive effect on balanced scorecard performance of life insurance industry in Malaysia. The findings of the study can benefit practitioners, life insurers, and top level of managers to understand the concept and role of relational capital management and balanced scorecard performance. This study also has some limitations; for example, this study used a small sample size due to difficulty to access the information of personal number and email. Therefore, the findings of the study may not be applicable in all industries. The researchers would like to suggest to the future researchers to extend the sample size for more generalized results.

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