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FACULTY OF SOCIAL SCIENCES

TIK
Centre for technology, innovation and culture
P.O. BOX 1108
Blindern
N-0317 OSLO
Norway
http://www.tik.uio.no

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Relational Capital: A study on its importance, quantification and its impact on business sectors and markets.

Elisabeth Lervik
University of Oslo/Autonomous University of Madrid
Economics and Management of Innovation and Technology Policy
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Elisabeth Lervik
elisabeth.lervik@gmail.com

University of Oslo/Autonomous University of Madrid
Economics and Management of Innovation and Technology Policy
Supervisor: Asunción Lopez Lopez
2005/2006

Synopsis

This study explores the of concept relational capital. Relational capital is a part of the intellectual capital or the intangible value of a company. The knowledge of the intangibles of a company has been receiving increasing importance in the last years, due to the gap between market value and the value of intangible assets. Some argue this to be the real assessment of the firm.

The focus on the awareness of relational capital is a main point of the thesis. The level of awareness is compared in different sectors, where the division of the sectors is done according to the theory of Pavitt (1984). The question of quantifying relational capital is addressed and a benchmark is proposed and exposed in order to be able to measure relational capital, and thus compare between sectors.

Finally the focus is set upon the importance of relational capital concerning internationalization. Is it important to have relational capital when going international, and if so, does the level of relational capital change from the first entrance in a country to a maturity mode? All these aspects are further discussed in the thesis.

Key words: intangibles, relational capital, intellectual capital, measurement, sectoral division, internationalization

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1. Introduction

Firms that implement new strategies based on innovation, flexible organisations and social responsibility seem to perform better than organisations with more traditional strategies (OECD 1998). The first record of knowledge dates back to 1597 when Francis Bacon stated “knowledge is power”, and in 1836 Senior argued that “the IC of Great Britain far exceeds all the material capital, not only in importance, but in productivity”. Even though it has long been acknowledged the importance of knowledge in the business, only lately has it been seriously theorized and looked upon thoroughly by the academics (see Penrose 1959, Nonaka 1994, Spender 1996 and Grant 1996 among others). The new source of wealth is not material, but are instead based on information and knowledge (Edvinsson and Malone, 1997)

Empirical studies and signals from market leading actors indicate how firms have introduced dramatic changes in firm strategy to reinvent the firm on a more globalized and knowledge-intensive markets (see for example Meritum 2002, Lundvall 2001, Marr 2005 and Bukh et al 2005) in order to accomplish with what OECD postulated in 1998.

Increased competition amplifies the need for a quick change in internal organization, since the threat of being overtaken is higher. For a firm to be competitive today the need to have an ability to understand and quickly adopt new knowledge is present. The ability to read the signals the market provides, for then to decode the signals to adjust it to the needs of the customers and to enhance the competence of the organization, is a competitive advantage. As a result there is a disposition towards a closer focus on the core-competencies, as firms tend to outsource activities that do not hold the potential to differentiate the firm from its competitors. There is a tendency concerning developing closer relationship with customers, suppliers, knowledge institutions and universities (Nyholm et al 1999). Firms are building closer networks and promote cooperation externally with other firms or knowledge institutions.

Firms differ and have different needs (Kogut and Zander 1992). This can indicate that there are not only differences across sectors, but also within sectors. These differences occur concerning learning, developing, innovation, adopting and using knowledge and technology. Consequently, it is of importance for companies to know in which position they are towards this kind of knowledge, as well as to know how to use the intangible assets to increase the value. This study is trying to pinpoint the importance of the value of a certain kind of knowledge, namely the relational capital knowledge and an attempt to look at different perspectives concerning relational capital.

1.1. The aim of my study

As organizations operate in the knowledge society there is an increasingly demand towards having a strong relation with their environment in order to acquire and share essential knowledge for the development of their business. We are moving towards a knowledge-based economy where intangible assets and investments are seen as essential elements for value creation in companies and, consequently, to economic wealth (Cañibano, García-Ayuso and Sánchez 2000). Intellectual capital (IC) is a way to explain the intangible value of the firm (ibid.). In my view, the comprehension of the intangibles in a company where knowledge is a matter of competitive advantage is valuable. The key drivers of value creation now mainly lie in intangible nature, it is increasingly crucial to have knowledge of the IC for a company. My master thesis will treat the topic of relational capital, a subdivision of the IC. The concept is worthy a note not only for academics, but also for individuals, as an important part of the IC, to realize values of knowledge and other aspects of beneficial value related to intangibles. It is basically a work about knowledge, and the relations of importance for a company and in the end the humans. It brings in the crucial role of knowledge and know how for the individual and the collective as a whole. My study will focus on two questions relating to the relational capital: first, *is there a difference in the awareness of relational capital associated with sectors* and second *is relational capital important when going international?*

1.2. Overview

To answer my research questions, I will mainly be using the concepts given within IC by the Meritum (Measuring intangibles to understand and improve innovation management) project In the Meritum project, IC is grouped into three different divisions, hence human capital, structural capital and relational capital. Even though it would be highly interesting to look into the whole spectre of IC, this work will mainly regard the importance of knowledge on the relational capital for a company. In addition, I wish to go even further and attempt to correlate relational capital with the division of sectors described in the well-cited work and taxonomy of Pavitt (1984), with additional supporting theories, intending to find out whether there is a difference on not only the awareness of the relational capital concerning different sectors, but also to the importance of the relational capital in the different sectors. Last the significance of relational capital linked with internationalization will be intended. Here the attention will be set on the consequence relational capital might play for business going abroad. In this section the existing theory of among others Johanson and Vahlne (1977), and Coviello and Numro (1997).

1.3. Method

The methodology will be based in two main aspects: a) theoretical research and b) developing an empirical methodology to prove the theory. Finally I will collect some information from firms and do a rough application of this information in the methodology developed. This information have been acquired through semi-structured interviews performed with individuals containing high knowledge of the company, where I have intended to find at least one firm corresponding to the sectoral division. This information is used when intending to compare the awareness around the concept. A full application of the methodology to a broader analysis is out of scope for this work, as it would require a huge empirical amount of data. The empirical information is not an intention to be statistically or representative correct, but more an approach to get a quantity of empirical data and try to correlate it with existing theory.

2. Intellectual capital and relational capital

In a world of rapid changes, success depends a lot on the capability a company has to generate a dynamic communication with clients, suppliers and strategic partners in an effective matter (Teece 2000). Success also depends on the capability to innovate and the ability to have the necessary know-how and knowledge. Innovation is nowadays a fundamental determinant to value creation in firms and also a factor of economic growth. The capacity of a firm to innovate will be enhanced by an extended knowledge base offered through linkages in e.g. a network with external agencies such as suppliers, customers, competitors, universities and public agencies (Freel 2003). In similar sphere according to Castells (2000) innovation is not an isolated instance, and is produced through an interactivity of systems with an exchange of ideas, problems and solutions. He points out that through interaction, creativity arises and generates innovation. The need to constantly innovate and have the appropriate know-how increases the relevance to determine the knowledge-value of the firm.

There is no common definition of the IC (Marr 2005), but as previously mentioned I will mainly be using the work of Meritum (2002) and their proposed definition of the term. First of all I would like to draw the attention to the concept of relational capital. The term is a subcategory to the "umbrella" of IC. As pointed out earlier, IC covers three categories, namely human capital, structural capital and relational capital (Meritum 2002).

In short, IC concerns intangible or knowledge-based assets, which are becoming increasingly important in the knowledge economy. According to Sullivan (2000) there is an increased interest in IC to firms that derive their profits from innovation and knowledge, which gives us a first rough approximation that in the sector where innovation is more present, the awareness of IC will be more contemporary. IC has emerged as a key tool and concept to both analyze and assess the knowledge dimension of the company (Marr 2005). There is a gap between market value and the value of intangible assets (Sullivan 2000), where the gap indicates the value the marketplace sets on IC as well as its ability to leverage that value in its marketplace. In other words, the key issue is the ability to convert those assets into value, and according to Eccles et al (2001 in Cañibano and Sanchez 2005 p.17) the capital market request more reliable information on the "risk factors, strategic direction, managerial qualities, expertise, experience and integrity because these factors are considered important for the company's ability to generate value". Before illuminating the theory of relational capital an essential ingredient needs to be enclosed in order to have and develop relational capital, namely the human capital of the firm. To have a strong human capital is probably one of the most valuable assets a company can possess. Human capital is the personalized asset, hence the work force, of a company. The role of human capital to be able to find, develop and maintain the relational capital to the company is vital, in addition to point out that human capital is seen as the innovative and active element that exploits the other forms of capital, hence structural and relational capital of the firm (see for example Nonaka 1999).

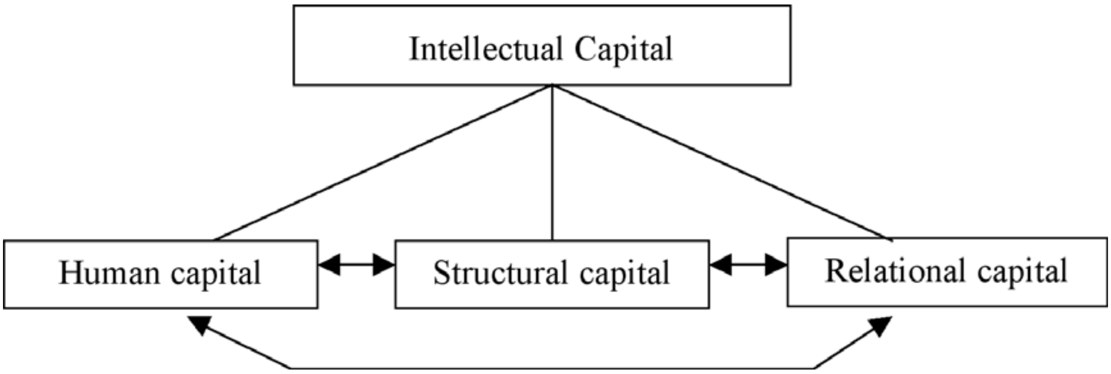

Fig 2.1 Overview on the IC and its connectivity from the theory proposed by the Meritum Project

Between the three subdivisions of IC a continuous interaction is present. The connectivity and what can be created between the three subcategories of IC is what produces the value in a company (Meritum 2002). A company cannot rely their success on only one of the three subdivisions. All the above-mentioned three categories, human capital, structural capital and relational capital have to be present to create value for a company. If one of the categories is absent, the chance of success is minimal. This as human capital refers to the knowledge and skills of the employees; structural capital refers to the knowledge kept behind in the firm at the end of the day and relational capital all the resources that are externally linked to the organization (ibid.). Thus IC can be transformed into a knowledge-based competitive advantage for the company.

Subsequently a more thorough explanation of the relational capital will be given. Relational capital refers to all resources that are linked with an external relationship of the firm; it covers both institutions and business, this includes customers, suppliers, R&D partners and/or public institutions. In other words it represents the knowledge possible to obtain in relation to the outside world. Thus, a good characterization of relational capital is that it refers to the quality and sustainability of the external stakeholders and also the potentiality of generating new agents in the future. These aspects are vital to the success of a company. Relational capital consists of the link a company has to their competitors and other institutions in the market, hereunder the term alliance is often used. Relational capital can contribute to the economic development and to the interaction with society. In addition to all the points mentioned, relational capital also cover image, loyalty, satisfaction, commercial power, environmental activities and so on (Meritum 2002). In short, it covers everything that might be connected externally to the company, and it is the connected value with the external world. The relational capital is the most difficult of the three subcategories of IC to develop, since it is the most external part to the organizations core. Relational capital is a non-exclusive property of the firm (de Castro et al 2004). This implies that it is even more important to consider an approach towards a high awareness of the relational capital of an organization. After all relational capital is knowledge embedded in relationship most external to the company (The Danish Trade and Industry Development Council (DTIDC) 1997).

The relational capital is a framework of stakeholders as a whole, and can give an indication on the outcome the firm obtains and provides from and to its relations. In the globalized society of today, no firm may function efficiently on an isolated island entirely by itself. A lot of companies nowadays even try to develop a day – to – day basis interaction with their customers, for example active web-services, and registering of users. These interactions are established as a means of real communication with the company, so both the organization and the clients can communicate with each other, and replying to the different demands of the external capital in a more effective way because of the continuous interaction. Nyholm et al

(1999, p. 256) argue that the industry has become a knowledge provider, and it tries to "build a close relationship and a knowledge network characterized by feedback mechanism from its customers". They undertake such an approach to take care of their relational capital even more and keep them content with specifically their company in order to retain already existing loyal customers, as well as trying to create new loyal customers. When discussing relational capital, loyalty and satisfaction are two key words to achieve strong relational capital. This aspect will be further discussed in chapter 2.1.

Even though it is mostly accepted that IC contributes to the company benefits, it does not show how it exactly affects the flow of the real capital. Hence, a problem with IC is the difficulty of calculating it financially. Traditionally accounting practice does not provide with neither identification nor measurement of intangibles (Meritum 2002). As for relational capital, some aspect might be indicated financially (see chapter 2.1). Nevertheless, even though it cannot always be measured or identified in real capital terms with each intangible activity, the measuring of IC has a positive effect in relation to the capital market, and also in the connection to potential relational capital (DTIDC 1997). The relational base is considered a very important asset mainly because it might supply necessary capital for the company to reach their visions (de Pablo 2003).

2.1 Intellectual Capital and reporting

A way to measure the intangibles could be to undertake and compose an IC report. This report is not only for the benefit of internal knowledge, but can also be a multipurpose document for external use. Such a report should basically be used for internal benefits, and not be done out of the purpose of pleasing the external environment (The Danish Science Department 2003). An investment in an IC report has only got value when a well-functioning system of the supervision of these intangibles both externally and internally exists (Chaminade and Cañibano 2003), and the measurement of the intangibles has to be associated with actions that are to be fulfilled. Cetasus and Gröjer (2002) argue that the relationship between the measurement of intangibles and the actions are what certainly calls for further analysis. The Meritum project move somewhat further and notes that “measurement without management” is a waste of time. Measuring just for the sake of it with a top management not fully committed can be more of a burden than an advantage. To sum up, the IC has to be adequately managed because of its importance for the value creation of the company, and to undertake such activities might enhance and improve the utilization of its resources.

The capital market is increasingly interested in learning more about companies. There is a rise of attention towards companies to be transparent and publish information about intangibles (DTIDC 1997). The capital market considers information about intangibles as crucial when taking decisions about investment (Chaminade and Cañibano 2003). Information is hard to imitate by another company (ibid.), and to develop a position where customers consider your product as unique, is crucial as differentiation is a probable key to success. The market is continuously searching for an organization that differs from other companies.

Managing intangibles is the real value of the firm (DTIDC 1997). It is value that increase over time and gets stronger when being used in comparison to tangible capital. Intangibles as a source of future economic profit to the firm should be considered an asset naturally included and reflected in the annual accounts. An IC report is a description where the effort the company is realizing through the management of documented intangibles. To conduct a written measurement of the company's knowledge, what is first and foremost important is the ability to exploit and identify the necessary knowledge resources. When the knowledge resources indicators are identified, the company should follow up on the development and the effect of these initiatives. A report published repeatedly can document if the actions and activities are properly fulfilled. Additionally, the external communication of an IC report can help to adjust expectations, and also motivate external stakeholders for involvement in the development of the company.

The IC report is an internal management tool, and a communication tool externally to communicate how the firm develop its knowledge resources to generate value (DTIDC 1997). A report can improve the internal understanding of which intangibles and resources are important, and how these intangibles can be combined and create value with the right method. An approach for the search of a dynamic diversion would be to look for good intangibles with positive affect on the value process and bad intangibles with little or no effect on the value generating process (Cañibano and Sánchez, 2003). The good intangible have a higher value-added worth than the bad, and should consequently be prioritized in the measurement.

A standardized way of undergoing such a report is currently not available throughout the world (Marr 2005). A lot of companies and even equal companies in different countries do not measure the IC in a similar way, making it difficult to compare and have homogenous and reliable information concerning the IC. One might argue that cultural differences are too big to be able to compare between countries, but as Chaminade and Johanson (2002) showed when discussing cultural differences between Sweden and Spain, once the firms recognized themselves as knowledge-intensive firms, there were no real difference in respect with the measurement, management and disclosure of IC. Cultural issues will be further discussed in chapter 4.2. The Skandia navigator (1997) was the first method for IC measurement. The Meritum project (2002) tried to set a standard by proposing some guidelines. Moreover, two additional projects have proposed a guideline for measuring IC. One was proposed by the Danish Ministry of Science, Technology and Innovation (2003), the other by the pan-European project, the PRISM project (2003). These methods leading to the understanding of IC and possible measuring, may though have a somewhat different wrapping, but in general there are no big remarkable difference between the different approaches of measuring IC, as every approach has as a main issue to invite to a further understanding of the IC.

The Meritum project propose that when making a report a summary of intangible resources and activities where all of the different categories of the IC are included and present, in particular interest for this study, the relational capital part should cover efforts made to sustain and develop its resources and activities. Last it should include a system of indicators, where the company shows the actions towards their intangibles. The last part of the report permits interested stakeholders to get information on how well a company is fulfilling their objectives. In addition it should include a well-defined strategy and a stated commitment to sustain and develop its IC (Meritum 2002).

2.1.1. Important aspects of the relational capital

In the following some essential aspects of relational capital will be included.

2.1.1.1 Long-term aspect

As the parties interact over time, they build a base of understanding of each other through the sharing of information. The greater the knowledge of the other party, the greater one's partner-specific absorptive capacity[1] for continued learning. A strategy reflecting ambitions and long-term perspective signal certain seriousness. This seriousness could return added value and increased attractiveness from the external stakeholders. The strategy to maintain a position, or create more value, naturally gives a positive impression to external stakeholders. Long-term outcome of each relation is important for the company, as being able to maintain current relations and making new relations. A good long-term relationship can result in a competitive advantage (Ganesan 1994). Furthermore, firms have to be reliable and quality-minded to create and maintain long-term relationships.

The long-term relationship is based upon mutual dependency and trust. These two key words are related to the "environmental uncertainty, transaction-specific investment, reputation and satisfaction" (Ganesan 1994) in the relationship. Building a relationship based on trust and confidence are important conditions for knowledge transfer and creation of value (von Krogh et al 2000). Trust and reputation are correlated. Trust is an essential factor in a relationship, and promotes greater information sharing and definitely eases the transfer of tacit knowledge. Trust is a basic factor in the business; it can open doors, build loyalty, increase sales

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[1] Absorptive capacity is the ability to acquire knowledge and assimilate it, and it is bounded by prior knowledge (Cohen and Levinthal 1990)

opportunity and enhance recommendations. A good image and reputation can also attract key human capital and maintain present human capital. Taking care of the relational capital can provide a good image. Trust is a key-component to build and maintain a good reputation and image. Aspects of trust in the world of business include whether or not a contract is kept according to initial agreement and the attention from the company when a problem arises, as well as issues towards recommendation to other stakeholders. Lack of trust is not a competitive advantage, rather the contrary. The cost of lack of trust are high as a company with bad reputation need to collocate more resources to win and keep customers and to attract new partners than companies who posses trust and high reputation. Of importance to the customer is that they get value for their money and that it is a quality product of reasonable cost. Nevertheless good reputation can increase the number of loyal clients, and makes them more willing to pay “over-price” for acquiring a quality good from an organization (de Castro et al 2004). Good communication can strengthen the firms’ reputation, and naturally help to strengthen the relational capital. As trust becomes a part of the relationship it is probable that the cooperating firms learn to recognize the strength of the other and try to exploit these for common benefit (Lane & Lubatkin 1998). Having high relational capital can attract other customers and result in a strong demonstration effect. The level of trust will also be a topic to consider in an IC report. By investing in the development of a relationship, firms are able to construct relational and cognitive assets specific to the relationship as repeated exchange allows service firms to develop client-specific capabilities. This can also serve to increase the learning and transactional efficiency of the relationship (Dyer and Singh 1998). Trust is an example of a topic that appears clearly hard to measure.

A long-term relation with relational capital can reduce cost, as the actors learn to know how to best interact with each other. The cost is reduced for both the customer and the supplier (Fernström 2004). Ring and Van de Ven (1994) argue that if cooperative relationship with relational capital is managed professionally, it will lead to an increased transactional efficiency in addition to an increased commitment toward the relationship by both actors.

Connecting learning and long-term perspectives is a feature not to be overlooked. A frequent and long-term contact with market relations may in the end prove as a basis for the development of trust and cooperation under uncertainty. It is argued that learning is largely a social process, especially in the context of transfer of tacit knowledge (Lundvall 2001). When knowledge is tacit, strong ties based on continuing and intensive interaction may be needed. For the external resources the long-term perspective is of strong value, as they continue to invest resources in a relationship with the company. Repeated business with an organization can make it easier to know the present situation and to plan the future, and future growth is thus possible. In other words, relational capital can indirectly provide to growth of a company. Thus, an indirect and very rough way of measuring relational capital could be to measure the growth. It should be added that this should be taken as a first rough approximation, not as a serious relational capital measurement.

The advantage of good communication and stable commitment, may help the firm to exploit with for example a supplement to internal design and development activities by access to tacit skills of their relational capital (Freel 2003). An important task is to be able to identify signals of the market demands. Relational capital can additionally give the firm an indication of an ideal way to the optimum specification between price and performance.

2.1.1.2 The satisfactory and loyalty aspect

The satisfaction of the customer is crucial for success (DTIDC 1997). Satisfaction is vital for the ability to create value for the customer. Loyalty on the other hand is a continuation of satisfactory behaviour. Other essential key words are loyalty and image of the relational capital. When loyalty is achieved it provides easier access to the external users requirements and situations. How to contribute to loyalty and repetition of purchase is an issue of strong concern and a secret could perhaps be to have knowledge on what the external stakeholders demand and how they ideally would prefer to be treated. All in all, if the image of a company is not good and other firms see no sign of repeated business, they will probably consider twice before commencing a relation. The probability of companies in growth with a strong relational capital is high. Furthermore, by being highly conscious of their relational capital base, the company demonstrates an understanding and appreciation of the requirements and needs of their relational capital. Satisfied and content external stakeholders can involve repeated purchase, which again could lead to long-term relations. A suggestion towards relational capital is that not only should the organization know what the customers require at the present moment, but also be able to anticipate and predict future behaviours. To continue a relationship it is relevant to have an uncomplicated relation between the stakeholder and the organization (Capello and Faggian 2005).

3. Relational capital and sectors

My aim in this section is to discuss which sectors have high awareness of relational capital, and where it is more relevant. As a general rule, for every sector knowledge of their relational capital is of importance and everyone could and should assess their relational capital. Having pointed out that general assumption, it is clear that for some sectors, executing this evaluation is more important, and some types of companies might be more actively pursuing such an approach than others. Mentioning knowledge-intensive firms and innovative firms would cover one of the sector where developing an a report of knowledge on the intangibles is being more strongly followed (Danish Trade and Industry Development Council 1997). The reasons for some companies to be more unaware of such an approach than others might be numerous. One reason could be that they still might not have a good plan on how to track the growth or decrease of relational capital in detail since, in the end; in most sectors it is acknowledged as important to have knowledge of this type of capital. The main difficulty might be more of a verbal communication character more than ignorance, as relational capital is a concept probably few have knowledge about. Having stated this, how can we more specifically measure that, and thus go a bit further than just the general assumption?

3.1. Measuring the relational capital

As previously noted, measuring the IC can be somewhat difficult as some indicators are not of financial matter. However, even though it is not possible to measure an indicator financially, it is possible to compare the variation and improvement if the report is repeated. When searching for indicators, there is a need to establish relevant intangibles, and to determine the strategic objectives of the company to find which intangibles are strongly related to these strategies (Chaminade and Cañibano 2003). In addition the indicators need to be of a comparable, reliable, objective, verifiable, and of a truthful character (Meritum 2002). Often intangibles can be linked to more than one of the categories of the IC, implying that equal intangibles could be found in more than one category, but with different indicators (Chaminade and Cañibano 2003).

As shown in the table below some aspects of the relational capital might be indicated financially, such as distribution of turnover on market and product, marketing expenses and administrative cost. Attention should be set on the structure and composition of the base of clients a company holds. A question approximating the kind of relational capital distribution, perception of external stakeholders, and an estimate of the number of customers per employee or how many agreements pr customer of the company is interesting knowledge. High relational capital would suggest good perception. The distribution of relational capital might include a wide range of different clients, with different visions, size, tasks and industry. Availability is also an aspect that should to be covered concerning relational capital, are the employees available when needed by the customers? The organizations effort to develop relationships is also of great importance, a specific number of customers who have been offered advice might be a good indicator on the organizations effort to develop a relationship. A qualification survey should be assessed. Nowadays most companies conduct customer surveys of some sort (Tidd et al. 2001). Other topics of interest could for example be the marketing cost divided with income and administrative cost divided with marketing cost. For the company, the investment in advertising and marketing approaches pays off, not necessarily at once but in the long run. An indication of relational capital could be shown in terms of lost customers, and added ones in the same period. Although this indicator can result in being “0” which would not necessarily mean that the relational capital equal to “0”, if the same amount of customers are new as lost, and as such it might not give a correct picture.

To keep the market share stable or rising, there is a need to pursue issues and parameters such as the competence of technology, the cost effectiveness and international profile. Nyholm et al (2001) argue that the innovative ability is of importance when considering the market share, in addition to the capability to communicate values and the human aspects of the company. They also mention the substance of including social and environmental responsibilities. To improve the relational capital, the visions raised in a report should be met, and the proposed actions fulfilled. Moreover, an answer to all the questions concerning the relational capital would give a hint of where to place the effort to make an improvement.

Intangible	Indicator	Type
Distribution	Kind of distribution of customers	NFI
Availability	a) Number of customers pr employee b) Number of customer visit pr year pr customer	NFI NFI
Relationship with customers	a) Number of active projects b) Annual performance dialogue with large customers	NFI NFI
Flexibility	Average order response time, from customer order until final delivery *	NFI
Select and act on key customers	a) % of sampled customers in the customer satisfaction survey * b) Average satisfaction among key customers *	NFI NFI
Loyal customers	a) % of long term customers (5 years or more) to total number of customers * b) % of turnover related to long-turn customers * c) Profit pr customer d) Sales pr employee	NFI FI FI FI
Direct marketing	a) Direct marketing expenses as a percentage of total costs * b) Direct marketing expenses as a percentage of total income	FI FI
Customer survey	a) Average satisfaction of the customers with the firm's products and services * b) Cost of the survey * c) Average satisfaction with meeting firm representative *	NFI FI NFI
Image	a) Participation in international seminars b) Number of articles positive and negative produced of the company c) Profiling company towards the exterior	NFI NFI NFI
Market share	% of market share	FI

Table 3.1. Presentation of possible indicators and intangibles (* taken from Meritum Project (2002)) NFI: Non-Financial indicator, FI: Financial indicator.

Having discussed which indicators to measure, how can we take both financial indicators and non-financial indicators into consideration and, even more, have a look at the possible sectoral differences?

3.1.1. Assumptions towards sectors and relational capital

Prior to detailing the discussion of the description of the sectors, it seems prudent to outline anticipations of sectoral variation in external resources awareness in advance. Subsequently I will outline some assumptions.

I would suggest there to be a difference in the awareness of relational capital correlating to the sectoral division. The difference would mainly be between sectors basing their activity on human capital, and sectors basing their activity on goods. The sectors where human capital is the main asset, the awareness of their specific IC, and thus also including relational capital, should be higher. The information-intensive sector, including the consulting business, could be an illustration of this. These types of companies do not have a traditional stock, in general, they do not produce goods, and their type of "stock" and competitive advantage are based on the knowledge and know-how of the people.

Another indicator of strong relational capital could be to have a high market share, although this should be moderated by competitiveness. I would suggest that the more the competitive the market, the more important it is to have relational capital. In fact, an interesting point would be to prove that in extremely competitive markets, the firms that tend to survive are those aware of their relational capital. Without pursuing the topic more thoroughly I would propose there to be a stronger relational capital with high market share in competitive environments than high market share in non-competitive environments.

Additional aspects could be to check whether there is a change in relational capital when a monopolist company get competition. This would be the typical example of previously state-owned phone-companies which passed from a monopoly environment and to a competitive environment. Without doing more research about that subject, I am inclined to believe that the more competitive the environment, the more important to have high relational capital. Moreover, in a situation of monopoly having a high degree of relational capital would probably not play such a vital role. In such a situation relational capital referring to for example governmental institutions of a somewhat more lawful character would perhaps be more relevant.

The innovative sector would probably be more dependent on knowledge, and an assumption towards this issue would be to propose that the more innovative the sector the more important would the relational capital be. Another interesting discussion is whether a new company has the same position towards relational capital than mature companies within the same sector. For which kind of company is it easier to adopt changes, the new or the mature company? It would be interesting to see whether investors recognized the attractiveness to invest in companies with high relational capital, but yet have to reach high benefits. It must although be stressed that for this assumption to be true the optimum is to contain a high ideal relational capital.

Is size of the firm a factor of importance concerning relational capital within the same sector? According to Tidd et al (2001) size definitely matters. Will the location, whether it is in an urban, suburban or rural area, and context in which the firm operate affect the knowledge creation and awareness of the relational capital? To discuss this aspect further would be to look at to what extent the companies form territorial clusters to develop their relational capital.

Up to this point, having said that, how could the above-mentioned assumptions be measured, proved or invalidated? How could we get a tool that is reliable and effective in measuring the relational capital? An explanation of the approach towards a methodology of empirical validation will be intended in the following paragraphs.

To measure these assumptions I would use benchmarking comparisons. First of all to obtain practical results from this benchmark it would be crucial to find the ideal estimate of relational capital for each indicator. To find what would be the behaviour towards relational capital concerning a “perfect” and ideal company in a specific sector.

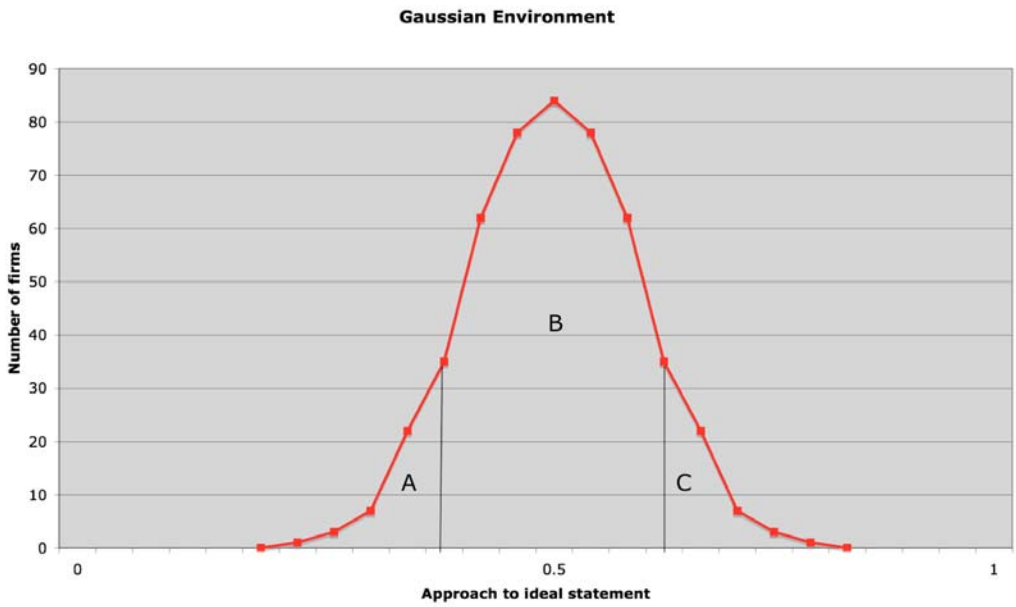
How to reach to the ideal value of relational capital concerning the different aspects of relational capital is an essential task. There is a need to be careful here as what there are different needs and values depending on the sector, and what is “perfect” for one company might not be the best preference for another. The approach to solve that is not to create only one ideal statement, but several, in fact for each relevant sector. In order to have a complete analysis, there is a need for an evaluation of a large number of companies within a sector. In the approximation, due to the scope of the work, the study will not describe a specific ideal statement for each sector. Instead a proposal of the importance of such a general ideal statement will be put forward. The need to generalise is present in order to be able to make the comparison of the factor of relational capital, between sectors and that is the purpose. I will perform an analysis of different graphs that would be possible after following the methodology the sectoral division based on the insight and knowledge given through interviews with a company in each sector.

The difficulty and complexity would be to know what is ideal when discussing relational capital. By defining this “perfect” relational capital statement, we can have a reference point from which to start to compare one by one all the companies in one sector to this ideal company. From this data we can get a distance from the reference for each case, and furthermore establish a classification. Otherwise it could be defined, for example, through an agreement with independent resources such as third parties, an expert-group or an association related to the sector where they provide their objective considerations and proposal of definition regarding the ideal option. The benchmarking would look at aspects correlated to the relational capital such as the fidelity factor, the market share and image.

A brief explanation of the methodology of the graphs will be intended in the following. For each of the indicators of table 3.1, the ideal behaviour of a company could be noted as value equal 1, and at the other extreme the value equal 0. The companies examined would be compared according to how much they “fulfilled” the so-called ideal relational capital. With a value for example being equal to 0, 5 a performance (in terms of rate, perception, degree of satisfaction, response time etc.) is half of the ideal value. Hence, value equal 0, 75 would be equal to a performance where three quarters of the ideal is fulfilled etc. At this point we can clearly see the importance of the behaviour of the sector valued by the distance to the ideal relational capital.

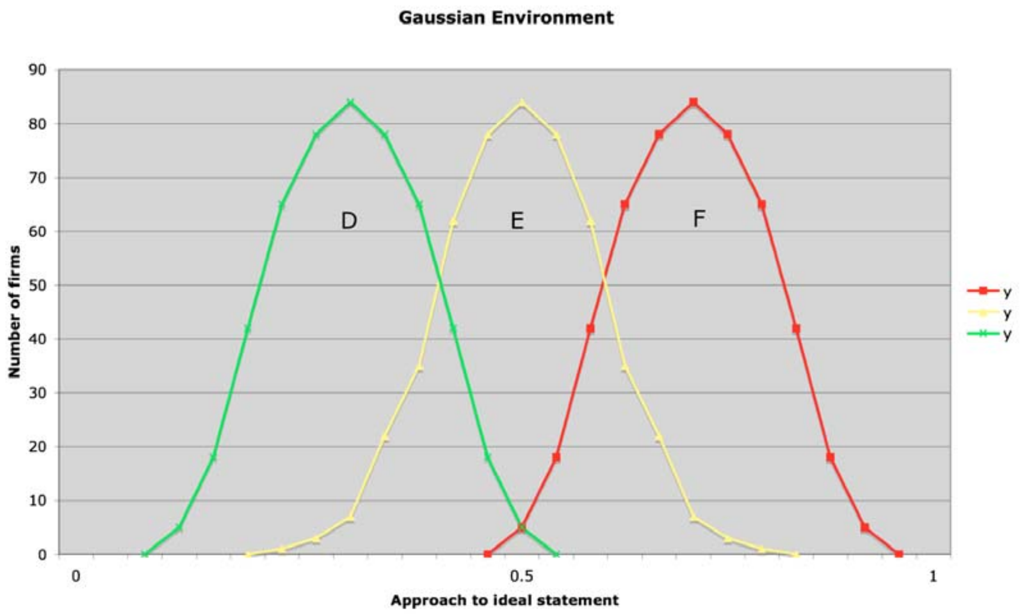
After the collection of the empirical data, the different graphs could be plotted for each sector in which the x –axis would range from 0 to 1, and would therefore represent the approach to the ideal of the company. The y-axis would correspond to the number of companies. The final mark could be obtained as a sum of all the points evaluated, or just an average of them. In any case, the final value is within the range 0 to 1. Companies should be evaluated in terms of their level on the relational capital "barometer". Doing so gives a somewhat fair pattern on the status of relational capital of the companies. The comparisons are done within the sectors, but an assessment across the sectors would also be possible. It would additionally be interesting to plot the same sector for different countries, and compare the different graphs between countries. In the graphs it would be interesting to highlight the companies with high benefit and revenue or market share, and those with less benefit, as well plot the mature and immature companies in the graph. This could indicate whether it is important in the sector to have a high relational capital or not. This assertion is done on the basis that we could see if the majority of this top revenue companies are plotted in the left side of the value 0,5 (which could indicate that neither awareness nor maintaining of relational capital is essential for that sector, at least at the present moment), or at the right part of the value 0,5 which implies the importance of relational capital in the sector.

In the following I will add graphical sketches of the possible situations according to the importance of relational capital in the sector. The graphs are only approximations to visualise the suggestion, and are unfortunately not accurate as such.



Graph 3.1. Gaussian Environment

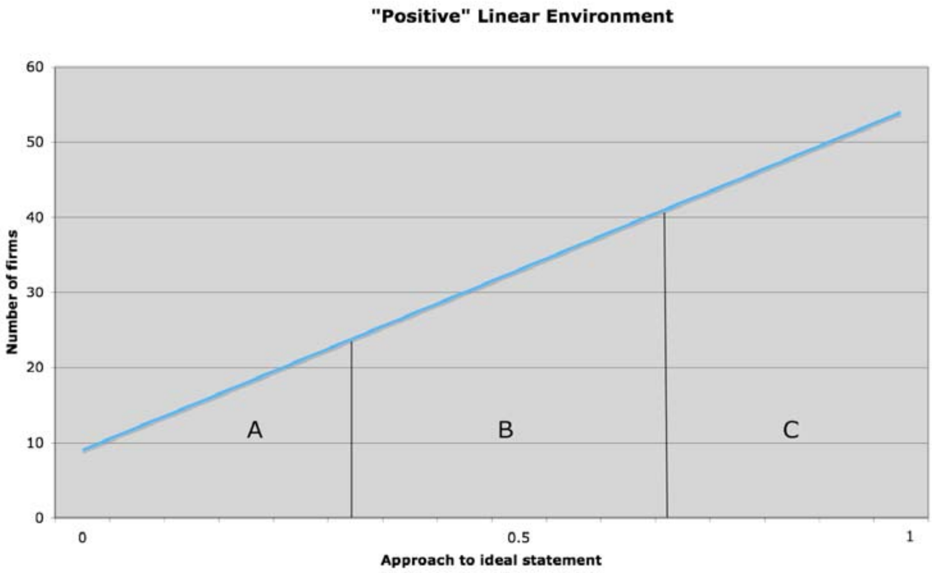
Here we see a typical Gaussian graph, where the companies roughly follow the normal distribution, with few companies at the high (=C) and low (=A) ends and the majority in the middle (=B). For a lot of companies in this group it is somewhat important to have high relational capital, but not totally necessary, as the normal distribution are placed around 0,5 and there are few companies (C) close to 1. The Gaussian graph can be moved closer to 1 or closer to 0, all depending on the rate of the companies in the group. This is shown in the following graph.



Graph 3.2. Gaussian Environment

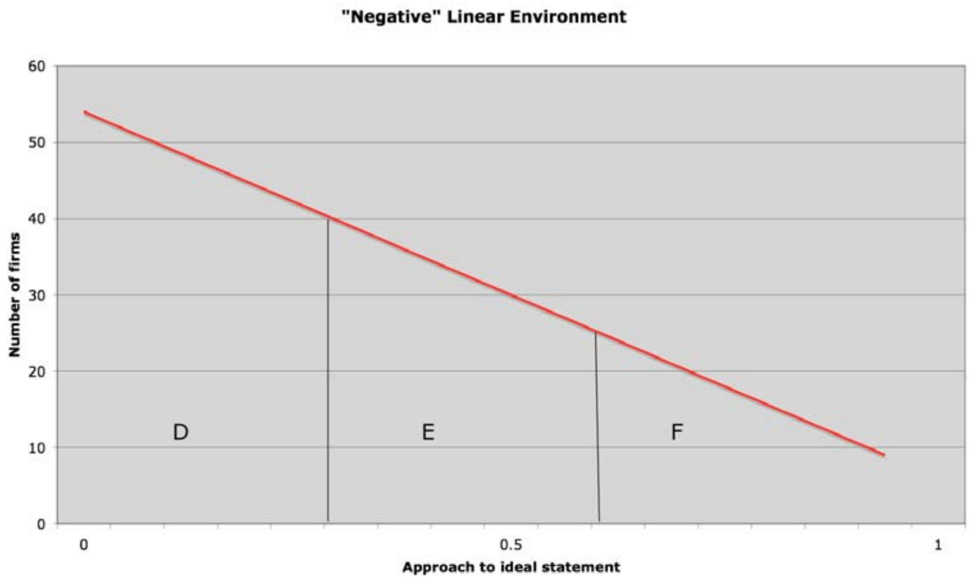
In graph 3.2 we can see three different graphs, D, E and F. They each represent different importance of having the ideal relational capital. In graph D the majority of companies are placed below 0,5, and the importance of having high ideal relational capital probably is not as important as outlined in F, where the majority in the normal distribution are plotted closer to 1. In graph E, we can see that to have high ideal relational capital is essential, but not as important as in graph F.

These graphs might also represent companies in the same sector, but in different countries. Imagine A to be for example Spain, B France and C is Norway. Which country would correspond to which graph? Another interesting approach is to check where the group of the highest revenue companies is situated. Considering graph E (graph 3.2.) are these companies in the middle (B, see graph 3.1.), with the rest or placed in one of the lateral parts? This can give a good indication how important it is, financially speaking to have a high ideal relational capital. If they were placed in C (ref. graph 3.1.) it could imply that it is relatively important to have a high ideal relational capital and the graph would probably, in time, move closer towards the stipulation of F (ref. graph 3.2.). On the other hand, given that the majority of companies with the highest revenue are closer to A (ref. graph 3.1.) it would signify that to have a high ideal relational capital is not relatively significant to success. Thus the graph would probably, in time, move closer towards the stipulation of D (ref. graph 3.2.)



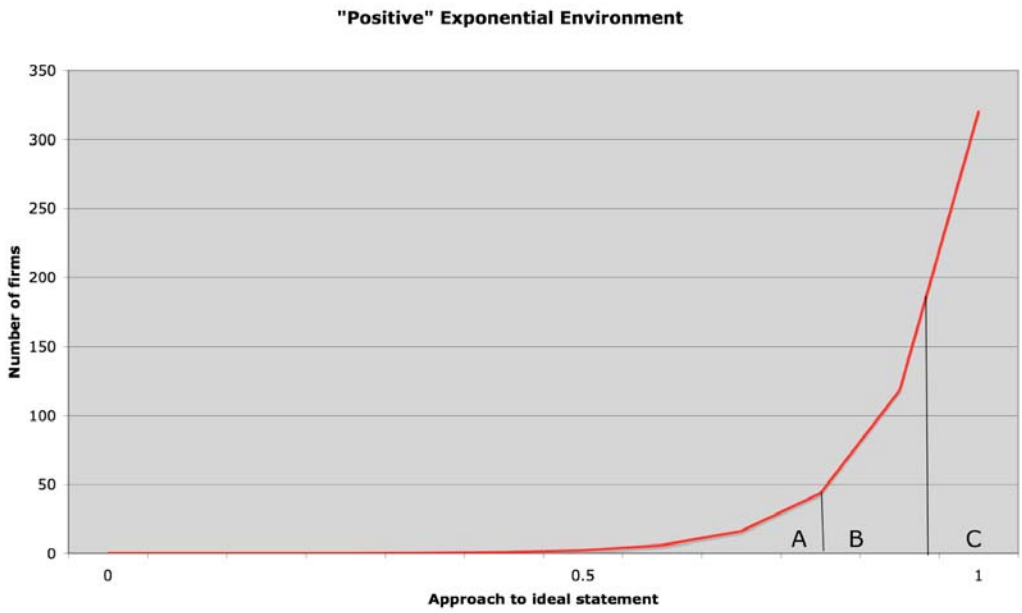
Graph 3.3. “Positive” Linear Environment

This graph shows an increasingly higher distribution of relational capital, moving from A to C where most of the companies are placed in C and have high ideal relational capital. It seems to be very important to have a high ideal relational capital. The next question, as previously mentioned, would be to find out where the firms with highest revenue are situated in the graph to understand how the sector works in this type of environment. The estimation would be that most of the companies with high benefits have values closer to 1 than to 0. If this is the case then it is crucial to have a high proportion of the ideal relational capital to survive.



Graph 3.4. “Negative” Linear Environment

In this graph it seems that many of the companies have little or no (see D to E) ideal relational capital. A few companies (see F) have a high proportion of the ideal relational capital. The interesting point could again be to see where the companies with the highest revenues and/or market share are placed. If they are placed close to 0 among with most of the companies (in D) it can imply that the importance of having a high proportion of the ideal relational capital is not necessary to survive in this sector. On the other hand, if those companies are placed in F, a probable situation in the future could be a “burst of the bubble” where many companies fall off because of their lack of their knowledge and maintenance of relational capital[2]. An interesting notion would then be to see what the graph would look like after such a burst.



Graph 3.5. "Positive" Exponential Environment

The exponential graph corresponds to the extreme environments where the relational capital is really important to survive (graph 3.5) or on the other hand does not matter at all (graph 3.6). The exponential graph represents behaviour similar to the linear, but with a more excessive approach. In this graph we can spot an exponentially higher amount (from A to C) of companies with the ideal relational capital. It seems like it is exponentially more important to have a high ideal relational capital.

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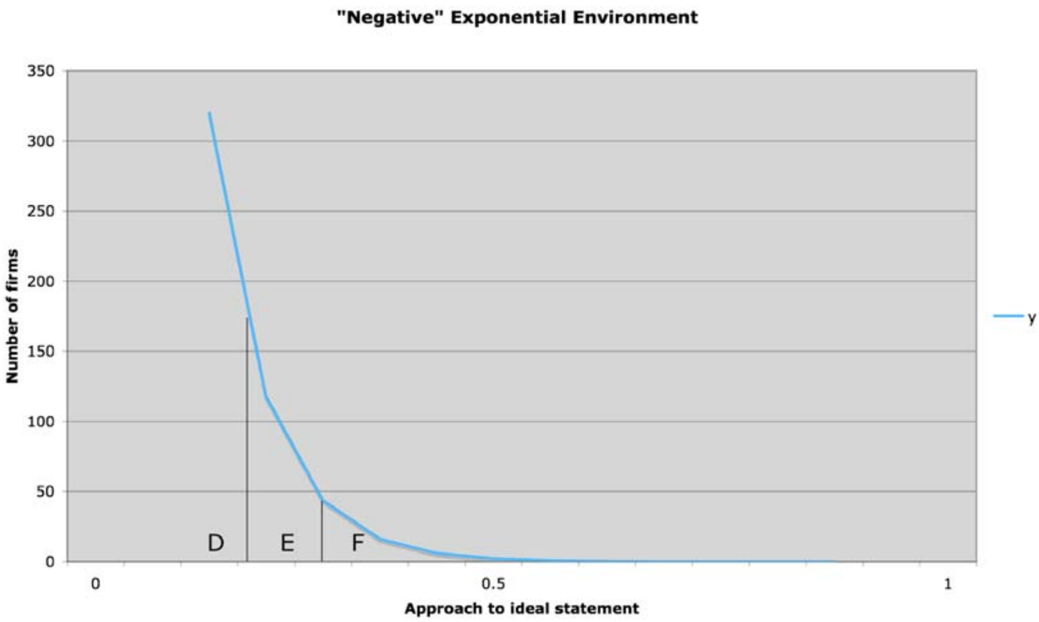
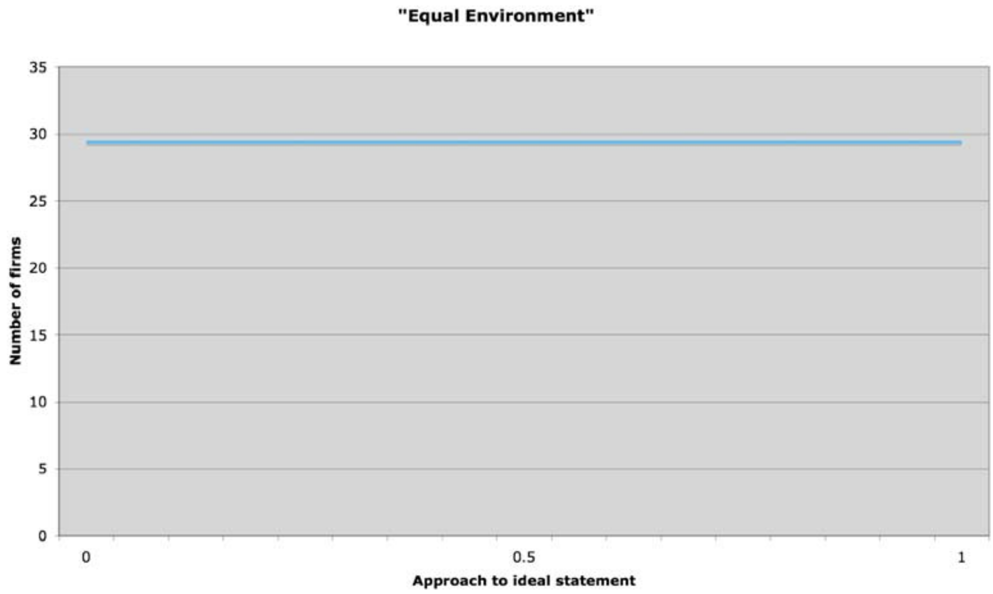
[2] If such a burst of bubble are to happen, the lack of relational capital is probably just one of many reasons for a collapse



Graph 3.6. “Negative” Exponential Environment

In this graph we can observe that it the importance to have high ideal relational capital is very similar to the environment in graph 3.5 with an important difference. It is totally opposite with a high number (=D) that lack the ideal relational capital, and the amount of companies having low values decreases (see E to F), but the value is never close to the ideal. It seems that the importance of having a high ideal value is not high. Despite the fact that this in kind of environment has a low value of relational capital, it would be interesting to plot companies with high revenue or market share. The interesting companies would be plotted in the lower part (F), because of the probable change in the graph towards an increased awareness towards knowledge of relational capital.



Graph 3.7. “Equal” Environment

This graph is a visualization of a situation where it is equally important to have high ideal relational capital as to have a low ideal relational capital. It seems that it does not matter in the environment whether you have high or low ideal relational capital, and in this situation it would not make any difference where the companies with the highest benefits are situated.

More research needs to be done before we can claim a comprehensive understanding of the importance of relational capital in different sectors. As the collection of full empirical dataset is out of scope, the interview results would only give a basic insight on the situation regarding sectors and the above-described graphs. Now, as the most likely and possible situations have been outlined. In the following, the theory of the different sectors will be outlined with a try to include the corresponding graph to the belonging sector.

It should also be kept in mind that between the sectors and even within the sector the kind of knowledge are different and have different application and implication.
The sectors are not homogenous, and with a high variety of sub-divisions within each sector, the empirical data should be of a considerable higher amount in order to be able to draw an exact and representative picture of the relational capital correlated to the sectoral division. With the insight given through the interviews in the respective sector, I intend to draw an illustrative picture of their specific situation concerning relational capital.

3.2. Sectoral division

To analyse the relationship between the relational capital and the awareness and importance of it among different companies, the sectoral theory of Pavitt (1984) will be followed. According to Pavitt (1984) industry varies in terms of sectoral differences of the source, pace and rate of technological change. The need of the users varies and there are diverse means of appropriating benefits, and consequently Pavitt (1984) divided the sectors into four different archetypes, namely supplier dominated, scale-intensive, science-based and specialized suppliers. However as the business world has gone through changes since 1984, an increasing group of companies mainly in the service sector could not be matched into the previously existing archetypes of sectors. Tidd et al (2001) identified a new sector, specifically “information-intensive firms”, adding to the four original.

3.3 Description and analysis of the sectors

In the following an empirical consideration will be included after the description to each sector according to Pavitt (1984) and additional theory. A view on the implication of size, territorial location and the probable corresponding graph will be given. Without having pursued the exact measurement method proposed in the previous section, it is unfeasible to be absolutely sure of the placement in the graph, but on the basis of the information given, the company is plotted in its supposedly belonging environment. Ultimately a general consideration will be proposed.

3.3.1. The supplier-dominated sector

The supplier-dominated sector encompasses the more traditional sectors customer and non-consumer goods such as “manufacturing, in agriculture, house building, informal household production plus many professional, financial and commercial services” (Pavitt 1984 p. 356). Pavitt (1984) argues that most innovations and technology come from suppliers of equipment and materials, as the sector in general has a weak in-house R&D and engineering capabilities. Since supplier-dominated firms are believed” to make only a minor contribution to their process and product technology” (Pavitt 1984 p. 356) one would anticipate a limited association between internal resources and innovation. They depend to a high degree on external resources process technology, include at times large customers and government-financed research makes a contribution. The sector is the least technology-advanced. They depend more on professional skills, aesthetic design, and trademarks than technological advantage (Pavitt 1984). The sector concentrates on cost reducing process technologies in order to meet the demands of their price-sensitive customers (Freel 2003). The competitiveness of the firm is sensitive to price factors. Guerrieri (1999) argues that the competitive advantage is not only sensitive to price, but are also influenced by design and quality as non-price factors.

3.3.1.1 Discussion of a practical case of this sector [3]

The concept was previously unknown, but to have a strong relational capital is recognized as an important factor for success. The investment in the human capital is the real investment in the firm. For the company these contributions affect the relational capital, as the connectivity between the human and relational capital is high. Relational capital was early an important aspect for the company, but was then developed unconsciously. The awareness around the synergy between knowledge and beneficial value for the organization rose some 15 years ago. In the beginning a division of the company was situated in Sweden that have a long tradition of industry, and where the awareness of the importance of relational capital have been present longer, but even there then it was unusual to create awareness around knowledge on the company's IC. This company realized that if the customer wants to invest they do, but a need to emphasize more aspects around the company than only the good is present. The prosperity experienced later was a direct result of the emphasis on IC in an environment where competitors thought power was the key issue of prosperity. Now the creation of awareness around the importance of relational capital is a vital and natural part of the company. Competition is found everywhere, but to be

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[3] Moelven Industrier was established in 1899 and is one of the leading suppliers of building wood products and accompanying services. The company is divided in 3 subdivisions; Timber, Wood and Building Systems. The company have in total have some 3200 employees and an annual turnover of NOK 5,8 billion.

successful you need to be best in every aspect. To sell the products is not enough, the need to establish close ties to the relations (e.g. governmental institutions, banks etc.) is very important. The common view is that relational capital is neither more nor less important for this particular sector as for others, as surviving and exploiting a market without relational capital is highly difficult.

The alliances created are based on cooperation for common benefits, but not constructed to front a joint company. Worthy of note is that the company has established cooperation in R&D with universities, where the wish is for the company to approximate every constellation possible of help to develop the sector in a sustainable, more cost-effective and innovative matter. For developing internal innovative programmes and in cooperation with others, financial support is received from public institutions.

3.3.1.1.1. Size and maturity

The basic view is that for larger companies in the sector, the potential to work broader and more profound is greater. Thus, the need for a greater base of relational capital is existent. With a larger company there is a higher possibility to build a completeness where the company base their business on more areas than one. Small companies, depending on their type of good, have a limited approach and need to be more specialized in their method towards relational capital.

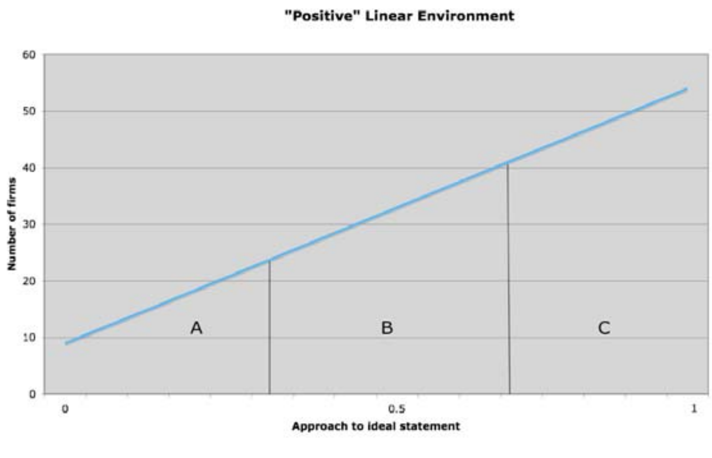
The mature company is more conscious as they have experienced the importance of relational capital, whilst the immature company need to experience a few letdowns and failures to realize the value.

3.3.1.1.2. Territorial location

Location is decisive to a certain extent, but has in 2006 lost some of its significance. Of course it is a drawback to run a business far away when important connections are situated in a totally different part of the country. The Internet technology has decreased the value of location moderately. The means of communication have changed notably, where for example videoconferences are a normal feature for a business. In short, the importance of being close to the main partners is still existent, but as much as previously.

3.3.1.1.3. Corresponding graph and further management

The company has an apparent high awareness on the relational capital, I would plot the company in the C area the positive linear environment. The companies employing a large spectre of goods and have a strong return of the ideal relational capital is placed closer to 1 in the graph. Other companies in the sector are totally unconscious related to these issues, where the lack of focus on knowledge is present and where economic loss might be a daily situation.



Graph 3.3. “Positive” Linear Environment

Improvement due to the awareness of relational capital would conversely be more of maintaining character. The company is evidently very aware of the value and recognizes IC as value adding. They should continue in the sphere of today's performance. They might in the future they might see the value of undergoing a specific IC statement, and further raise the value and importance of the capital.

3.3.2. The specialized suppliers sector

The specialised supplier sector includes most producers of machinery, instruments and the software industry specialized in production of advanced equipment and precision machineries. Specialized suppliers are generally small, and provide high-performance inputs into complex systems of production of beneficial value to both scale-intensive and supplier-dominated groups as capital inputs (Tidd et al 2001). They are characterized by a high diversification of supply, with a "high economy of scope" (Guerrieri 1999).

The industries in this sector, innovate mostly by internal sources, and by interacting with advanced users of new technology. The capability to monitor and respond to user needs, in addition to a strong link with lead users is common in this sector (Tidd et al. 2001). The importance of the different stakeholder requirements concerning how they would like to be contacted, attention after sale is crucial. Pavitt (1984 p.359) argues that "given the scale and interdependence of production systems to which they contribute, the costs of poor operating performance can be considerable". This denotes that it seems more important for the sector to orientate towards the performance-increasing innovation than to reduce the cost. In addition the competitiveness results from firm-specific skills and the ability to respond rapidly and considerately to user's need (Pavitt 1984).

3.3.2.1 Discussion of a practical case of this sector [4] [5]

The firms interviewed in this sector had no previous idea of the concept neither of relational capital nor IC. The first firm, the Bosch Security (Bs) have recently developed a report for internal use on the human capital, undertaken by an external firm. The second firm, Projectiondesign (PD), has not undertaken a report on their IC. A reason given to this was the time-aspect; PD is growing quickly, with a shortage of resources for such an approach. The importance of access to markets and trying to brand-build were more important than writing a statement of the relational capital. They were both conscious of the importance of the concept without describing it as relational capital, whilst the term "business intelligence"[6] was familiar and employed. To constantly deliver a product of high technological quality is utterly important to maintain and increase marked share, and the competitive advantage is basically built on the reputation of delivering high-quality goods. As for PD, the communication with the customer is relatively clear and uncomplicated, but with no obvious strategy

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[4] The Bosch-group was established in 1886, where the security-division account for 6750 employees out of 245 000 employees in the Bosch group. They provide among other products control systems, intrusion detection and control, and congress systems.

[5] Projectiondesign AS started in 2001 with only a few employees, and employs in 2006 some 80 individuals. It is a worldwide leader in providing technology projectors. They develop and manufacture projectors for various markets.

[6] Business Intelligence is a broad category of applications and technology for gathering and analyzing data for the purpose of helping enterprise users make better decisions. The in depth knowledge about factors such as customers, competitors, business partners, economic environment etc that help the company to make effective and good quality decisions. As such it might be correlated to a certain extent to the relational capital aspect as the terms cover more or less the same topics (from interview with Projectiondesign AS)

on the approach towards the communication and behaviour towards treating the customer. PD stressed their hands-on relationship with their external stakeholders. A quest back in form of a survey has never been executed, as PD considered it wrong to dedicate valuable resources to it. Nonetheless, the importance of relational capital in these specific divisions is highly essential. Both BG and PD undergo relational marketing management.

The price of the goods of PD are a lot higher than average, and they need to deliver a product responding to quality and price for someone willing to purchase the good.

The management emphasises the role of the employees in the company. The human capital composes the difference and their relations have direct implications for the success of the company. The long-term aspect is also significant, and to build long-term relationship is intended. For PD these relationships are based on a set of standards (e.g. concerning moral, ethical and environmental standards) put forward by the company, where a requirement is to implement these standards within reasonable time. If alternative and possible relations are available, the long-term relationship decreases in value according to PD.

3.3.2.1.1 Size and maturity

According to both firm, when considering size and relational capital there were no evident difference between large and small firms. In larger companies, there is a higher need to have a more systematically and structural approach to the relational capital than in a small and probably more transparent and lucid company. The ability to have a hand-on approach can indicate a decreased need for a systematically approach of the relational capital. Small companies with a flat culture does not have the same need to structure the relational capital in comparison to a mature company that often have a hierarchic setting.

In the sector, if the mature company is of a relative structured and organized form, with an integrated culture of knowledge, it is easier to create and focus on openness towards relational capital. As such the mature companies should in theory have more and stronger relational capital.

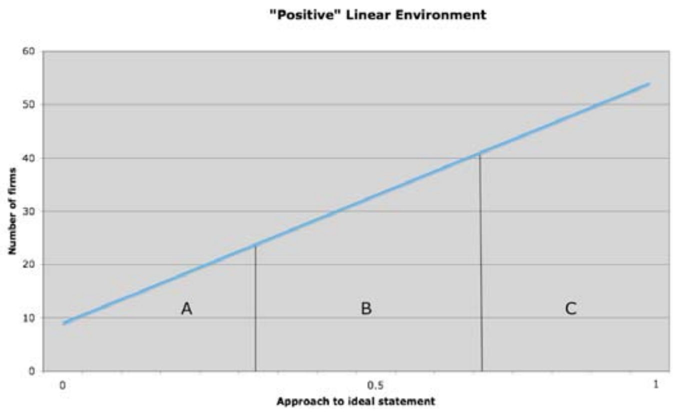
3.3.2.1.2. Territorial location

Geographically speaking the importance of location is less critical, due to the increased level of global communication through for example internet and other technological and logistical solutions. For BS all production where conducted in a different country of cost and time-related issues. PD based their business on a born-global approach from day one, and with a distribution worldwide the location is of less importance, but both recognized the value of local on important locations for the business.

Competition is a quality demanding process, on both technical and commercial grounds because it requires an effort from the company to always try to be at the top. The importance of having high relational capital is more present with high competition, as it is increasingly more decisive to possess a good relation with the relational capital in such environment.

3.3.2.1.3. Corresponding graph and further management

I would consider the companies in the group to have high knowledge on their relational capital, without necessarily pinpointing the value. Especially in the cases where the companies are fast growing and obtaining good results, they are not as occupied with the consciousness of relational capital. On the other hand companies might in the future with further growth and success, realize the value of delegating resources to recognize and have a more systematic approach towards the added value of measuring IC.



Graph 3.3. “Positive” Linear Environment

The importance of relational capital in the sector is present, but it might not always be systematically measured. Indicating graphically the situation of the firms is complicated, but both would probably be plotted in the sphere between B and C in the positive linear graph, as they are aware of the importance but do not make an effort to systemize the value and therefore lack the ability to be able to efficiently manage their assets and create further synergies and values that come with the company-specific knowledge on the IC. As mentioned BS make a report, but are not including all aspects of IC.

3.3.3. The scale-intensive sector

The industry of certain consumer durables, civil engineering, bulk materials and automobiles can describe the type of company related to this sector. The sector includes typical large firm industries trying to exploit scale economies linked to plants and size. These industries have high capital intensity, wide economies of scale and learning and a complex knowledge base, in addition to a high technical and/or managerial complexity and in-house technological accumulation through design and production engineering operating experiences (Gurrieri 1999 p. 145). Pavitt (1984) argues that large users provide experience and development resources for the specialized equipment suppliers sector. Even though one might consider the link between innovativeness and customer collaboration to be high, it is rather the contrary (Freel 2003). Collaboration with customers, competitors and government –agencies, in addition to suppliers and public knowledge are likely play a limited role. Tidd et al. (2001) argue that the product and process technologies are probably developed incrementally instead of pushing through radical changes as the risk of failure are very costly. This incremental development is based on earlier experience and knowledge.

3.3.3.1. Discussion of a practical case in the sector [7]

The concept relational capital is totally unfamiliar, until a description was proposed. The importance is recognized as something of value generation to the company. Without relational capital it is impossible to run a business, but the intangible assets

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[7] Cemex was founded in Mexico in 1906 as a small regional cement firm and are now a top global building-solution company that produces, distributes and markets cement, ready mix concrete etc. in more than 50 countries.

of relational capital are not measured, as the difficulty of measuring non-financial attributes is highly present. The idea of undergoing a report was considered interesting, but the absence of clear incentives and indicators towards such a measurement was present. The effect of the recognition of relational capital on the long-term aspects is undoubtedly present. They conduct surveys with customers, in order to understand needs and identify ways to improve their products and services. The attempt to have an open communication with suppliers to strengthen and maintain the relationship, and understand their concerns is present. Whether this is overall common in the whole organization is unknown.

Loyalty happens by design and not by chance, and a communication with the clients to identify and implement effective ways to strengthen relationship is existent. The success stems from human capital and their ability to tailor initiatives to suit the customers' needs at both a global and local level. Image is an important topic, especially for global actors. The company attempt to be very aware of their sustainable responsibility and do an effort towards environmental issues.

3.3.3.1.1. Size and maturity

The company dominates in the sector, and the company is dedicated towards strategic acquisitions and as such collaborating with other institutions is not prioritized, except of governmental kind. The approach is to acquire and integrate local knowledge and know-how in the company by acquiring companies. They concentrate their acquisition approach towards developing economics because of high growth prospects.

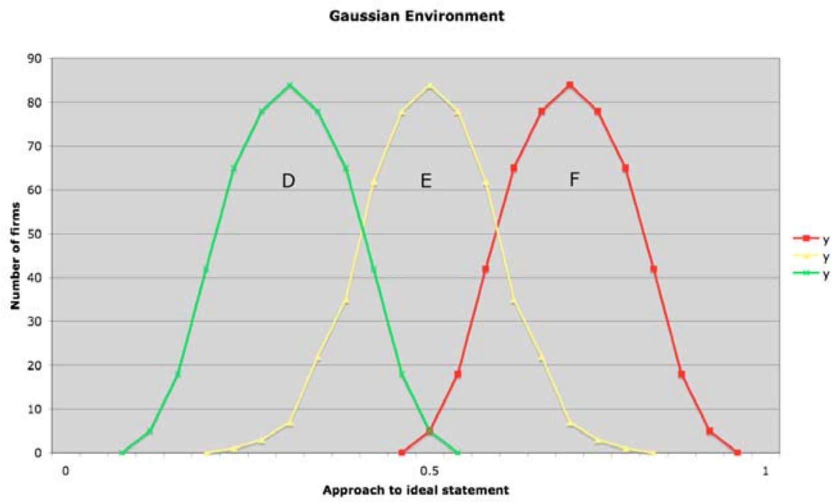
In mature industries, innovation is the only way forward, and the home-market strength skills is used to achieve high operating profitability at a low cost and to have a technical expertise to build a strong position in markets. For small companies without the necessary financial or accumulated know-how, an attempt to gain a larger market share in a sector of highly matured companies might prove to be difficult.

3.3.3.1.2. Territorial location

The approach to acquire companies is based on strategic geographic location. To access new markets and enhance the position, strategic acquisition is performed. The knowledge is based on local know-how combined with the value of a global network. Establishment of business in regional markets is pursued to have production close to the centres of consumption. The cost of transportation is enormous, with a low-value good in relation to the weight. Thus having plants within reach is decisive for the business.

3.3.3.1.3. Corresponding graph and further comments

There are only a few global actors, but in the local markets a higher variety of firms exists. Being aware of the relational capital is important, and the organization is allocating resources to improve external relationships. When discussing the sustainable issue they are very aware of their role in the environment. I would propose the awareness of relational capital to be both high and low. High as they recognize the value of their external stakeholders, and low because intangibles relating to the aspect are not measured. I would plot this sector in the Gaussian environment, in the normal distribution of F.



Graph 3.2. Gaussian Environment

The topic of further management of relational capital would be to continue to stress the added value of gaining knowledge and develop the relational capital within the firm, and as such assist the company to leverage future possibilities. The awareness of the external environment is highly present, but maybe the need to pinpoint the importance of the knowledge about it, its worth allocating resources towards the measurement.

3.3.4. The science-based sector

The science-based firms are based on the chemical, electronic and electrical division (Pavitt 1984), and as such include companies in pharmacy and biochemical products, telecommunication and aerospace (Guerreri 1999). The industries are generally characterized as highly innovative with high in-house R&D expenditure and academic research (Pavitt 1984) and with a highly complex knowledge base. Furthermore, Freel (2003) argues that this sector has a balance between products and processes, where process technology is largely developed in-house or sourced from suppliers, whilst product technology is extended internally. Universities and private firms are important repositories of interaction of scientific knowledge, and Freel (2003) continue to suggest a distinction between the role for the universities as basically concentrating on product innovation, and suppliers in process innovation, which complement extensive in-house capabilities.

According to OECD (1992) their product innovations generate spillover effects on the whole economic system. The comparative advantage is dominated by technological activities[8].

3.3.4.1. Discussion of a practical case in the sector [9]

The company had no previous knowledge of the concept relational capital, but realize the value of such knowledge. This kind of knowledge exists in the company, but is not systematically treated. It is treated unconsciously, as they do not consider a written statement as an issue. The knowledge of relational capital is incorporated tacitly. With this kind of knowledge integrated, the process of maintaining and developing relational capital would be a natural process.

The consciousness about making the external environment receive knowledge about this work is high, especially efforts in the developing world. Building image is one of the most important assets. Additionally, the internal values and culture is important.

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[8] This argument also holds for other sectors as well, namely the scale-intensive sector and the specialised suppliers sector (Tidd et al 2001).

[9] The forerunner of Allen and Hanbury Ltd; Plough Court Pharmacy was established 1715 in London. Glaxo acquired Allen and Hanbury Ltd in 1958. After a merge in 2000 the group was renamed to GlaxoSmithKline. The company has been in Norway since 1981. It is a pharmaceutical company developing innovative medicines. The company is the leading of its kind in many markets. Worldwide some 100 000 employees are working for the company, of whom 160 work in Norway.

The construction of an in-house positive environment is essential, as content human capital create a good and constructive environment. The 5 core-values[10] of the company are strived after.

For the business, relational capital is highly essential. The more complicated the technology the more important is the knowledge. The value of cooperating with other institutions is present. The sector is highly regulated through the public segment, and has large constraints considering what is allowed to do concerning the market and practitioners. To get a pharmaceutical product acknowledged there are many steps to surpass. Moreover, as the company is sizable, they often help smaller companies realise their idea as they are unable themselves of developing it.

The practitioners are a very important part of the relational capital, including also organizations for patients, journalists, politicians, bureaucratic environment and the public institution of medicine. When managing pharmaceuticals it is crucial to be honest and to create confidence. To have a good communication and meet the different stakeholders is beneficial for the company.

3.3.4.1.1. Size and maturity

It is very difficult to be a large company without strong relational capital, however the smaller the company, the more important to have the right relational capital. Comparing small and the larger company, the relational capital is equally important, but there might be a need to systemize it somewhat more in the larger company.

[10] These 5 values are as follows: happiness, courage, involvement, innovation and care.

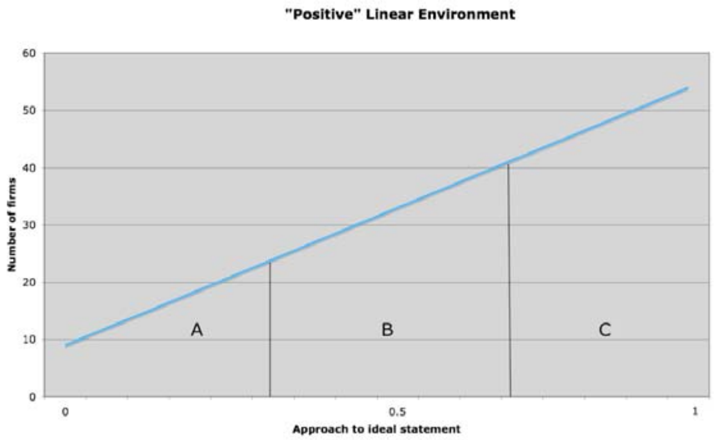
The longer the company is in the business due to the experience value, the easier it should be to have a good relational capital. The main method to maintain relational capital for a mature company would be to work towards a culture within the firm making the human capital proud of their work. The ability to display the desired message and have a clear communication strategy is essential. The general understanding of the environment, and to meet the environment on their ground is equally important.

3.3.4.1.2. Territorial location

The location is vital for the business. To exploit the geographical situation is a competitive advantage. The company are situated in the capital city right next to the main hospital and the university. Being close to the institutions with which it is necessary to cooperate, is beneficial. Additionally being close to the governmental institution is useful in terms of having a good relation with the deciding institution. Moreover, local offices are situated around the country in order to be able to have a more direct contact with the external stakeholders.

3.3.4.1.3. Corresponding graph and further management

The value of relational capital was appreciated, but was not considered worth measuring. Nevertheless they are about to perform a measurement of the amount of articles written in the press, positive and negative, as they want to measure how the external stakeholders consider their business.



Graph 3.3. “Positive” Linear Environment

This company would be plotted in either the positive exponential graph or the positive linear graph. The choice of the positive linear graph is based on the improvement value of the firm concerning measurement. To have a high awareness of relational capital was essential for the business, but as this knowledge apparently was incorporated, they did not see the value of dedicating resources to undergo such a report. On the other, I would still argue of the importance of doing a measure of the relational capital to be able to improve it even more.

3.3.5. The information-intensive sector

Information intensive firms have begun to emerge only in the past 15-20 years, particularly in the service sector, and include finance, retailing, publishing and travel (Tidd et al 2001). A rapidly increasing proportion of the labour force is now using the work-time to create, disseminate and use new competencies. These are activities that are a growing contribution to value-creation. The sector bases their innovativeness on new products and services, and has close communication with the users to match their needs (Tidd et al. 2001).

For this sector without a doubt, having a high relational capital is critical, as they need to know exactly their type of differentiation and the know-how of the company. It is elemental to have knowledge in the ongoing logistics processes of companies, external counselling and consulting, improvement and/or redefinition of business models, and the launching of new products in competitive environment where even the smallest detail could be of decisive character concerning success or failure. This knowledge is their competitive advantage and a key for their success. It is crucial to be able to improve the connection with the relational capital, and human capital has to invent ideas on innovative techniques and how to cover them. The knowledge and the skills of the employees are fundamental in this sector, as the companies do not sell goods, but knowledge. Information on what users require is more beneficial if relevant and good knowledge of the market exists. Additionally Lundvall (2001) notes that the knowledge-intensive sector more and more tend to become central nodes and connecting different users and producers of knowledge across sectors.

3.3.5.1. Discussion of a practical case in the sector [11]

In a sector where the assets are highly similar, the need to use other methods to differentiate is strongly present. The customer knows what they want, and how they want it, and purchase someone (for example a consultant agency) to implement the means to get there. The need of good relations and to deliver quality work is highly existent.

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[11] CapGemini is a company that was established in France 1967. In 2006 some 65000 employees worldwide, with 650 in Norway are connected to the company. The company is a global leader in IT-consulting, technology, outsourcing and local professional services.

The awareness of relational capital is one of their most important assets. The company does an evaluation every year on their IC status, both internal and external. It is a company based on projects, and after the termination of each project, a survey is conducted where the client rate the consultants based on their effort and achievement in the specific project. The implementation, arrangement and cooperation with the client are a huge part of the business. Their main motto is to "collaborate", which is a great part of their business approach and is also basically their competitive advantage. The company lives by a "collaborative business experience" concept where they try to show a deep understanding and awareness of the relational capital. The success of the company is based on the sole work of the human assets, on how proficient the work is performed and the ability to collaborate with their employers in a project. To include the client in the process and making them part of the project, to deliver a "common" cooperative solution might facilitate a creation of trust and satisfaction between the parties. When the human capital leave the office for the day the values of the company is "gone", as the assets are human-based.

The image is basic when establishing new deals. To create a common platform to integrate the spirit of the company is highly essential. The company builds their success on their ability to develop, as well as maintaining, a good relational capital. The company's values and spirit is vital for their work, and to have the corporate values integrated is essential to differentiate themselves. A successful service delivery comes through an unwavering focus on client satisfaction. The importance to maintain satisfied relations and to do a good recommendable job is the main focus of the firm.

3.3.5.1.1. Size and maturity

The size of the company is decisive in terms of building a network and maintaining relational capital. The competence of the human assets is crucial to be able to deliver and contract a project. Size can in general be of a determinate factor when discussing both financial issues and competence issues. The size gives you a certain liberty to work on inter-disciplinary areas of expertise which is not possible in small firms.

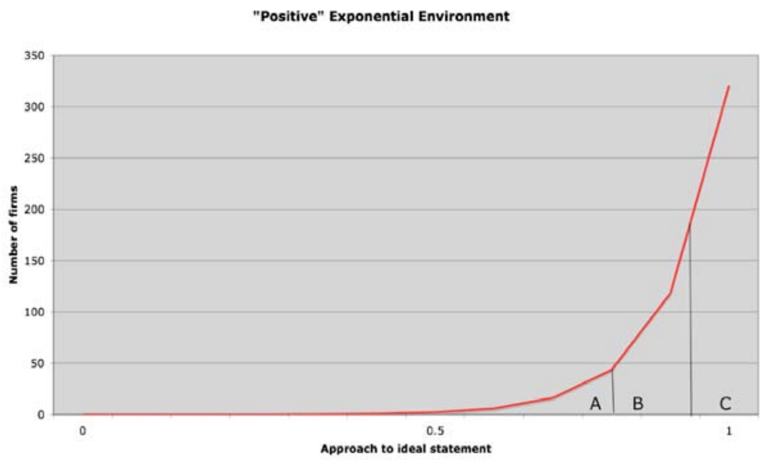
An immature company has yet to develop strong ties with customers, and lack the natural experience of a mature company. The company has a long road to go to reach the relational capital level of a mature company, as they only are able to deliver small projects while the big fish is out range.

3.3.5.1.2. Territorial location

For these kinds of companies the location is important in one aspect, as it is highly important to deliver locally. When competing for a project, some clients demand the presence of a local corporate office. Simultaneously even though the delivery is local there is a strong tendency to deliver external knowledge, although internally within the company.

3.3.5.1.3. Corresponding graph and further management

In this business the need of relational capital is very strong. Without someone to deliver knowledge, there is no business. Without good relations it is also impossible to sell the assets. As for the competitors of the company, the story is equal. I would plot this sector in the exponential graph (Graph 3.5) where it is extremely important to be aware of its relational capital, to treat all the stakeholders connected to the company well. Image is essential, as the external relations will choose a consulting company known to deliver quality projects. The companies with the highest revenue are also probably placed in the upper part of the graph, closest to the value of 1.



Graph 3.5. “Positive” Exponential Environment

Discussing what the company could do to improve the relational capital is a difficult question as they are very aware of the IC as such. In general it is possible to maintain and even improve the intangibles. For the business the essentiality of knowledge around the subject is too high to not allocate resources towards measurement and be conscious about it. They should continue in the sphere they are at the present moment, being selective about their recruiting process, and conduct surveys after each completed projects to see possible ways to improve. To always be conscious about the treatment of the external stakeholders as a mean to receive satisfied and loyal stakeholders.

3.3.6. Considerations on the sectoral differences

Relational capital covers a lot of aspects, from suppliers, customers to image and reputation. As outlined earlier to obtain knowledge concerning relational capital is of important for many reasons (see chapter 2). As we now have seen, there are differences between the sectors considering where they for example gather innovative solutions, one sector is not technology advanced and depend on other sectors (i.e. the supplier dominated sector) while another is using internal sources to produce innovation (i.e. the science-based sector). A third sector highly depends on the public science system as a major source of technology. Anyhow, no matter where they develop or receive innovation the value of relational capital is existent. It might of course differ between the large and small companies, always depending on the range of products. The aspect of image, trustworthiness and satisfaction is equally important for most companies, with a possible exception when discussing oligopolistic companies with absolute market power and no competition. Some companies might depend on governmental institutions, more than on a good relationship with other stakeholders.

I believe importance of relational capital is a common factor, but the difference lies more on the degree of importance, the understood value of measuring and in the different aspects of the relational capital. It is based in the distinct aspects and parts of relational capital. Some aspects are considered to be more crucial for their business than other aspects. Discussing the awareness of the relational capital, some sectors are more conscious of the importance with specific knowledge on the relational capital and consider it as highly essential for their business, whilst others see no point in undergoing a process of receiving knowledge specifically on their relational capital, but regard it as something they have always had and will always have without further consideration. This might depend a lot on the position, and the market share, the company has in the market.

To sum up, most companies recognize the relational capital as important but do not see the need to undergo a specific measurement. The company in the information-intensive sector was the only sector familiar with the topic of IC.

Generally speaking an analysis of the company's position regards to relational capital should anyway be interesting to conduct. This might especially be the case in the specialized suppliers sector where the company is young and growing, but not in the information-intensive sector where there is common understanding of the importance of the awareness and knowledge on their IC.

Regarding size, maturity and geographical location, I would propose an importance of size when considering relational capital. The need to systemize the relational capital rise with larger companies, and as such the awareness could rise. With a smaller company is essential to have the right relational capital. Maturity is a factor of a probable stronger relational capital, as they gain experience and know how the business world works. On the other hand, such a generalization might not explain the whole story, as mature companies with no desire to expand and develop value exist and might as such have a relatively low value of relational capital.

Geographically speaking, the relational capital tends to develop better in a cluster-like environment. Nevertheless, with the technology development it is might not be as crucial as previously.

Aspects correlated to RC	Sectors				
	Supplier-dominated	Specialized supplier	Scale-intensive	Science-based	Information-intensive
Previous awareness	No, unknown concept	No, unknown concept	No, unknown concept	No, unknown concept	Yes
Awareness of RC	Medium/high. Acknowledged as an important factor for success	High in terms of BI*. Importance to have access to markets	Medium/ high	Medium/ high	High
Measurement /Management	Aware of the value	No	No	A part of it	Yes
Size of company	The bigger the company, the more stronger should the RC be	Higher need of systemizing the knowledge of knowledge	Few firm dominate and buy up other firms. May be hard for small firm to grow.	The smaller the company the more important to have high RC	Decisive in terms of building networks.
Maturity of company	The mature firm has more experience, and thus more awareness of RC importance	Great value of knowledge of RC, easier to create openness in structured and organized firm	Might be difficult for small companies to gain market share	Easier to acquire RC with more experience	The immature companies have yet to develop strong ties with the RC
Geographical location	Less important than before because of new technology	Norway: does not matter, -born-global. Spain: production in another country. Vital to be close to contacts	Strategic acquisitions performed to access markets. Vital to have production within reach	Very important to exploit the geographical situation	Of value when cooperating with clients
Competition in sector	To use relations as a tool is important. The best company wins	Importance of having high RC higher with more competition	Try to avoid competition by acquiring companies	The awareness of RC raise with increased competition	Differentiation valuable. Less competition allows you to deliver non-specific goods
Improvement factor	Maintain and allocate resources to maybe conduct a statement	Norway: with further growth might grow a need to create a statement Spain: Continue to make statements, but including all aspects might be value adding.	Awareness apparently high, but in the future might consider undergoing a report on intellectual capital as well allocated use of resources	High awareness, and they are currently reporting on parts of the IC to improve the knowledge. The next step might be to include all aspects	Stay within the same sphere, where the objective is always to try to improve the knowledge
Associated graph	Positive linear	Positive linear	Gaussian	Positive Linear	Exponential

Table 3.2. A general overview of the relational capital correlated to sectors. (RC= relational capital and BI equal Business Intelligence)

4. Relational capital and internationalization of organizations

The attempt in this section is to gather information about relational capital and the influence of relational capital in the internationalization strategies and processes of organizations where the intention is to find out whether relational capital is decisive and of significance for the process of internationalization. To repeat the research question; is relational capital important when going international. It is true that this is an assumption that appears to be true as well as somehow very logical. However this assumptions need to be proven by a theoretical approach. An additional feature has been proposed where the attempt is to examine whether there is a difference and change in the relational capital between the first entering to a maturity mode. First of all I want to discuss the reasons for boarding an international approach and to include some contributions to the internationalization theory. Furthermore, a look upon the different challenges of an international approach, embracing aspects of cultural, image and financial value will be intended. In addition, collaboration, with a more thorough view on the network feature will be incorporated. Ultimately, a discussion of the assumptions of relational capital and internationalization will be made.

4.1 Internationalization

Any decision and choice to aboard an international approach are established and delineated from the social system in which the firm is placed (Ellis 2000). Reasons for an international approach might include, first and foremost the possibility of an increased beneficial outlook, or a specific outside proposal, for example from an ignorable source such as a foreign government, or a distributor of a company product.

Other motives could be strong competition from the home-market. Another mainspring to consider an international approach could include a fear of losing the market or the possibility for increased market power. Furthermore, if a company see that similar companies have success outside the home-market it might result in a domino effect to try the successful story of the first company. There tend to be strategic goals behind the approach, and according to Aharoni (1966) economies of scale play a significant role.

There are many contributions to the theory of internationalization and the stages or processes that the firms go through in their internationalization development (see for example Dunning 1993, Cavusgil 1984, Johanson and Vahlne 1979). Some researchers (among others Dunning 1988, Teece 1981) adopt a somewhat eclectic approach and examine the firms foreign expansion related to static choices based on efficiency considerations and relative costs and benefits, were Dunning (1988) argue of internationalization as a result of three factors, namely a firm-specific advantage, a country-specific advantage and an internationalization advantage. Others (see Johanson and Vahlne 1977) show internationalization as an incremental process of increasing involvement in the foreign country.

The Uppsala model developed by Johanson and Vahlne (1977) will be further explained in the following. In the model they argue of the process of internationalization as basically a consequence of the acquisition of experiential knowledge[12]. According to their model the firm first exports, and then a market subsidiary is established followed by a foreign production.

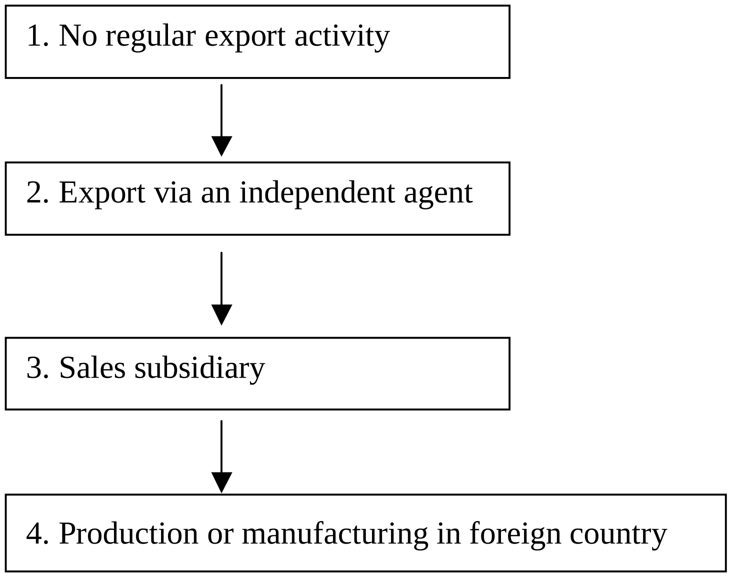


Table 4.1 The Uppsala model

These steps show that the process of internationalization can be characterized by incremental learning connected to the involvement of a firm in a specific foreign market environment. There is a move between the stages, a move not necessarily chronological, based on the gathering of market specific knowledge, as described earlier this knowledge is equal to experiential knowledge. This experiential knowledge refers to customers, culture, business and market structure, thus relational capital. As firms accumulate experiential knowledge, the influence of the distance on the choice of entry mode decreases. The relational capital acquired through first hand experience is to be compared with the relational capital had prior to the maturity mode.

12 Experiential knowledge is market specific knowledge experienced first-handed (Johanson and Vahlne 1977).

When considering an internationalization approach, the company has to choose how and where to enter. There are a high variety of entry modes[13] for a firm to choose when entering a foreign market (see Todeva and Knoke 2005 for a full explanation of each mode). The pace and pattern of first of all market and choice of entry mode, and finally international market growth for small firms is influenced by close relationship with customers (Lindqvist 1988), and also by inter-firm relationship with clients and suppliers (Burt 1992). This is developed further by (Palaskas and Tsampra 2003, pp.269) where they describe that the defining factors of the investment strategy and technological capabilities of firms constitute a broad set, specifically "firm size, production mode, management, competition strategy, market efficiency in labour skills, maturity and quality of demand". Thus the internationalization strategy would be highly dependent on the support of the existing relational capital.

4.2. Challenges towards internationalization

A firm's capability of success lies in the ability to provide an attractive and competitive solution to the needs of its international clients compared to other competing companies. Mentioning this; what challenges, obstacles and risk might be expected? According to Johanson and Vahlne (2003) a company should at least be prepared for economic barriers, institutional and cultural obstacles. As with any kind of process that involves more than two factors, there is a risk involved. This risk needs to be assessed in order to better be able to evaluate and exploit the IC. Challenges are each tailored to specific companies, and as a general rule it is important to have market knowledge. This includes information about the market and

13 Different entry modes are for example licensing, contract management, joint venture, subsidiary, franchising etc. and can also include combinations of the above mentioned. (Todeva and Knoke 2005)

the operations done in a specific market, evaluation of land prices, wages, fringe benefits, the behaviour of trade unions and of course the productivity of the human capital (Aharoni 1966). The best product mix proposed should be examined from a technological and marketing point of view.

The aspect of time, constraints and uncertainty are significant when discussing internationalization (Aharoni 1966). To establish a firm in a foreign country may take time, and as a general rule the firm want to try to avoid as much risk and uncertainty as possible. Consequently, in the process of going international, having strong and high relational capital could avoid much of the uncertainty by providing important and essential information. It is important to dedicate sufficiently resources to be able to have a wide distribution network abroad, for then later to consider an expansion and establish sale branches and subsidiaries (Cavusgil 1984 and Johansen and Vahlne 1977).

The need for effective leadership and administration has increased with the challenges of internationalization (Buckley and Gauhri 1999). The communication with the different kind of relational capital have important implications for internationalization strategies, as for example the relation to the political environment, the government agencies, market regulations, trade unions and mass media. In addition to knowledge on the legal system, the size of the market, sociological and cultural background of the population is significant knowledge for a firm. In some countries it is more difficult than others to enter because of a protectionist legal system where the foreign firm is subject to more constraints in comparison to domestic firms, with for example a requirement to have a certain quantity of domestic control of the firm. Tidd et al.

(2001) note that to try to influence the future legislation by lobby groups is an important part of relational capital. Collaboration between sectors could provide a united front for the companies in the promotion of a uniform industry-wide standard.

4.2.1. Cultural issues

Eriksson et al (1997) distinguish between two kinds of market-specific knowledge, namely the business experience and the institutional experience. These are developed in a different way and have different consequences and implications for a strategy. The main difference is that business experience is related to the business environment of the firm, with which the company is currently doing business and also future possible business companions. For the institutional experience the weight is put on factors such as language, law, regulations and authorities (i.e. public and semi-public) implementing laws and regulations. Markets even though highly globalized still have different demands and grant higher value to different features. Differences in cultural and social codes need to be taken account of. A distinct and difference preference to taste and how to be treated varies between regions and countries. This is supported by Tidd et al (2001) arguing that different groups are likely to have different needs, although needs of customers in the same division tend to be homogenous, although the demeanour might be slightly distinct. In other words, distinct countries might require specific modes of operation, and the importance to have an insight of that knowledge is high.

The need to tailor an approach for the destined country is existent, as a general resolution and common investment opportunities may prove wrong due to differences of cultural, governmental or historical value (Buckley and Ghauri 1999). Firms tend to expand internationally in an incremental, stepwise matter, where initial internationalization is basically targeted to physically close markets[14] (see for example Johanson and Vahlne 1977, Coviello and Numro 1997). When following the initial expansion with low risk, and indirect exporting to similar markets, firms improve their foreign market knowledge. It shows that over time and through experience, firms will increase their foreign market commitment and probably expand to more distant markets in physical terms. This might imply that the more knowledge and awareness of relational capital a company has, the quicker could the internationalization process advance. An assumption could be as follows. Countries that are similar to each other in terms of for example cultural, governmental, historical and other aspects probably have a closer affinity and to have easier access to relational capital is present because of the similarity. On the other hand, for countries dissimilar in the above-mentioned aspects it is probably both more important and difficult to achieve a good level of relational capital. According to my informants it tends to be easier initially to establish relational capital in countries compatible to others. Although countries apparently similar at times are not so similar at all, where a norwegian informant complained of the impossibility to cooperate with Swedish firms, whilst another thought it very difficult to establish in Denmark. These are countries considered to be quite alike when discussing cultural, historical and governmental issues. Some companies, when establishing new offices in foreign countries bring in a manager from the domestic firm with the company values integrated. Subsequently local personnel are hired to bring in essential market-specific know-how and expertise on the field.

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14 The physically close markets are markets with similar culture, language, political systems, and trade practices etc (Johanson and Vahlne 1977).

The lack of knowledge due to differences between countries when considering for example language and culture are an important difficulty when deciding to develop international relations (Johansson and Vahlne 1977). If the insight of the cultural differences from the management and employees are present, the search of partners or cooperation institutions and the internationalization strategy approach might prove easier. Assembled competence and knowledge might through time help to increase the understanding of cultural differences and to create synergies based on these differences, when having established a branch in a dissimilar country.

4.2.2. Image and reputation

The synergy in the work-relation between company and their relational capital is essential. In order to put forward an internationalization strategy a talented base of workers need to be behind, to create a good image. When considering an internationalization approach a good image is of strong importance. The image and reputation could be decisive whether or not to enter a new market. For some global companies, it can be found that in one country the reputation is good, while in another the image is of poor quality. The approach to a relation between different stakeholders involves the dimensions of reputation to a company. Hence, the decision to establish favourable contracts and a strategic alliance is very much dependent on the reputation the company has got (Dollinger et al 1997). A bad reputation in a specific country might spread to other countries where a company is present due to a quicker information flow in the era of Internet. In the same sphere, de Castro et al (2004) argue that a positive reputation of the organization makes it easier to develop a process towards a future collaboration. In addition reputation plays a highly critical role earlier in any decision related to undertake or begin relations with any firm

(Kogut 2000). As pointed out earlier, the tacit information collaboration partners provide about a new market is very valuable for a company concerning its internationalization strategy, as well as the impression the firm display during the process.

The base of the external structure, hence the relational capital, depends on the image of the company. The most enhancing activity of a company could be to deliver professional work. It gives an organization competitive advantage to have a good reputation. To decrease the effort customers have to go through to gather information, a good reputation might automatically provide relative information, and as a result making it easier for interested stakeholder into a possible contact (de Castro et al 2004). Larson (1992 in Ellis 2000 p.6) observed "that foreknowledge of a potential partners reputation combined with a history of personal ties reduced the exchange risk by providing mutual trust."

Furthermore a good reputation provides a kind of a guarantee for the customers of the organizations. When focusing on the importance of long-term relationship in the internationalization sphere, large clients afford legitimacy to a firm through their reputation. This is especially important in new markets (Bell 1995), because a client may provide referrals or introduce new clients to the firm, in addition to providing information on the market. If a subdivision of a big company wants to go international, the reputation of the parent company is essential, and they use this reputation when competing for projects. When establishing a new division the new office can rely on their parent-company both for reputation, know-how and expertise.

Marketing provides a strategic tool for the firm. It can add further value to its products, position the firm on the market, and further affect the preferences of consumer through image-building activities. Tidd et al (2001) argue that the reputation or brand image must be established and maintained, as without it, when launching new products the consumers might not be interested in trying it, despite a high innovative value. This can indicate that it is also important to have strong relational capital when the innovative value is not so high. The treatment of the firm by the media can either trigger or disable a relational process with an external actor. The media has great influence when discussing the general opinion and view of a specific firm held by the public. A positive article or review can result in increased goodwill, and have a tremendous effect for the reputation and image of the company.

Corporate growth is increasingly built and based on knowledge and other intangible assets. Lately there has been an increasingly growth of importance due to the corporate responsibility to the community. When it comes to the matter of internationalization, to show a deep attention and comprehension towards the environmental problem, is a positive asset, and can result in a more affirmative image. For companies producing goods, to display awareness around the topic of not only sustainability, but also morale and ethic could be a competitive advantage.

4.2.3. Financing

When investing in a company, the investors are buying a set of talents, capabilities, skills and ideas, and not necessarily the physical capital (Stewart 1997). The market attaches importance to non-financial attributes about the strategy of a given organization. Therefore the need to establish strong intellectual property rights in order to stimulate private and public investment (Lundvall 2001) is existent.

To draw the investors' attention, the credibility of the company is of high value. Credibility lies in the innovation ability, how the strategy is implemented and the quality of strategy. For investing bodies the companies view on growth and profitability, as well as the control of the organization assets is of interest. For internationalized companies, receiving financial help might sometimes be indispensable for a strategy to be implemented.

There are different kinds of investors, among others banks, individuals, shareholders and financial funds. The importance of a having a good relationship with their private banks to be able to be given a loan when needed is essential. Requisite for others are the presence of individuals with owner interest as the most important source of financial capital. There exists a large amount of official and governmental subsidizing programmes among these the Framework Programme provided by the European Union. These official subsidizing-programs as a mean of expanding their knowledge and international collaboration were only an issue for the company in supplier-dominated sector. The lack of interest in such funds might be a result of the size of the company, structure of the funds, financial situation and the amount of extra resources needed.

4.3. Importance of collaboration

A natural issue when discussing relational capital and internationalization is the value of collaboration. Collaboration is principally based on three aspects; technology, production and the marketing aspect (Tidd et al. 2001). Firms collaborate for a number of different reasons. Among the reasons are strategic issues related to size, the creation of synergies to enable the capacity to compete globally, a probable decrease of risk, the rise of cost of technological development, and to achieve scale economics in production or the possibility of a market entry. Furthermore, collaboration can reduce the time it might take to develop and commercialize new products (ibid.). The cooperation with several stakeholders for example competitors, suppliers or research centre, is of a decisive factor when discussing the strategy of internationalization.

All depending on the different forms of collaboration depending on technological practice, market characteristics, company culture and strategic considerations (Tidd et al. 2001), specific risks and possible conflicts between the different parties would include leakage of information between the counterparts, loss of control or ownership, divergent aims and objectives. In the case of cross-border company acquisition, the potential for synergy and the likelihood for success are greatest when there is a complementary in technology, product or market as the lack of these factors is the main creator for potential risks (ibid.).

4.3.1. Networking

In Johanson and Vahlne (2003) they argue of the need to renew their model from 1977, and to integrate the network aspect due to an increase in global competition and accelerating technology development forcing firms to internationalize more rapidly. In this work they integrate the two conceptual approaches, the network aspect and the experiential topic.

The process of internationalization is a development driven and shaped by a complex set of network relationships (Coviello and Numro 1997). According to the work of Andersson, Hakansson and Johanson (1994) a business network is defined as sets of two or more interlinked business relationships, where the exchange relationship takes place between firms, and they are visualized as collective actors. External networks can take different forms and present multiple features. Additionally the network has diverse characteristics and perspectives related to relationship, structure, position and process (Simões 2003). The relationships in a network provide means and resources for international growth (Coviello and Numro 1997). Thus a network of formal and informal relationships can influence the choice of both foreign market and entry mode.

There is a big potential of networks in small firms internationalization, where access to external resources can play an important role in a firm's internationalization process (ibid.). According to Coviello and Numro (1997) a connection with international networks, where major partners often guide foreign market selection and provide a mechanism for market entry, is essential. They argue that these network relations may not only drive internationalization, but also influence the pattern of market investment. Powell et al. (1996) found that network centrality (the number of direct ties) and cooperation experience were positively associated with growth in young biotechnology firms, because of their influence on learning in technological domains. The connection of both internal and external IC can enhance an international growth (Yli Renko et al 2000). Most of the network a company has got is based on a network of personal ties. For example when hiring a new employee, the employee often brings his/her personal contacts with them. These social ties might be of beneficial value for the company where sometimes, it is all a matter of having a link.

The firm tries to influence as it can in the different relational processes it is involved. There are typically common, but also conflicting interests in the network. In the words of Hakansson and Johansson (1993, p.30) “actors use their knowledge of the network as well as their relationship with other actors in order to increase their control.” Because of this, it is always important to understand the industry and the market, and a strong need to internalize tacit “rules of game” (Simões 2003).

Schiuma et al (2005) argue the importance of relationship aimed to support the acquisition of new knowledge, for example relations to university research centre or other institutions where knowledge creation is the focal point. According to Schiuma et al (2005) when discussing interfirm relationships the interaction between the external environment and the company not only helped to develop commercial and business oriented relationship at the present time, but can also create relationship with the stakeholders that might be of future beneficial value and thus affect the future growth of interfirm relationships. The feel for mutuality between the parties, and common interest in the future is essential for cooperation. Implying that the best solution should be a sense of a somewhat similar “what is in it for me” and “what is in it for you”, where the ultimate is a win-win situation.

Castells (2000) mentions the advantage of being a part of a network. The benefits of being in a network grow as the network becomes more powerful and creative. Not being able to take part in the exchange of market, R&D resources and competence is on the other hand considerably worse. Networks are essential in acquiring information and the process of transforming information into useful knowledge. In addition Bontis (2001) suggests that the innovative capabilities of a firm lie in the relationship of the firm and its relational capital. Capello (2002) also argues of the importance of verifying existence between a relation on relational capital and the innovation activity in the firm.

Up to this point we have seen that relational capital indeed is of vital importance in internationalization. Subsequently I wish to go more into detail on the role of relational capital alone, and of the comparison with the first entrance of a company to a maturity mode.

4.4. Assumptions

The capacity to build an effective working relationship with clients is one of the most important assets held by the company. Acquiring knowledge about the external operating environment is particularly relevant in the context of internationalization (Yli-Renko et al 2000). Currently dominated theories in the process of internationalization of new and small firms indicate and treat knowledge of the market as a central enabling and driving resource (ibid.). The complexity, uncertainty and time-consuming process of developing a relationship in a foreign market is high, and therefore considerable commitment of resources is required from the part of the entering firm (Hohenthal 2001).

Existing relationship are decisive when choosing what market to enter (Eriksson et al 1997), thus when approaching the international market, using the current resources is sometimes necessary. The relationship established by the managers' personal contact network is a central element in the internationalization, and over time these relationships can be a vital source for the company (Ring and Van de Ven 1994, Lane and Lubatkin 1998, Yli-Renko et al. 2001). McEvily and Marcus (2000) showed that integration with suppliers enhanced the acquisition of competitive capabilities. They can provide essential information concerning the situation of a new country. The know-how the external stakeholders have with situations in different countries and thus with these relations there is an increased possibility for the company of being presented essential information of the market prior to a launching of an internationalization strategy. Not only providing information, the competence, skills and know-how of external capital might be determinant when considering the strategy to be used going international. According to Johanson and Vahlne (2003) relationship can be used as a tool to climb over the country market barrier and enter the market.

By comparing[15] the relational capital acquired through the first hand experience of a foreign country with the relational capital the company had at the first entrance abroad, we can get an idea of the possible gap between the entering moment in a new country and the maturity mode of the company in the same country. Furthermore, a detailed empirical analysis (out of scope in this work) would show us for which cases the gap is almost non-existing and for which cases there is a big gap in the change of relational capital. In the light of this, the first case would probably correspond to environments where there is a need for a very high relational capital to take the first step, and for then to be maintained more or less constant such as for example entering a very competitive market. Yli-Renko et al (2000) argue that in the competitive world firms are not successful because of control over scarce resources, rather the contrary. The success is more related to the efficiency in comparison to their competitors in terms of "value-adding processes [...] are increasingly based on the creation and

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15 The measure tool of comparing is proposed performed as explained in chapter 3.1. in this study

exploitation of knowledge” (Yli-Renko et al 2000, p. 5). This supports the idea of the importance of relational capital, especially in competing environments. In the second case, where a larger gap is demonstrated it is more likely to be an example of markets with lower degree of competence where the threshold of relational capital to enter the market is somehow lower, . The difference between the competitiveness of market A (original market) to market B (market of new country) is a decisive factor since a transition from a very competitive country to a non- competitive country is easier than the other way around. However, the importance of relational capital is boosted by the market affinities between countries. In other words there is a dependency on the similarity. This impacts the need of relational capital where we can suppose the need to be higher the more difficult the transition. It is also possible to do a research on the change of relational capital through the different stages of the internationalization process. I would propose there to be a difference, depending on a few factors such as success, competition, and size of the market.

In the following a few considerations related to the change and level of relational capital will be proposed.

4.4.1. The first entrance

Measuring the knowledge the relational capital when first entering a new country would be done according to the proposal in chapter 3.1. Here, not only discussing the awareness of relational capital, but also including the indicators and intangibles related to relational capital. This could then be compared with the level of relational capital a given time afterward to be able to observe whether there is a difference.

Decisions are made when problems and opportunities arise. Operating in markets initially unfamiliar in terms of the customers, suppliers and partners "triggers failures, incentives for search, and new solution that furthers enhance the firm's technological capabilities" (Yli-Renko et al 2000, p.12)

In general, internationalization can be viewed as a process of the learning and accumulated knowledge. Firms have imperfect information and knowledge of the foreign market (Johansen and Vahlne 1977). Entering a foreign market with full knowledge and relational capital would be a utopia. The process of learning as the firm operates abroad is achieved through failure and success, where exactly this process amend the routines and administrative structures (Eriksson et al 2000), to better meet the competitive environment. These structures and routines must be developed to be compatible with internal resources and competence inside the company (Eriksson et al 1997).

Knowledge is a competitive advantage, or a matter of make or brake in the business. An important objective of the company is the ability of absorptive capacity. In an internationalization process, being competent to know what is required in different situations, as well as the capability to collect, encode, transfer and decode the correct information to learn how to organize and manage the internationalization efforts is crucial (Eriksson et al 1997). The need to cultivate relationships to acquire first-hand experience of preferences, practices and customs (Eriksson et al 2000) is highly present in a process of internationalization. For companies to elicit the assistance of their current and existing relationship in internationalization process to reach access

(Eriksson et al 1997) to the market and could really enhance and make the process easier.

Johanson and Vahlne (1977) argue that in the beginning, export can help to determine the nature and size of the market. For some companies it is a necessity to have an expected or proposed project when going international, or if not a particular project or a strong incentive of internationalization or at least have a large buffer of financial funds to be able to establish an office without having to be beneficial immediately period of time. For others, e.g. the scale –intensive firms basically acquire domestic companies already established and incorporate them in the company.

The less knowledge the company has on internationalization approach, the less knowledge they have to organize the operations effectively (Eriksson et al 1997). Firms without a strong relational capital must use and spend a higher amount of resources to internationalize on their own by detecting and exploiting business opportunities, to an increased cost (ibid.). The lack of knowledge can be problematic. Knowledge can mainly be developed through experience from operations in the foreign country, where this experience gives the company the ability to observe and evaluate business opportunities and thus reduce uncertainty. The proper knowledge is essential, i.e. know-how on appliance on for example directives by the government, or on cultural issues. Accumulated knowledge affects the decision making process. The less knowledge a company has on internationalization approach the less knowledge to organize the operations (Eriksson et al 1997). The closer cooperation and involvement the company has with relational capital, the better should the chances be for learning. Zahra et al. (1999) show that companies doing business with few international stakeholders will have less experience because “they confront a more limited range of challenges”. Firms exposed to a wider variety of events (i.e. different institutions and business actors), are better able to spot problems, errors and opportunities than those only exposed to a few. To have a wide variety of different contacts result in an increased ability to attain more knowledge, and gain advantage in the market. In short, a richer knowledge set is positive for the future internationalization, as the knowledge required for the new situation may have some similarity to the current stock of knowledge in the firm (Eriksson et al 1997). Dunning (1988) argues that one of the advantages enjoyed by multinational enterprises in comparison to the national firm, is the accumulated knowledge from a number of countries. Furthermore, they acquire a source for advantage through foreign direct investments undertaken by the aim of requiring location-specific advantage, and the firm acquire a richer stock of knowledge by investing in many countries.

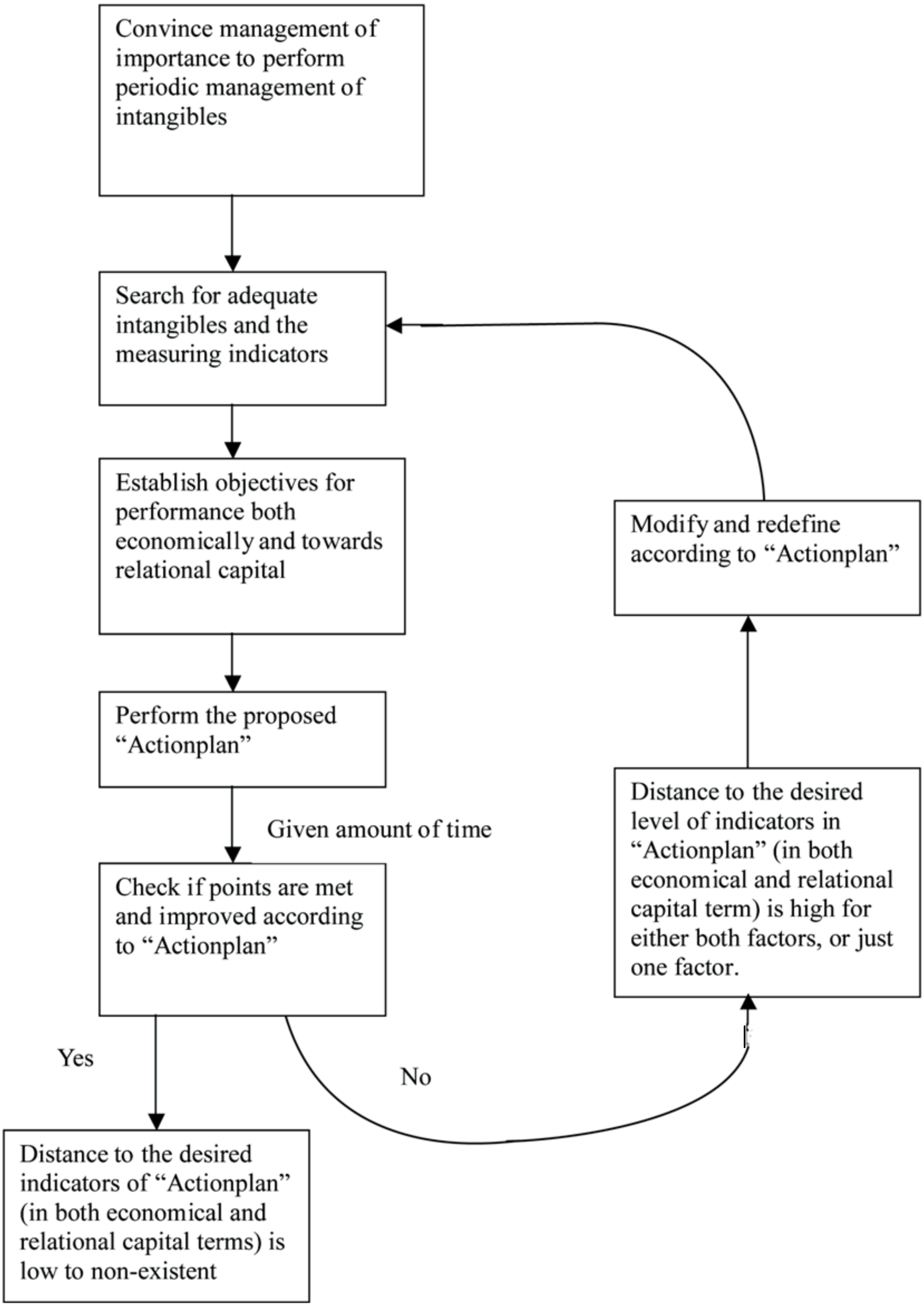

Figure 4.1. Flow-chart explaining the process of an "Actionplan" towards relational capital.

4.4.2. The maturity mode

The evolution of firms' strategies in the international sphere changes over time, generally towards being more integrated with local firms and institutions (Pearce, 1999). It takes time to develop foreign business skills, and it can really only be achieved by experiencing. By experiential knowledge it is possible to acquire a subtle understanding on how the external capital act and react in different situations. This calls for the cultivation of business contacts, to achieve a feel for preferences, the practice and customs in the market, and also to interpret this information in firm-specific context (Eriksson et al 1997). According to Johanson and Vahlne (2003), relationship develops gradually as the firm learns from interaction with each other, and in the process they commit stronger to the relationship. In other words by conducting business in foreign markets, the mature company increases the commitment to these markets. Local presence allows the company to gain more differentiated knowledge about the clients and the local business (Eriksson et al 1997). Commitment decisions and the continuing internationalization of the mature firm are decided on the basis of earlier internationalization (Johansen and Vahlne 2003). Through a commitment, the mature firm becomes more dependent on the market, open new agreement with new distributors, or cooperation arrangement with other firms. The firm, in a maturity mode, will expand in a way that corresponds to the growing dependence on the sales in that specific market. In this sphere, Coviello and Numro argue that at the tendency for the small partner to go through steps of independency, and decrease their reliance and gain more control themselves in the internationalization sphere when the firm get experienced and have accumulated sufficient market-specific knowledge of their own (ibid.).

Cavusgil (1984) argues that as firms' process through the internationalization stages, a more thorough analysis and research of the real foreign market becomes more important, as the amount of economical and managerial resources committed to the tasks concerned increase when the company gets more involved. Market commitment and market knowledge influence commitment decisions and current activities (ibid.).

4.4.3. Discussion

The relational capital is relevant for internationalization strategies for an organization in acquiring knowledge related to their external operating environment. To actively build and harness their relational capital (Yli-Renko et al 2000) is essential. To sum up, it is important to have a certain amount of knowledge when boarding an internationalization approach, and it seems that the knowledge increase with increased commitment in a country. The longer the company stay in a country, the more committed and the more links and contacts the company obtain. This all depends on the size of the company, the technology, and the cooperation ability and of course also the rate of success. I believe there is an increased amount of relational capital the longer the company stay in the country. Now it would be interesting to research whether the curve would flat out at a certain point when the company had stayed a long time in the respective country, if the relational capital neither decreased nor increased. On the other hand, the world of business is highly dynamic and there would probably always be a change in the relational capital, but the approach to maintain satisfied customers and a good image should never decrease

5.0 Concluding remarks

According to Teece (2000) success depends on the capability a company has to generate a dynamic communication with external stakeholders through interaction. This implies that creativity arises and innovation is generated. There is an increased interest in the knowledge-value of the firm, and managing intangibles is the real value of the firm (DTIDC 1997). The context of this paper is the rising awareness of IC and the importance of how this kind of evaluation of the value for the firm. This study has primarily investigated the relational capital concept as part of the IC. In this study, I have outlined the importance of relational capital, and correlated the term with sectoral differences in terms of significance and awareness, as my research questions was to examine whether there was a difference in the awareness of relational capital due to a sectoral division Another research question considered whether the relational capital was in important in an internationalization approach (see chapter 4).

More attention should be paid to the development of operative tools to measure and report the relational capital of firms. In this study a proposal for a benchmark of the relational capital introducing an ideal level and value of the relational capital has been delineated. This proposal has been applied in the discussion of the awareness of relational capital in the sectors. The focus of the benchmark is set on a thought ideal value of the relational capital via the indicators proposed. It is a tool to be able to demonstrate the importance of relational capital, and to compare the capital within and across sectors. Is the model applicable to the comparison of relational capital? This research does not include any quantitative measuring of the relational capital as such. That being so, at this stage further research and dedication would be valuable to verify the proposal as reliable and impermeable. The benchmark represent an attempt to provide a framework to drive people in charge forward to realize the value of an evaluation of the knowledge dimension, in this case concerning relational capital. There is however still a lot of work to be done in this aspect.

As regards the empiric research and the interviews, the informants had little knowledge of the concept. However, the awareness of the general importance of relational capital was high, but a returning issue was the difficulty of evaluating knowledge. It is important to recognize the difficulty of establishing the estimating some of the parameters and indicators. The informants were interested in making a statement of the knowledge capital, but need to be more convinced of the economic viability and the value added by process of measuring the relational capital. Developing such statements can improve internal understanding of which resources are important and how they can be better combined.

Is the knowledge of relational capital a key factor for a company to have economic activities? A lot of other factors have to be in place, especially important are the human capital that is responsible of the relationship with the relational capital. Considering the relational capital value concerning the difference in awareness, I found that there was a wide variance in the knowledge of the concept of relational capital, but the consideration of the value was high. Considering the question whether the knowledge on intangibles would be higher in very innovative environment, the answer would confirm the assertion. Generally speaking, the size of the company mattered, where in most cases the access and awareness towards relational capital was higher with the mature firm due to experience and larger platform. When including the competition concept, the trend was an increased awareness of the importance of relational capital in strong competitive environment. Connecting learning and long-term perspective, mutual dependency and trust are key words when discussing relational capital.

Additionally, this study has explored how relational capital influences the choices of boarding an international approach (see chapter 4). Particular light is shed on the whether the level of relational capital changes from the entrance mode to a maturity mode. In general I would propose there to be an increase in the relational capital as the experiential knowledge of the market amplify in time. In other words, as the companies acquire experiential knowledge (Johansen and Vahlne 1977) on the market-specific knowledge a natural growth of relational capital will possibly and naturally occur. This assumption could be modified with many factors, such as success, type of good, size and human capital. Being in a network when approaching the international market could be beneficial, as close relationship with stakeholders support the acquisition of new knowledge. The choice of both entry mode and market rely on the existing relational capital.

It would be interesting to measure the difference in awareness of relational capital between Spain and Norway. Unfortunately due to the lack of corresponding empirical information, it would be difficult to propose a statement. Nevertheless, in this specific case (in the specialized supplier sector) the Spanish firm undertook measurement, not specifically towards relational capital, but of more general intangible terms, whilst the Norwegian company in the same sector did not see the value of performing a report, although this is just a particular case and not the whole behaviour of the sector.

As a final comment I would like to add that to further analyse questions proposed in this study towards relational capital, a second and more thorough empirical study has to be performed. Finally, I find it highly interesting to observe if, in time, companies will realize the added value of knowledge on intangibles, and actually measurement towards relational capital and intangibles will become common practice.

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Companies interviewed

Supplier-dominated:

Moelven, Berit Rødseth, Project Director, September 2006 (Norway)

Specialized Supplier:

Projection design AS, Sture Berg, Director of Operations, September 2006 (Norway)

Bosch Security Systems, Paulo Simões Maia, Financial Manager SalesJune 2006 (Spain)

Science-based:

GlaxoSmithKline AS, Åge Nærdal, Vice President and General Manager, September 2006 (Norway)

Scale-intensive:

Cemex, Fernando Alvarez, Marketing Director, June 2006 (telephone) (Spain)

Information-intensive:

CapGemini, Peer Timo Andersen, Managing Consultant and Team Leader Risk Management and Compliance within Business Intelligence, September 2006 (Norway)

Additionally interviewed for background information:

Kristiania Eiendom AS, Alf Ulven, CEO, August 2006 (Norway)