Improving the Internal Relations Versus Shaping the External Relations of the Enterprise

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Abstract:

Purpose: The aim of the paper is to identify the importance of actions for enhancing internal relations in a company, with the aim to improve company's relations with its environment. **Design/Methodology/Approach:** The studies conducted in 2018-2020 focused on the importance of relational competencies in the creation of company value and on the role of leadership. The first study concentrated on managers (N=10). The second study focused on the employees of the analysed companies (N=185). The obtained information was used to perform a structural analysis, based on structural indicators expressed as percentage values. **Findings:** The findings indicate that assessments of the importance of actions for enhancing internal relations in a company to improve company's relations with its environment vary. The managers of the surveyed enterprises perceive it differently than the employees. In addition, cluster analysis showed that the managers and employees are not unanimous in their assessments of the actions.

Practical Implications: The results of the analysis indicate that both the management and employees recognise the importance of taking actions for enhancing internal relations in a company in order to improve company's relations with its environment. This analysis may identify the directions for building internal relations to improve company's relations with its environment.

Originality/Value: Business strategy making with regard to creation and enhancement of relational competencies and relational capital, both internally and externally, is becoming a key trend in the development of operational philosophy in business. Focusing on internal relations translates into formation of external relations. Development of relational capital essentially affects the growth of an enterprise and its competitive advantage.

Keywords: Relational capital, relational competencies, cooperation. *JEL codes:* M10. *Paper type:* Research article.

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1. Introduction

The development of relational capital is presently an indicator of company's effectiveness, its ability to adapt to the changes in the dynamic business environment, and its market success (Drewniak, Słupska, and Posadzińska, 2020). The relational capital is considered not only to be an important asset of the company, determining its potential for development and for building competitive advantage. Effectively use and durable relationships play a key role in the development of competitive advantage on the market (Fonfara, Małys, and Ratajczak-Mrozek, 2018). Enterprises form various relations, both with their employees, and with external stakeholders, in a complex and dynamic environment. The diversity of these relationships contributes to the uniqueness of company's relational capital and its potential (Halawi, Aronson, and McCarthy, 2005). Therefore, enterprises should continuously improve relational competencies, by fostering good relationships with and between employees (Drewniak, Drewniak, and Posadzińska, 2020) and by shaping the relations with the external environment (customers, suppliers, business partners and competitors). Developing a strategy for creation and enhancement of relational competencies and relational capital, both within the company and regarding its relations with the environment, is a key trend in modern business philosophy (Hormiga et al. 2011; Wang 2014; Peet 2012; Słupska 2019).

Therefore, the aim of the paper is to identify the importance of actions for enhancing internal relations in a company, with the aim to improve company's relations with its environment. This article consists of a theoretical part, offering a short overview of the literature, and an empirical part. The latter begins with the research methodology including samples characteristics. Further, the obtained results, data and analysis of respondents' answers are presented, followed by the conclusions drawn from the analysis of the results, and verification of the hypothesis.

2. Literature Review

The concept of "relational capital" refers to the relationships formed by a company with its stakeholders. The group of stakeholders includes all the people and entities demonstrating interest in the operations and the future of the enterprise, i.e. both its employees and the entities outside the company. Therefore, the relational capital includes both the intra-organisational and extra-organisational relationships. Relational capital comprises the trust formed between the individuals working for the company, as well as the trust developed in interactions with stakeholders outside the company, and in the local and global networks in which the company operates (Mucelli and Marinoni, 2011, Słupska *et al.*, 2019).

Internal relational capital refers to the intellectual properties of the enterprise, work processes and methods, executive procedures, databases and information and communicational technology. In this context, the relationships between employees and the actions undertaken by leaders become of key importance (Drewniak, 2017).

External relational capital refers to the structures that determine the continuity of proper relationships with the environment, such as the system for finding customers, sales networks, client bases, company brand and reputation, strategic partnerships (Drewniak, 2020; Brett, 2002; Boekestein, 2006; Barney, 2001; Hormiga *et al.* 2011) and development of a collaborative network for achieving common business goals (Słupska, 2019).

Building of relational capital is an inherent function of every organisation which is an open system constantly exchanging the material and non-material assets with the environment. Therefore, relationships are the fundamental element of the economy of every company, and the ability to create and manage them is of strategic value for modern organisations. Relationships are assets that do not wear off, do not have substitutes, cannot be imitated, so they may form the basis of company's success. They represent a high-value potential for every company (Donaldson and O'Toole, 2007). Because of their diversity, relationships form a unique and inimitable relational capital, which is an asset for every company (Halawi, Aronson, and McCarthy, 2005). Due to the complexity and uniqueness of relational capital, based on a network of connections between the company and its stakeholders (internal and external), it cannot be reproduced, which increases the competitive advantage of the enterprise. The relational capital is based on satisfaction, trust, and involvement of all parties in the relationship (Lenart-Gansiniec, 2016). Development of relational capital is a process in which economic, social and technical bonds are formed with the stakeholders with the view to gain knowledge, reduce costs, share risks, and increase the value provided to the market, i.e. to obtain mutual benefits (Drewniak and Karaszewski, 2020).

This capital positively correlates with company's business performance (Garcia-Merino *et al.*, 2014; Dyer and Singh, 1998). Therefore, enhancing the relational capital translates to improved business performance. Studies conducted by many authors across the world confirmed a significant impact of relational capital on the organisational effectiveness and the results of the enterprise (Kamaluddin and Rahman, 2009; Ahmadi, Ahmadi, and Shakjeri, 2011; Wang 2014). It has also been demonstrated to increase the degree of innovation in the organisation (Mucelli and Marinoni, 2011; Capello and Faggian, 2005; Sulistyo and Siyamtinah, 2016).

Creation and development of relational capital largely consists in providing the conditions to enable initiating, forming, developing, and maintaining relationships between the members of an organisation, as well as between the organisation and the entities in its environment. A properly shaped network of internal and external relationships ensures access to relevant, unique resources that help to form common interests and achieve success on the market (Drewniak *et al.*, 2020; Lenart-Gansiniec, 2016; Janicki *et al.*, 2015; Goździewska-Nowicka *et. al.*, 2017; Drewniak and Posadzińska, 2020). Thus, fostering internal relationships in the company may result in the development of its relations with the environment (Drewniak, 2020). For example, more investments in human capital will produce more competent

employees who will assist in reaching the customers and strengthen relational capital (Kamaluddin and Rahman, 2009). Skilful formation of internal and external relationships requires actions and investments for their maintenance, enhancement, and development. Failure to undertake them will result in weakening, loss of value, or even disintegration of relations (Madhok, 2006; Lenart-Gansiniec, 2016).

Based on the above theoretical premises, the following hypothesis was formulated: Companies undertake actions to improve the forms of the relationships between employees, or the tools affecting them, in order to enhance their impact on the relations with stakeholders. The aim of the paper is to identify the importance of actions for enhancing internal relations in a company, with the aim to improve company's relations with its environment.

3. Research Methodology

The study is an integral part of a research project Relational competencies in creating enterprise value. The role of leadership and communication in managing relationships with the environment. One of the specific objectives of the research project was to analyse the role of a leader in the process of creating and improving intellectual capital.

Conducted in 2018-2020, the studies focused on the importance of relational competencies in creating company value and in leadership. The analysis was based on the data from 10 large companies operating internationally. The enterprises were selected on account of their leading position in the industry and a high potential for innovativeness. Due to the nature of the studies, they included only a few companies. Additionally, the enterprises were selected due to their high potential for building relational competencies. The studies used detailed research tools, providing an in-depth analysis. The goal was to collect ample data to allow for an extensive analysis of the role of relational competencies in creation of company value and in leadership.

The first study concentrated on the managers (N=10). The surveyed enterprises were mainly manufacturers and service providers who represented promising business areas and operated internationally. The data were collected by direct measurement: personal interview. The research tool was a personal survey questionnaire based on the available subject literature. The respondents were representatives of the management in these companies. As researchers could contact the respondents directly, they could provide additional explanations of the terms used in the questionnaire and obtain comprehensive research material.

The second study focused on the employees of the analysed companies (N=185). In each of them the headcount was high – far above 250 employees – which could not be ignored in determining the size of the research sample. Here, an on-line questionnaire was used as the measurement tool (data were collected through on-line

forms). The survey was conducted among the staff of the studied enterprises, irrespective of their function, professional experience, or education. A total of 185 questionnaire forms were fully completed. 105 of the respondents were men, and 80 women.

The obtained information was used to perform a structural analysis, based on structural indicators expressed as percentage values. The similarity of the obtained response structures was assessed using the relative structural similarity index (Z). It is used to assess the similarity between the structures compared, and its values are within the closed interval range of <0, 1>, where 0 means no similarity, and 1 corresponds to perfect similarity.

In addition, cluster analysis was used as a tool to determine the consistency (similarity) of the respondents' assessments in the trials. The main purpose of using cluster analysis is to identify natural groups of objects (clusters) (Gordon, 1987). We apply this method to identify clusters of similar objects described by more than one characteristic. It is used to obtain a complete, non-simplified image of the structural similarity between the objects. In order to achieve highly homogeneous groups, Ward's method was selected as an agglomeration method to connect the clusters. In the context of the analysed problem, creating less numerous object clusters, or clusters of similar size, but characterised by minimal internal diversity and reflecting the actual structure is justified. Euclidean distance was used as a measure. The process of cluster analysis is completed when all the objects are in one cluster.

Homogeneous, separate clusters are obtained by "cutting-off" the branches of the dendrogram where they are relatively long. The number of separated clusters was based on the analysis of the length of a dendrogram's branches, as well as on the analysis of agglomeration curve, as it flattens when additional information is scarce, due to incorporation of new objects to an existing group (StatSoft Poland). In addition, a maximum increase of the coefficient of distances between consecutive connections was determined, providing a critical distance – a cut-off value for the branches. The cluster analysis is completed by the description of the clusters, based on the profiles characterising them. Comparison of average values was used to determine the cluster profiles.

4. Empirical Results

The first study addressed questions about the measures undertaken by the enterprises to improve internal relations so that the enhances relationships could translate into improved relations of the company with its environment. Based on the review of literary sources, a list of 10 measures had been compiled; the respondents could also specify another action implemented by their company. The respondents were asked to identify the activities for enhancing the internal relationships in their company undertaken to improve the company's relations with its environment and their implications. The results are presented in Figure 1.

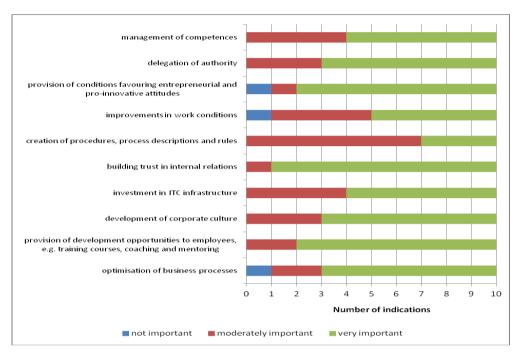


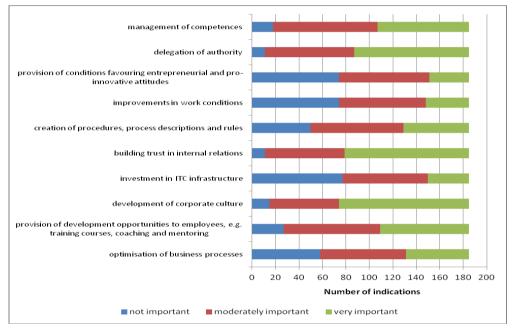
Figure 1. Measures for enhancing the internal relationships in a company undertaken to improve the company's relations with its environment according to managers

Source: Own work.

The data presented in Figure 1 indicate that the surveyed enterprises implement all of the measures suggested in the questionnaire. The suggestions for improving relations given to the respondents by the research team (based on the literature review) proved important or moderately important to their companies. Almost all of the suggested measures were assessed as important (considering that improved internal relations are supposed to help companies enhance their external relations).

The measures assessed by managers as highly significant for the problem in question include building trust within the company, provision of development opportunities to employees, e.g., training courses, coaching and mentorship, and provision of conditions fostering entrepreneurial and pro-innovative attitudes. Interestingly, three actions were evaluated by individual managers as relatively unimportant in the process of building internal relationships for the development of external relations. They include optimisation of business processes, improvements in work conditions, and also provision of conditions fostering entrepreneurial and pro-innovative attitudes. None of the surveyed enterprises specified another measure for enhancing the internal relations in a company with a view to improving the company's relations with its environment. In the second study, employees of the analysed companies were asked to respond to the same question. The respondents assessed the importance of the suggested measures for enhancing the internal relationships in order to enhance the external relations of the company. The results are presented in Figure 2.

Figure 2. Measures for enhancing the internal relationships in a company undertaken to improve the company's relations with its environment according to employees



Source: Own work.

The presented data demonstrate that the importance of the suggested measures for improving the internal relationships in order to enhance the external relations of a company team was evaluated differently by the employees of the studied enterprises. Most measures were assessed as bearing a moderate or high significance for the shaping of relations. The measures most frequently evaluated by the employees as important for the studied problem included development of corporate culture, building trust within the company and delegation of authority. Three measures were assessed by the employees as bearing a limited or moderate importance for the improvement of the internal relationships with the goal to enhance the external ones: investment in ITC infrastructure, improvements in work conditions and provision of conditions fostering entrepreneurial and pro-innovative attitudes. None of the respondents provided another measure implemented in their enterprises for enhancing the internal relationships in order to enhance the external relations of the company. The data from the two studies indicate that the importance of the above measures for building the internal relationships in the company in order to enhance the external relations is perceived differently by the managers and employees of the analysed enterprises. In order to verify the differences and similarities between the obtained responses, a relative structural similarity index was calculated. Table 1 presents the results of this analysis.

Table 1. Structural similarity between the analysed groups according to the assessment of the importance of actions aimed at internal relation building to foster external relations

Measures for enhancing relations with the environment	Z (relative structural similarity index)		
Optimisation of business processes	0.42		
Provision of development opportunities to employees,			
e.g. training courses, coaching and mentorship	0.44		
Development of corporate culture	0.82		
Investment in ITC infrastructure	0.41		
Building trust within the company	0.51		
Establishment of procedures, process descriptions and			
rules	0.57		
Improvements in work conditions	0.54		
Provision of conditions fostering entrepreneurial and			
pro-innovative attitudes	0.24		
Delegation of authority	0.71		
Management of competencies	0.70		

Source: Own work.

Based on the indexes, the analysed response structures are the most similar for the measures "development of corporate culture" and "delegation of authority and management of competencies". It means that the assessments of these three measures by the managers and employees are the most similar. Both groups predominantly evaluated them as bearing a moderate or significant importance for the analysed phenomenon. The most divergent evaluations were given for "provision of conditions fostering entrepreneurial and pro-innovative attitudes", "investment in ITC infrastructure", "optimisation of business processes" and "provision of development opportunities to employees, e.g. training courses, coaching and mentorship". Therefore, the managers and employees differ in their assessment of the importance of these measures. As demonstrated in the figures above, the managers valued these measures considerably more as enhancing the internal relationships to foster the external relations than the employees.

For a more in-depth examination, we used cluster analysis to verify how close or how far apart the studied companies are regarding the importance of the measures for improving the internal relationships to enhance the external relations. The most desirable result would be a single cluster, indicating a similarity between all the companies with regard to the analysed aspects. First, cluster analysis of the data obtained from the managers was conducted. It is presented in a graphic form as a dendrogram (Appendix I. Dendrogram presenting clusters according to managers' opinions) illustrating cluster hierarchy. The branches of the dendrogram at some point become clearly longer, which suggest their cut-off points, and end of grouping. Using the agglomeration curve, and calculating the critical distance value, a cut-off point for the branches was determined (illustrated by the red dashed line on the dendrogram). These methods identified three clusters. Therefore, the ideal result, i.e. one cluster containing all the analysed objects, was not achieved. It suggests that the managers differed in their assessment of the importance and application of the presented measures in their companies. The first cluster comprises six respondents,

the second one – three respondents, and only one respondent is in the third cluster. For a more detailed characterisation of clusters, their profiles were determined with the use of average values. Table 2 presents the obtained results.

Measures for enhancing	General	Mean for	Mean for	Mean for
relations with the environment	mean	cluster 1	cluster 2	cluster 3
Optimisation of business processes	2.70	2.83	3.00	1.00
Provision of development opportunities to employees, e.g. training courses, coaching and mentorship	2.70	3.00	2.33	2.00
Development of corporate culture	2.60	3.00	2.00	2.00
Investment in ITC infrastructure	2.50	2.67	2.33	2.00
Building trust within the company	2.80	2.83	2.67	3.00
Establishment of procedures, process descriptions and rules	2.20	2.17	2.00	3.00
Improvements in work conditions	2.30	2.50	1.67	3.00
Provision of conditions fostering entrepreneurial and pro- innovative attitudes	2.60	3.00	1.67	3.00
Delegation of authority	2.60	2.67	2.67	2.00
Management of competencies	2.50	2.50	2.67	2.00

Table 2. Comparison of means for the whole study population and individual clusters, based on the opinions of managers

Source: Own work.

The resulting cluster profiles suggest that respondents in the first cluster assessed the application and importance of the measures for building of the internal relationships with the aim of enhancing the external relations considerably higher than other managers. They believe that these measures have a significant impact on the development of the analysed relationships. According to respondents in the second cluster, majority of the studied measures is applied less frequently and is less impactful. The one respondent in the third cluster provided answers partially

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Next, cluster analysis of the data obtained from the employees was performed. It is presented in a graphic form on a dendrogram (Appendix II. Dendrogram presenting clusters according to employees' opinions) illustrating cluster hierarchy. Using the agglomeration curve, and calculating the critical distance value, a cut-off point for the branches was determined (illustrated by the red dashed line on the dendrogram). These methods identified three clusters. Therefore, also in this case the ideal result, i.e. one cluster containing all the analysed objects, was not achieved. It suggests that the employees differed in their assessment of the importance of the presented measures for improving the relations within the company in order to enhance the relationships of the company and its environment. The first cluster comprises 65 respondents, the second one - 90respondents, and the third cluster represents 30 respondents.

Measures for enhancing	General	Mean for	Mean for	Mean for
relations with the environment	mean	cluster 1	cluster 2	cluster 3
Optimisation of business processes	1.98	1.83	1.99	2.27
Provision of development opportunities to employees, e.g. training courses, coaching and mentorship	2.26	2.18	2.13	2.83
Development of corporate culture	2.52	2.32	2.53	2.90
Investment in ITC infrastructure	1.77	1.95	1.41	2.47
Building trust within the company	2.51	2.65	2.28	2.93
Establishment of procedures, process descriptions and rules	2.03	1.86	2.01	2.47
Improvements in work conditions	1.80	2.14	1.36	2.40
Provision of conditions fostering entrepreneurial and pro- innovative attitudes	1.78	2.06	1.47	2.13
Delegation of authority	2.47	2.08	2.59	2.97
Management of competencies	2.32	1.83	2.62	2.50

Table 3. Comparison of means for the whole study population and individual clusters, based on the opinions of employees

Source: Own work.

The resulting cluster profiles suggest that respondents in the third cluster assessed the importance of the measures for building of the internal relationships with the aim of enhancing the external relations considerably higher than other employees of the analysed companies. The majority of respondents representing the first two clusters

assessed most of the analysed measures at a moderate level. However, their assessments of individual actions vary.

5. Conclusion

The aim of this paper was to demonstrate that enhancing internal corporate relations leads to improved business relations with the environment. The study provided empirical evidence that improvements in relationships with employees help companies enhance their external relations. The study results support the following conclusions:

- It is not uncommon for the surveyed enterprises to undertake measures for enhancing their internal relations to improve their relations with the environment.
- However, the assessment of the measures implemented for the improvement of the internal relationships in order to enhance the external relations varies between the studied groups: managers typically assign more meaning to them than employees do.
- Both study groups are relatively consistent in their assessment of "development of corporate culture", "delegation of authority" and "management of competencies", viewing them as more important in enhancing the internal relationships to foster the external relations.
- Significant differences between the groups are the most prominent in the assessment of "provision of conditions fostering entrepreneurial and proinnovative attitudes", "investment in ITC infrastructure", "optimisation of business processes" and "provision of development opportunities to employees, e.g. training courses, coaching and mentorship"; managers assigned much more meaning to these measures compared to employees.
- Cluster analysis demonstrated that both managers and employees are not unanimous in their assessments of the studied phenomena; it may indicate that companies implement different measures to achieve the same goal, but also that the association between improvement of internal relational capital for the development of external relational capital is not apparent to all.
- The managers representing the largest cluster offered high assessments of nearly all the measures, whereas the employees in the most numerous cluster assessed the importance of measure for the improvement of the internal relationships in order to enhance the external relations much lower.

The study results allow to verify our hypothesis: enterprises undertake actions to improve the forms of the relationships between employees, or the tools affecting them, in order to enhance their impact on the relations with stakeholders. Based on the findings presented in this paper, the validity of the hypothesis is confirmed. This analysis indicates that both the management and employees recognise the importance of taking actions for enhancing internal relations in a company in order to improve company's relations with its environment. The obtained results provide empirical evidence for the significance of improving the internal relationships in companies in order to create relations with the environment. It also proves the validity of our theoretical assumptions.

This study may provide directions for the development of internal relationships in companies in order to enhance the external relations. The presented findings may inspire reflection on the measures applied by the company to improve its relational capital: whether they are their implemented properly, provide the intended results, and are assessed similarly by employees and managers.

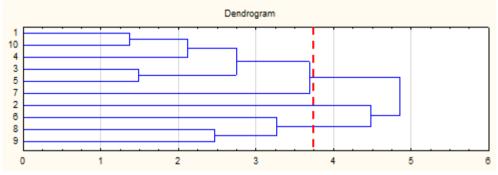
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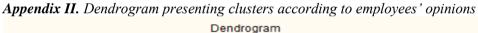
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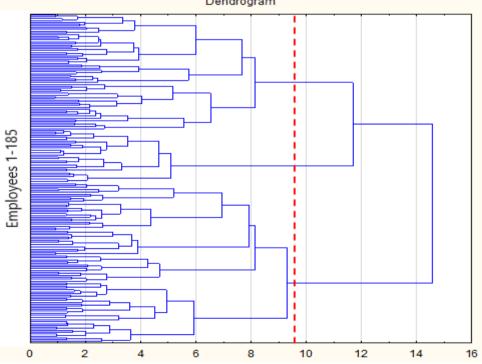
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Appendix I. Dendrogram presenting clusters according to managers' opinions



Source: Own work with the use of Statistica software.





Source: Own work with the use of Statistica software.