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## **Networking Quality and Trust in Professional Services**

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**Abstract:**

*This study attempts to offer an outward-looking insight of the extent the knowledge management and value creation developed within professional organizations that is perceived to be able to influence networking behaviors and organizational performance.*

*By using the Structural Equation Model (SEM) with AMOS, and conducting survey with non-probability sampling techniques of 300 law firms in several cities in Indonesia, the study proposed the networking capability as the mediating variable of the relationship between relational capability and marketing performance.*

*The findings showed that the firms being capable of providing specific services according to the needs of customers and building closeness through business networking are more likely to improve the marketing performance. This study offers the original application of the concept of networking capability and relational capability in professional service-based firms.*

**Keywords:** *Relational Capability, Value Creation, Marketing Knowledge, Networking Capability, Marketing Performance*

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## 1. Introduction

Changes in business strategies as a result of globalization has led to a higher level of competition which drives companies to master wider market and opportunities. Even though globalization promotes more widely competition between a company and the competitors coming from all over the world, hypercompetition is actually a result of the dynamics of strategy maneuver among companies in the market, characterized by fast growing competition based on price-quality positioning, know-how creation and development of the first-mover advantage. Hence, companies become more difficult to maintain and control their market due to the very strong competition and unpredictable markets resulted from hypercompetition, a condition in which the assumption of market stability is replaced by instability and constant changes (Sirmon *et al.*, 2011; Vovchenko *et al.*, 2017; Thalassinos *et al.*, 2011; Liapis *et al.*, 2013; Firescu and Popescu, 2015; Sultanova and Chechina, 2016; Thalassinos *et al.*, 2011).

The condition requires companies to be more actively involved in an ongoing basis in creating a competitive advantage. In the context of service firms, the development of networking likely encourages a firm's ability to get its customer trust and improves the profitability (Luo, Hsu, and Liu, 2008; Gorina, 2016). Basically, the more the competitors, the more the options the customers choose among the products suitable with their expectation. Hence, service-based firms should emphasize on the competitive advantage strategies and have the sufficient ability to offer a specific service according to the customer's expectation.

Of many previous studies revealing the networking capability as one of the main core competencies of the company (Ritter, Wilkinson and Johnston, 2004; Walter, Auer and Ritter, 2006), only a few have focused on the conceptualization and examination of the relationship between networking capability and relational capability (Jarratt, 2004), alliance ability (Kale, Dyer and Singh, 2002; Draulans, and Volberda, 2003), and the capability identification needed to manage strategic networking (Möller, Rajala and Svahn, 2005; Pociovalisteanu and Thalassinos, 2008).

Garbarino and Johnson (1999) state that relational capability are less effective to influence the organizational performance. In addition, the higher trust of customers may not be actually able to drive the organizational performance. Hence, a company needs such a strong networking between organization and the customer that it ultimately advances its performance. In examining the relationship between networking and performance in the field of service marketing, Bowen and Shoemaker (1998) and Hoffman and Ingram (1992) show that customer trust is an important determinant which drives customers to maintain their relationship with the service providers. Sirmon *et al.* (2011) state that the service competitiveness is likely achieved if the company successfully formulates and implements the value creating

strategy. Furthermore, Terziovski (2003) reveal that business networking is of significant relationship with business performance.

This study attempts to reveal the effect of relational capability, value creation, marketing knowledge, and marketing performance by exploring mainly the mediating role of networking capability to fulfill the above-mentioned theoretical gap. The law firms was selected as the research object because this business is typically organized by a network of partners entrusting completely their legal case. Moreover, the law firm business represents clients, networking development, business assistance, and other supports related to the creation of business advantage.

The study of networking capability of such a firm employing the professional jobs, such as lawyers, accountants, financial experts, and doctors is highly attracted to examine, due to the characteristics of personal job affected by socioeconomic background, gender, attitudes and extroversion significantly influenced the involvement in networking behaviors (Forret and Dougherty, 2001). Instead of emphasizing on the inward-looking view of networking behaviors of professional jobs, however, this study attempts to offer an outward-looking insight of the extent the knowledge management and value creation developed within professional organization influence networking behaviors of the company, and thereby affecting on the organizational performance.

## **2. Literature Review and Hypotheses**

### **2.1 The Effect of Relational Capability on Marketing Performance**

The relational capability, a concept of business relationship management that has been a highly attractive issue both for companies and scholars, focus specifically on the importance of company internal capabilities in shaping the performance of joint activities with external partners and customers (Capaldo, 2007; Jacob, 2006; Balboni, Bortoluzzi and Grandinetti, 2013; Thalassinos and Liapis 2014). Relational capability, largely considered similar to the trust, refers to the ability of a company to choose external partners and maintain well established relationships using appropriate administrative mechanisms (Johnson and Sohi, 2003). Here, the concept of relational capability is associated with what matters need to be done and maintained by the organization to create a harmonious relationship with the customer. Relational capability is mostly applied in the process of horizontal alliance formation (Capaldo, 2007; Kale *et al*, 2002; Sivadas and Dwyer, 2000), but is hardly considered in the vertical relationship of business-to-business (Croom, 2001; Johnsen and Ford 2006).

Subsequent developments in relational capability also lead to the concept of buyer-supplier relationship and potential benefits associated with the collaboration (Dyer and Singh, 1998; Ring and Van de Ven, 1994). In a service business, relational capability related to the competitiveness of a particular firm, whose creation requires

an internal analysis related to the resources and capabilities available to support the internal activities and integration process (Rodríguez-Díaz and Espino-Rodríguez, 2006). This capability is a crucial element in the formation of relationships among internal actors to create adequately the resource basis capable of sustaining the performance of an organization (Labrousche & Kechidi, 2016).

Hence, actor networking formed through internal relationship can be helpful in empowering organizational members (Latour, 1987), helping the company in exploring the outcome-oriented relationships by involving the organizational characteristics and governance, resource access, and how the structure and pattern of relationships in the network are built and maintained (Slotte-Kock and Coviello, 2010). Andriessen and Gubbins (2009) and Payne, Storbacka, and Frow (2011) state that social relations and organizational human resources contributed to the network. Luoma-aho and Paloviita (2008) further state that non-human entities that are formed from networks of actors are more likely to affect the viability of the company.

In this context, non-physical resources in the form of relationship are the main input and essentially improve organizational competitive advantages. Organizational internal resources are more important in determining the strategy to achieve higher performance than the external environment. Santarelli and Tran (2012) reveal that the effect of the capital of human relations and social interactions on the internal environment affects the performance of a company. Rodríguez-Díaz and Espino-Rodríguez (2006) argue that certain competitive advantages, such as associative benefit created through interaction with business partners, can only be achieved and maintained if a company develops dynamic relational capability to continue the business relationship and to face the environmental change. Here, the higher the company relational capability, the higher the marketing performance will be. Thus, we proposed the following hypothesis:

*H1: Relational capability has a significant effect on marketing performance.*

## **2.2 The Effect of Relational Capability on Networking Capability**

Relational capability or trust is associated with a company's ability to utilize external resources by establishing and maintaining social relationships (Jarillo, 1989; Dyer and Singh, 1998; Lorenzo and Lipparini, 1999; Czakon, 2009; Ngugi, Johnsen, and Erdélyi, 2010; Novokreshchenova *et al.*, 2016). Bloemer and Odekerken-Schroder (2008), Bowen and Shoemaker (1998) state that the trust will be able to significantly reduce the perceived risk of customers involving in a purchasing decision. Further away, Moorman, Deshpande, and Zaltman (2007) state that the trust is related to the risk reduction as a key factor in which consumers would be willing to develop a long-term relationship commitment with service providers.

Ritter, Wilkinson, and Johnston (2002) associate the networking capability as a networking competency which refers to a company's ability to initiate and maintain the connection, network, and relationship, including relationship with customers, suppliers, research institutes, trade associations, and competitors. Hsu, and Fang, (2009) defined the relational capital as company relationship with the customers, stakeholders, and suppliers. This capability can be achieved through the improvement of the depth, efficiency and knowledge sharing within networks and social interaction (McEvily and Zaheer, 1999; Dyer and Singh, 1998; Lane and Lubatkin, 1998). Here, the higher the company relational capability, the higher the networking capability will be. Thus, the proposed hypothesis is as follows:

*H2: Relational capability has a significant effect on networking capability.*

### **2.3 The Effect of Value Creation on Networking Capability**

Value creation is the result of an organization ability to form business relationship and networking, whose value can be determined from three perspectives of customers, suppliers and shared values (Payne, Storbacka and Frow, 2008; Gulati *et al*, 2000; Simpson *et al*, 2001; Ulaga, 2003; Möller, 2006; Wu and Cavusgil, 2006; Cova and Salle, 2008; Grisseman and Stokburger-Sauer, 2012; Yi and Gong, 2013). This concept refers to the performance of utilizing internal and external resources of an organization to increase the value of a product or whole business. Exploration of resources can be achieved by the creation and improvement of the quality of available networking access. This involves the organizational ability to access external resources at timely competently reasonable cost, including suppliers, intermediaries, customers and even competitors (Baba and Elumalai, 2011).

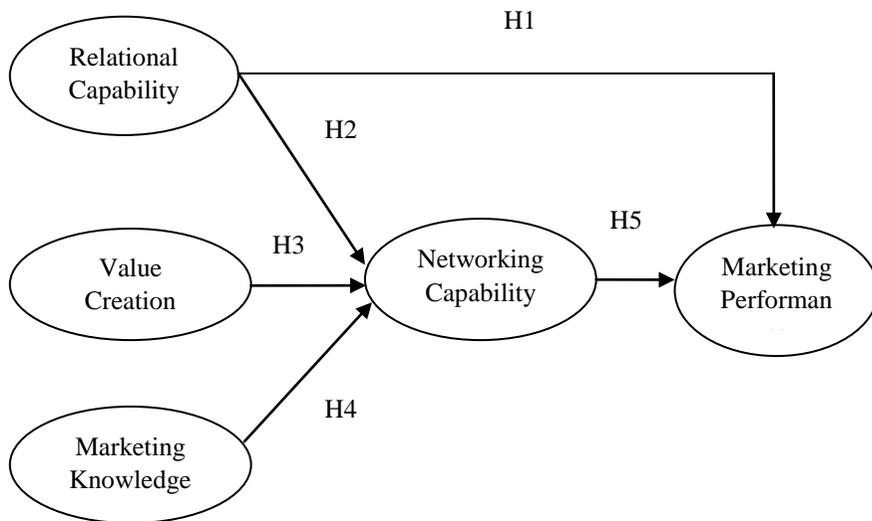
Cova and Salle (2008) identify that relationship between a company and its customers within a network is the main pillar in the value creation. This creation takes place in two stages in the network, within suppliers and between suppliers and customers. The creation of shared values brings about cost reduction, earning increase, competencies, and risk sharing (Ngugi, Johnsen, and Erdélyi, 2010). Several previous studies (Berghman, Matthyssens and Vandenbempt, 2006; Wu and Cavusgil, 2006; Andreu, Sanchez, and Mele, 2010; Nuttavuthisit 2010; Grisseman and Stokburger-Sauer, 2012; Yi and Gong, 2013; Aarikka-Stenroos and Jaakkola, 2012; Hadaya and Cassivi, 2012) emphasized the role of relational component of trust, involvement in relational network, communality, and tolerance in the accessibility of obtaining and sharing information and knowledge and other resources in value creation.

Gulati *et al*. (2000) point out that the value can be created in various ways, including access to valuable information, market and technology, transaction efficiency, and coordination among companies enabling them to achieve the strategic objectives. Furthermore, mutual relationship within a network raises the creation

capability, through a combination of resources and capabilities to produce the product that cannot be imitated by the competitors. Simpson, Sigauw and Baker (2001) state relational networking as an important factor affecting the activity of value creation. Hence, the higher the value creation, the higher the networking capability will be. Thus, we proposed the following hypothesis:

*H3: Value creation has a significant effect on networking capability.*

**Figure 1.** Conceptual Model



## 2.4 The relationship between marketing knowledge and networking capability

Marketing knowledge is a strategic asset of a company. It provides businesses with competitive advantages and results in superior business performance. Fundamentally, marketing knowledge refers to a company's capability to make a decision based on rigorous, comprehensive, systematic risk calculation (Lumpkin and Dess, 1996; Wiklund, 1998; Zahra, Kuratko and Jennings, 1999; Schulze *et al.*, 2001; Schulze, Lubatkin and Dino, 2003; Gedajlovic, Lubatkin and Schulze, 2004; Naldi *et al.*, 2007). This knowledge allows the company to promote relationship with customers in terms of value and optimization of goods and services (Glazer, 1991).

Consequently, customers in the supplier networking chain is regarded as the source of ideas, knowledge, and creativity. However the achieved result of exploiting these resources will mainly depend on the degree of embeddedness of relationship between a company and the customers, in launching innovative products in the market.

When a company has competence over marketing knowledge, its performance in general can be increased significantly. Tsai and Shih (2004) state that the improvement of marketing performance can be obtained by developing the competence of marketing knowledge management. Ultimately, an effective marketing knowledge management likely improves business performance. Hines, Rich and Hittmeyer (1998) state that culture, consensus and learning as some prerequisites for the dissemination of knowledge can increase a company's competitive advantage through the development of its network of suppliers. The higher a company's marketing knowledge, the higher its networking capability will be.

*H4. Marketing knowledge has a significant effect on networking capability.*

## **2.5 The relationship between networking capability and marketing performance**

Marketing performance is a concept of the measurement of a company's marketing achievement referring to the company's ability to meet consumers' expectation (Vorhies, Harker and Rao, 1999; Vorhies and Harker, 2000). While networking capability is the ability to produce specific products according to the needs of each customer through the utilization of networking.

Hence, networking capability as a marketing model that combines the consumer-oriented marketing and networking can be used to move -and provide alternatives to- the consumers to use the products (Wernerfelt, 2004; Barney, 1991; Amit and Schoemaker, 2003).

It will eventually be able to improve marketing performance. The rationale is that the company having one or more capabilities is more competitive than its competitor in terms of lower prices, shorter delivery time and higher quality and consumer trust. Such competitiveness will eventually improve the performance of the company (Agha, Alrubaiee and Jamhour, 2012).

Al-Alak and Tarabieh (2011) state that a competitive advantage is positively related to the performance of a company. Troy *et al.* (2008) suggest that the trust consisting of dependability, knowledge and expectation has a significant correlation with a manager's performance. By examining the role of social networking in the performance of small and medium enterprises in the international market, Zhou, Wu, and Luo (2007) show that networking has a positive effect on export performance and financial performance alike. The higher the networking capability, the higher the marketing performance will be. Therefore, we proposed the following hypothesis:

*H5. Networking capability has a significant effect on marketing performance.*

## **3. Methodology**

### 3.1 Sampling and Data Collection

The size of the sample in this study was determined based on Hair *et al.* (1995), Sugiyono (2006), Ferdinand (2014) stating that the size of a representative sample using Structural Equation Modeling (SEM) analysis technique is at least five times the number of parameters of all variables estimated. Specifically, to examine the Chi-square that is sensitive to the sample size, a representative sample ranges between 100 and 200 for the maximum likelihood estimation (MLE) technique.

This study used as many as 300 respondents, which has met the sample adequacy recommended for testing the maximum likelihood estimation (MLE) and the criteria of average variance extracted (AVE) of indicators with the minimum sample size of 125 suitable to result in the standardized estimate loading and significance value of less than 0.7 and 0.5, respectively (Hair *et al.*, 1995).

The data collection was inseparable from the design of this study that used a personally administrated questionnaire directly to the respondents. The questionnaire used for data collection contained questions developed to measure the examined variables with five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

### 3.2 Variable Measurement

The relational capability in this study was adopted from several previous studies (Jarillo, 1989; Dyer and Singh, 1998; Lorenzo and Lipparini, 1999; Czakon 2009; Ngugi, Johnsen and Erdélyi, 2010). It defined as a law firm's ability to utilize external resources by building and maintaining social relationships. This variable was measured in terms of building network ability, collaboration capability, communication skill, and customer understanding ability.

The marketing knowledge is defined as a law firm's ability to make decision based on systematic and rigorous risk calculation. The variable is adopted from several previous studies (Lumpkin and Dess, 1996; Wiklund, 1998; Zahra, Kuratko and Jennings, 1999; Schulze *et al.*, 2001; Schulze, Lubatkin and Dino 2003; Gedajlovic, Lubatkin and Schulze, 2004; Naldi *et al.*, 2007) and measured in terms of the accumulation, interaction and collaboration of knowledge.

The value creation refers to a law firm's ability to create value for customers, suppliers and shared value (Payne, Storbacka and Frow, 2008; Gulati *et al.*, 2000; Simpson *et al.*, 2001; Ulaga, 2003; Möller, 2006; Wu and Cavusgil, 2006; Cova and Salle, 2008; Grisseman and Stokburger-Sauer, 2012; Yi and Gong, 2013). This variable was measured in terms of cost efficiency, service accuracy, speed of service, and service quality.

The networking capability is described as a law firm's marketing ability in combining consumer-focused marketing and available networking to drive consumer awareness to use the service offered (Wernerfelt, 2004; Barney, 1991; Amit and Schoemaker, 2003). The variable was measured by the search for solution, understanding partner, commitment to networking, the market adjustment, and harmonization of relation. The marketing performance is a key factor used to indicate business achievement. The performance is defined operationally as an accumulation of the results of activities undertaken within a law firm (Rue dan Byard, 2007; Khani, Ahmadi and Homayouni, 2011; Cao and Zhang, 2011) which is generally measured by the growth of customer and sales volume.

## 4. Findings

### 4.1 Goodness of Fit Test

The testing result generally supports the assumption that the model fits the data. The statistical index of chi-square was used to compare the predicted covariance matrix with the observed covariance matrix, in which the insignificant value of that index indicates a good fit. The feasibility study test showed that the chi-square value was relatively small ( $X^2 = 152.405$ ;  $\alpha=0.05$ ); the value of chi-square/df is 1.073, smaller than 2.0; and the probability value ( $p$  value) of 2.60 was acceptable by considering the cut of value  $>0.05$ .

**Table 1.** Structural Model Goodness of Fit

	Chi-square	Probability	GFI	AGFI	CFI	TLI	CMIN/D F	RMSE A
Cut of Value	152.405 ( $\alpha=0.05$ )	$\geq 0.05$	$\geq 0.90$	$\geq 0.90$	$\geq 0.95$	$\geq 0.95$	$\leq 2.00$	$\leq 0.08$
Result	403.328 df=0.367	0.260	0.927	0.903	0.991	0.99	1.072	0.019

The statistical result for the model feasibility of Root Mean Square Error Approximation (RMSEA), indicating the predictive value of random error value, was 0.019 smaller than the limit number of 0.08. This showed that the model prediction error is small. Moreover, the eligibility indexes subsequently examined were the incremental fit indexes including Normed Fit Index (NFI), Tucker Lewis Index (TLI), and Comparative Index (CFI).

All three were index numbers which were not extremely dependent on the sample size. The test showed that the index value for these indexes was above 0.90. Finally, the feasibility index used was to measure the simplicity of the model indicated by the parsimony ratio (PRATIO). The test indicated that the value of PRATIO was small, at 0.255, indicating that the proposed model was good.

### 4.2 Squared Multiple Correlation

This test was used to explain the ability of the antecedent variables in influencing the consequent variable in the model, which was reflected by the value of R-square ( $R^2$ ). The testing showed that the value of the networking capability coefficient was 0.285, indicating that the networking ability to explain the variable of marketing performance is relatively moderate.

### 4.3 Hypothesis testing

#### 4.3.1 The effect of relational capability on marketing performance

The result of the hypothesis testing showed the values of C.R and  $p$  value were 2.068, and 0.028, respectively, indicating that the hypothesis stating relational capability have a significant effect on marketing performance was supported. This means that the higher the relational marketing, the higher the performance will be. This is in line with Gulati, Nohria, and Zaheer (2000), Anand and Khanna (2000), McEvily and Zaheer (1999), revealing that the marketing performance is able to be achieved through improving relational capability proxied by social interaction, business efficiency, and knowledge sharing within the network.

#### 4.3.2 The effect of relational capability on networking capability

Hypothesis two stated that the higher the relational capability, the higher the networking capability. The hypothesis testing revealed the value of C.R is 2.471 and  $p$  value is 0.028. This means that the hypothesis was supported. The finding is in accordance with Kale, Dyer and Singh (2002), Draulans and Volberda (2003), Möller, Rajala and Svahn (2005), stating that relational capability is able to boost the firm ability to promote partnerships with various parties and produce specific products which meet consumers' character and expectation.

#### 4.3.3 The effect of value creation on networking capability

The result of the third hypothesis testing showed that the C.R value was 3.097 and  $p$  value is 0.002, which indicates that the third hypothesis stating that value creation has a significant effect on networking capability was supported. This means that the higher the value creation, the higher the networking capability will be. The result was confirmed by the similar results of previous studies (Ngugi, Johnsen, and Erdélyi, 2010; Berghman, Matthyssens and Vandenbempt, 2006; Wu and Cavusgil, 2006; Andreu, Sanchez and Mele, 2010; Nuttavuthisit, 2010; Grisseemann and Stokburger-Sauer, 2012; Yi and Gong, 2013; Aarikka-Stenroos and Jaakkola, 2012; Hadaya and Cassivi, 2012). Relational component of customer trust, firm involvement in relational networking, sense of communality, and tolerance is the foundation for the accessibility of obtaining and sharing information and knowledge and other resources, thereby effectively improving the company ability to understand the customer expectation.

**Table 2.** Regression Weight of Structural Equation Modeling

		Estimate	S.E.	C.R.	$p$
Relational Capability	→ Marketing Performance	.091	.085	2.068	.028

		Estimate	S.E.	C.R.	<i>p</i>
Relational Capability	→ Networking Capability	.204	.082	2.471	.013
Value Creation	→ Networking Capability	.260	.084	3.097	.002
Marketing Knowledge	→ Networking Capability	.608	.097	6.278	***
Networking Capability	→ Marketing Performance	.183	.117	2.565	.012

#### **4.3.4 The effect of marketing knowledge on networking capability**

The hypothesis stated that marketing knowledge has a significant effect on networking capability. The result of the hypothesis testing showed that the C.R value was 6.278 and *p* value was significant at 0.000. The finding indicated that the improvement of marketing knowledge has a significant impact on the company's networking quality, so that it encourages the company to continuously improve the knowledge in order to provide customers' satisfaction. Moreover, this result is in line with the findings of Hines & Rich (1998) revealing that the dissemination of knowledge can be achieved by development of the culture of consensus and learning to improve competitive advantage.

#### **4.3.5 The effect of networking capability on marketing performance**

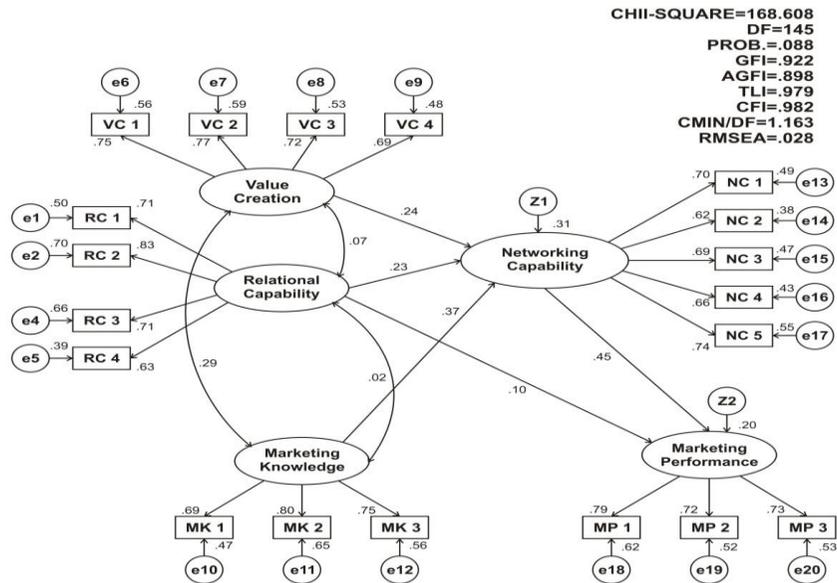
The hypothesis stated that networking capability has a significant effect on marketing performance. The hypothesis testing result showed that the networking capability had a significant effect on the marketing performance, indicated by the value of C.R and *p* value, which were 6.278 and 0.012, respectively. This means that the hypothesis is accepted. It is in line with Reichel (2009) showing that cross-sectoral collaboration has a role to the collaboration among organizations.

#### **4.3.6 The analysis of indirect effects**

The testing of indirect effects by using the path analysis resulted in three main findings. Firstly, the indirect effect value of relational marketing capability on the performance mediated by networking capability resulted in the greater value (0.41) than the direct effect of the variable on performance (0.10). Thus, based on the manual calculation of the direct and the indirect effects of path analysis, it can be concluded that the networking capability is able to strengthen the effect of relational capability on marketing performance.

Secondly, the direct effect of the value creation on marketing performance showed the value of 0.23, which was smaller than the indirect value mediated by networking capability with the value of 0.36. Thus, it can be stated that the networking capability is less likely to mediate the effect of value creation on marketing performance. Lastly, the result of the path analysis showed the indirect value of marketing knowledge on the marketing performance mediated by networking capability indicating the value of 0.23. This value is greater than that of the direct effect of the value creation on the marketing performance (0.13). Thus, the networking capability is more likely to strengthen the effect of marketing knowledge on marketing performance.

Figure 2. Full Research Model



#### 4.3.7 Sobel Test

The Sobel test indicated the importance of the role of the networking capability as a mediating variable proposed in this study to address the theoretical gap in the analysis of the effect of relational capability on marketing performance. The result of the testing revealed that the statistical value of the Sobel test was equal to 1.44 with two-tailed probability of  $p$  value showing the value of 0.15 and that of one-tailed showing the value of 0.07 at the significance level of 0.05. The result of the mediation calculation by the Sobel test showed the significant effect of the networking capability. Accordingly, it can be stated that the networking capability has an important role in addressing the gap of the effect of relational capability on the marketing performance. The result of the testing showed that the mediating variable of networking capability proposed in this study is effectively able to show the gap of the effect of the effect of relational capability on marketing performance.

### 5. Conclusion and Implication

This study emphasizing the importance of creating a network of partners by improving marketing knowledge, relational capability and value creation that is very important for the survival of professional firm, due to high competition of the market. The organizational ability of law firms will be largely determined by a company's ability to collaborate with external partners and customers, through a series of attractive business offerings. More specifically, the study concluded that the networking capability as the mediating variable used in this study is likely able to strengthen the effect of relational capability on marketing performance. The finding implies the importance of networking capability for law firms to produce

specific services according to the needs of their customers. In their efforts to improve the marketing performance, the law firms should be able to develop good relationships with partners and customers.

Their ability to produce specific services that fit their customers' expectation can improve their customers' satisfaction. Law firms as providers of services for customers should be able to build a long term relationship with their customers. Moreover, their capability to provide the services cannot be separated from the capability to build and maintain business networking. The networking is more likely to help the law firms to understand their customers' needs. In addition, business networking is also able to improve partnership. The business networking developed by law firms is capable of improving their marketing performance.

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