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# **University of Southampton**

Faculty of Social Sciences

Southampton Business School

## **The Role of Trust-Based Ties in Entrepreneurship**

by

**Nur Nadirah Binti Mohamad Ishak**

Thesis for the degree of Doctor of Philosophy

July 2022



# University of Southampton

## Abstract

Faculty of Social Sciences

Southampton Business School

Doctor of Philosophy

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Nur Nadirah Binti Mohamad Ishak

This thesis focuses on the importance of trust-based connections in entrepreneurship in developing economy in East Asia, Africa and Latin America. It is made up of three separate articles, each with a different focus. The first article explores unique relationship between trust-based ties and constructive behaviour that might be beneficial to businesses, which is to my knowledge, currently lack meta-analytic study particularly comprises inter-organizational trust-based linkages. The second article explains the relationship between trust (as a social capital) with entrepreneurial activity and economic growth from the macro perspectives, using panel data analysis. Finally, to cater from the micro perspective, the third article examines the role of trust-based ties and perceived environmental dynamism in EO-performance relationship, with sample taken from service sector in Malaysia.

In general, this thesis finds empirical support for the hypothesis “trust-based ties matter for business growth”. The first article finds evidence that trust between organization do support information sharing and commitment in B2B relationship, which ultimately positively associated with business performance. Furthermore, the good of trust ties seem to be lesser for firm that operate in highly hostile and low dynamic environment. At the macro level, the second article shows that the generalized trust variable is not suitable in panel analysis. Furthermore, the broad definition of total entrepreneurial activity variable from GEM might be suitable to be examined in microeconomic level rather than in macroeconomic setting as the study not able to differentiate between these different roles of entrepreneurs. At the micro level, the third article demonstrates that inter-organizational cognitive trust moderates the effect of EO on firm performance. Additionally, this article discovered that environmental dynamism moderates the combined effect of EO and inter-organizational trust on company performance.



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## Research Thesis: Declaration of Authorship

Print name: Nur Nadirah Binti Mohamad Ishak

Title of thesis: The role of trust-based ties in entrepreneurship

I declare that this thesis and the work presented in it are my own and has been generated by me as the result of my own original research.

I confirm that:

1. This work was done wholly or mainly while in candidature for a research degree at this University;
2. Where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;
3. Where I have consulted the published work of others, this is always clearly attributed;
4. Where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;
5. I have acknowledged all main sources of help;
6. Where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;
7. Parts of this work have been published as:-  
[Nur Nadirah Mohamad Ishak and Tapas Mishra. "Trust-Based Ties and Perceived Environmental Dynamism in Entrepreneurial Orientation-Performance Relationship in a Developing Economy", Proceeding of the BAM Conference 2019, Aston University Birmingham UK, 3-5 September 2019]

Signature: ..... Date: 25/07/2022



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## Definitions and Abbreviations

AT .....	Affective trust
B2B .....	Business-to-business
B2G.....	Business-to-government
CT .....	Cognitive trust
EO.....	Entrepreneurial orientation
GDP .....	Gross domestic product
GEM.....	Global Entrepreneurship Monitor
GNI .....	Gross National Income
IMF .....	International Monetary Fund
IMP .....	The Industrial Marketing and Purchasing
IoT .....	Inter-organisational trust
PED.....	Perceived environment dynamism
RBV.....	Resource-based view
SME .....	Small and medium enterprises
TEA .....	Total entrepreneurial activity
WVS.....	World value survey



# Chapter 1 Introduction

All human interactions require trust, and our lives are fundamentally built on trust connections. However, trust is a difficult subject to resolve. Trust is ubiquitous - nobody can dispute its presence, since every element of our life is built on trusting others. Trust is a difficult subject to address, as a prevalent view across the literature is that trust is a pre-conscious state. In other words, we do not recognise or value trust until it is violated or betrayed. One of the most significant impediments to identifying trust as an economic process is the requirement to go beyond the visible tip of the iceberg. An iceberg is an appropriate descriptive metaphor for visualising trust management, as trust is multidimensional and, at times, unarticulated and lies under the surface. Discovering and illuminating the iceberg's hidden layers is critical, because developing trust, cultivating trust, and even talking about trust all presuppose an understanding of it.

## 1.1 Motivation

This research is based on the assumptions of positivism and informed by the methodological approaches established within this perspective. It involves introducing hypotheses and empirically testing those to shed light on specific aspects of inter-organisational relationships (which are detailed in this research) based on a positivist approach, rather than describing and interpreting this phenomenon. Also, this research is based on an empirical investigation and its use of empirical data (in line with the positivist school of thought (Turner, 1985)). In other words, it attempts to empirically test a set of proposed hypotheses, rather than describing empirical events<sup>1</sup>.

Through the literature review, there is evidence that trust network received small attention from the research in entrepreneurship area (as a mediating/moderating variable<sup>2</sup>). In addition to our knowledge, despite the acknowledgement of trust essential role in business relationships, there is no rigorous attempt to examine the role of trust-based ties (which is part of network and/or often be mentioned as social capital) in the EO-performance relationship. This is what this research is all about. The idea of trust-based ties as the lubricant in entrepreneurial-oriented

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<sup>1</sup> Further details and elaboration on the epistemological standpoint can be found in Section 1.1.1.

<sup>2</sup> Mediating variable links and explains the relationship between two different variables, while moderating variables may alter the interconnection between two different variables (either reinforce, diminish or nullify it) (Allen, 2017).

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firms was further elaborated in three articles with different research objective, contributing into building the foundation to support the idea.

The business world must contend with the contradiction that trust is growing increasingly crucial, while company's dependence on it appears to be dwindling. Researchers are just now beginning to obtain insight into the management of trust relationships inside and across organisations. They still need to learn how to approach the problem more strategically and with more awareness of the mechanics of trust relationships. There is a dearth of knowledge on the many tactics that organisations might employ to manage the dynamic of trust relationships.

Even though trust is a conceptual notion, it has several practical consequences for organisational life and a significant beneficial influence on the success of strategic alliances. When there is a significant degree of dependency between organisations, the importance of trust becomes apparent. The trust mechanism significantly reduces the expense of monitoring and punishing that would be necessary if organisational members were not trustworthy (Jones, 1995). Trust in interdependent cooperative enterprises will also result in greater communication, increased organisational commitment, time savings, and decreased uncertainty about the behaviour of the other person or party involved (Deutsch, 1958; Zand, 1972). Trust helps people of an organisation to take chances and try new things, which promotes creativity. Finally, these practical ramifications demonstrate that trust is a source of competitive advantage and a necessary component of success. Additionally, the growing body of evidence demonstrating its benefits has fuelled a large and rapidly growing body of literature examining the nature of trust (Hosmer, 1995; Mayer, Davis and Schoorman, 1995; McAllister, 1995), its antecedents (Mayer, Davis and Schoorman, 1995), and its development (Lewicki and Bunker, 1996).

For example, Marks and Spencer (M&S) had their unique partner connection for 70 years without a contract (Lewis, 1995). "A contract would weaken trust" said one M&S manager (Blois 2003, p.81). M&S and its suppliers described their strong connection as one of "trust". M&S claim a long-term, trust-based relationship with suppliers. Suppliers were ready to take risks since the relationship was trusted (Lewis, 1995).

### **1.1.1 Epistemological standpoint**

The nature of social science is a philosophical dispute based on ontology (reality) and epistemology (knowing) (Holden and Lynch, 2004; Walliman, 2016). Philosophical and scientific phenomena should fit methodological choices (Holden and Lynch, 2004). Philosophy is separated from other arts and sciences by its techniques rather than its subject matter (Ayer, 1956). Philosophy is concerned with the nature of reality, with the question of what constitutes reality.

This pertains to the issue of man's connection with reality. On the other hand, science is concerned with the nature, origin, and consequences of actual objects and activities (Winch, 2003). Epistemology explores how we know things and what knowledge is appropriate within a profession (Hughes and Sharrock, 2016).

Ontology is the researcher's view and assumptions concerning reality. It is concerned with what is to be studied, with how it connects to the nature of reality (Holden and Lynch, 2004; Walliman, 2016), and with the question of what objects, if any, exist or if reality is a creation of one's imagination (Burrell and Morgan, 2017). It is the cornerstone of epistemology (Collis and Hussey, 2013). The researchers' ontological and epistemological beliefs influence their technique choices (Walliman, 2016).

The following dimension can be considered when positioning two perspectives at the extremes of a philosophical continuum: 'positivism versus interpretivism', 'objectivism versus subjectivism', 'empiricism versus rationalism' and 'hypothetico-deductive method versus inductive method', (Burrell and Morgan, 2017; Hughes and Sharrock, 2016; Holden and Lynch, 2004; Walliman, 2016). In the following paragraphs, these perspectives are briefly introduced. This introduction reveals that these perspectives may have overlaps, they may link to each other and may be each other's consequential choice. This research is based on the philosophical standpoint of the former among each of these pairs. This choice is discussed in the following paragraphs. Positivism, which the undertaken epistemological approach in this research, will be elaborated in more details.

Positivism can be considered as an extreme position of the philosophical continuum, and anti-positivism (phenomenology or interpretivism) considered as the other extreme. Objectivism and subjectivism (Holden and Lynch, 2004) are introduced as being strongly related to positivism and interpretivism (Hughes and Sharrock, 1997). Both classifications examine scientific methodology and human subjectivity (Walliman, 2016). Positivism asserts that management studies seek causal explanations and fundamental rules that describe human social behaviour (Holden and Lynch, 2004). The positivist method to scientific research is founded on realism, and it is an endeavour to learn about one genuine reality (Hacking, 1981). There is a distinction between scientific theories and other types of belief in that there is a distinct description of any part of the universe that is true independent of what individuals believe. Introduction of realism (versus nominalism) is one of the oldest philosophical school of thoughts for studying human activities and social patterns (Turner, 1985).

Positivism studies social reality using natural sciences. It is a methodical strategy that may put ideas and established scientific rules to the test and seeks to prove causes and consequences

## Chapter 1

(causality) (Walliman, 2016). This is based on naturalism. The appropriateness of the use of naturalist's method in management and social science studies is questioned by some scholars (e.g. Whitley 1984). Interpretivism holds that subjective meaning is important in social acts. Its goal is to uncover interpretations and meanings. This is founded on the idealism and humanism philosophical concepts. It asserts that our perception of the world around us is the result of the mind's fabrication (Walliman, 2016). The interpretative approach was offered as a systematic investigation of socially significant activity through direct comprehensive observation of persons to come at interpretations of how they develop and sustain their social environments (Nueman, 2006). Qualitative research methods (e.g. Silverman 2013) are built on interpretive science approaches (Silverman, 1972). Critics address the flaws of interpretive approaches and subjectivism. One of the most critical flaws is their inability to replace positivism with a better approach (Hughes and Sharrock, 2016; Holden and Lynch, 2004). In spite of the arguments made with regard to qualitative and quantitative methods and their differences, there is an ongoing debate with regard to their distinction (Bryman, 1984). Some scholars defend the relevance of mixed methods and encourage their use in behavioural and social sciences (Johnson & Onwuegbuzie, 2004). In this research, these arguments with regard to different philosophical standpoints are noted. However, as will be discussed later, this research is dominantly informed by positivism and its established assumptions and methods.

Empiricism and rationalism are two approaches to learning. Knowledge can be gained by experience, using deductive reasoning (empiricism) or by logic using inductive reasoning (rationalism) (Walliman, 2016). The relative merit of inductive-deductive reasoning has been argued for a long time, since the Ancient Greeks Plato and Aristotle, who present the two epistemological approaches. Plato argued for deductive thinking (starting with theory to make sense of what we see), whereas Aristotle for inductive reasoning (starting with observations in order to build theories) (Walliman, 2016). The Popperian (Popper, 1968) approach combines deductive and inductive thinking in the hypothetico-deductive method. Based on this method, hypotheses and testable theories are developed inductively from observation. Observations that will demonstrate the truth or falsity of these hypotheses are deduced. The hypotheses are tested to be rejected or refined in the light of the results (Holden and Lynch, 2004; Walliman, 2016). The inductive approach begins with detailed observation of the world and moves towards more generalisations and ideas from evidence (Neuman and Kreuger, 2003; Holden and Lynch, 2004). In this research, in line with the positivist school of thought, the hypothetico-deductive method is used.

Here, positivism and its underlying assumptions and methodological issues are introduced in more detail. Positivism developed from Aguste Comte's nineteenth-century school of thought,

stating that the social cosmos lends itself to the formulation of abstract rules that can be evaluated via meticulous data collecting (Comte 1830-1842). Positivism assumes that simplifying situations improves understanding. It is concerned with the generalisation that aims to lead to prediction, explanation and understanding. It emphasises the need of selecting samples of adequate size to generalise concerns in human and social research. (Holden and Lynch, 2004). Positivism regards management studies as a systematic approach of integrating deductive reasoning with precise empirical observations in order to find and validate a set of probabilistic causal laws that can be used to anticipate broad patterns of human or organisational behaviour. (Neuman and Kreuger, 2003).

The positivist approach is likely to involve highly structured methodology in order to facilitate replication (Gill and Johnson, 2002), and precise quantitative data and frequent use of surveys and statistics, seeking accurate and precise measures and objective research (Neuman, 2010; Neuman and Kreuger, 2003). These are pursued in this study. Here, causal laws are believed to be probabilistic. This is the most dominant view within positivism (Neuman 2006, p.74) –

“The laws permit the researchers to make predictions of how often a behaviour will occur within a large group. They cannot predict the behaviour of a specific person but can say that under specific conditions, for instance “there is a 95 percent probability that one-half of the community will engage in a specified behaviour”.”

Concepts are formulated using a discipline-based language (Blaikie, 2007). Positivist scientific explanation discovers causal laws. It explains that two variables cause one another because they are examples of a causal law. In a positivist explanation, a causal law is stated for specific observations. An explanation is considered valid if it has no logical conflicts, is compatible with observable facts, and can be repeated (Neuman, 2006).

As mentioned at the beginning of the section 1.1 – Motivation, this research is based on the assumptions of positivism and an empirical investigation. Positivism is well established and widely used for management studies, influencing research into various disciplines including marketing, market research and psychology. It is associated with many specific social theories (Neuman, 2010; Neuman and Kreuger, 2003) and has a strong link to the exchange theory framework, which informs this research, as well as the rational choice, which is an underlying assumption of transaction-cost economics, which also influences this research significantly. This research follows the positivist propositional strategy, in which a proposition is defined as “a theoretical statement that specifies the connection between two or more variables, informing us how variation in one concept is accounted for by variation in another” (Turner 1985, p.25).

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Further, this study engages the modelling strategy of drawing a picture using the symbols such as arrows to represent relationships among the variables, introducing causal model (i.e. a model involving causal relationships between the dependent and independent variables). This is traditionally introduced by defenders of positivism (Turner, 1985). The model and its underlying hypotheses are introduced in the chapter of literature review and hypotheses development are explained in each paper. Based on these arguments, in this research, a positivist approach is more appropriate than an interpretivist one.

## Chapter 2 Foundation and research questions

### 2.1 Entrepreneurial orientation

Over the last decade, the amount of research on entrepreneurial orientation (EO) has increased dramatically. The extent to which EO has impacted other scholarly fields, such as entrepreneurial marketing, is evident (Jones and Rowley, 2011). EO is the “driving force behind the organizational pursuit of entrepreneurial activities” (Covin and Wales 2012, p.1). It encapsulates a business's institutional manifestation of an entrepreneurial mindset (Ma and Tan, 2006). It embodies a mindset and viewpoint on entrepreneurship that is represented in a company's corporate culture and is sustained by continuing activities (Covin and Slevin, 1991; Lumpkin and Dess, 1996). As such, EO influences the decision-making style and practise of an organisation in relation to the design of the organization's strategy, as well as the attitudes and behaviour of individual employees.

While EO is frequently equated to entrepreneurial behaviour, research demonstrates the need of distinguishing the two notions. While EO is a significant predictor of entrepreneurial activity, prior research indicates that it is not a direct indicator of entrepreneurial behaviour. EO has been characterised as indicating a proclivity towards, rather than actual participation in, entrepreneurial action (e.g. Lumpkin and Dess 1996; Wiklund and Shepherd 2003; Zahra 1991). As a result, EO is defined as “willingness of a firm to engage in entrepreneurial behaviour” (Wiklund 1998, p.65) and “the policies and practices that provide a basis for entrepreneurial decisions and actions” (Rauch, Wiklund, Lumpkin, *et al.* 2009, p.763). In line with these definitions, Wiklund and Shepherd consider EO as capturing “a firm's organization toward entrepreneurship” (2003, p.1310). Lumpkin and Dess distinguish orientation from behaviour by emphasising that the EO dimensions “do not [. . .] represent entrepreneurship” (p.136), while defining entrepreneurship as “new entry” (p.136), and describing EO as only a corollary concept “lead[ing] to new entry” (p.136). Following this line of research, this study finds EO to be a pre-requisite for entrepreneurial behaviour. This suggests that strategic leaders and the entrepreneurial firm's culture combined foster a strong proclivity to take calculated risks, to innovate proactively, and to outperform competitors (Miller, 2011).

Since Miller's publication (1983), the concept of entrepreneurial firm has garnered scholarly attention. Covin and Slevin (1989) created a nine-item self-report measure assessing proactiveness, innovativeness, and risk-taking, which has been used in a wide number of research (Rauch *et al.*, 2009). His theory and measurement are congruent with the manifestation of a

## Chapter 2

phenomena well recognised as an entrepreneurial manifestation (Covin and Wales, 2012). There is no doubt that the abundance of "findings" provided by Covin and Slevin's (1989) EO scale directly contributed to EO being "a central construct in both the strategic management and entrepreneurship literatures" (Short, Moss and Lumpkin, 2009, p.12). Therefore, it is difficult to argue that this scale has been underutilised in EO literature.

New ideas, experimentation, and creative processes are all signs of an innovative culture. These can lead to new goods, services, or technical processes (Rigtering *et al*, 2014). Entrepreneurs launch new ventures and firms by diverting resources from old ones (Lumpkin and Dess, 1996). Proactivity is anticipating future issues, requirements, and changes. It entails creating or participating in new markets (Entrialgo, Fernández and Vázquez, 2000). Predicting future demand changes gives a corporation a competitive edge. Innovators tend to be proactive in launching new products or services. Thus, a proactive corporation typically sets the stage for a competitor's reaction (Lumpkin and Dess, 1996). Taking risks illustrates the unpredictability of entrepreneurial actions (Low and MacMillan, 1988; Lumpkin and Dess, 1996). Investing much in a project with a high likelihood of failure is considered entrepreneurial.

Another important milestone in EO theoretical background is when Lumpkin and Dess (1996) proposed that EO may be seen as a multidimensional phenomena. They proposed two further characteristics – competitiveness, aggression, and autonomy – to explain EO. Autonomy is the capacity to make decisions and take acts independently of the organisation (Lumpkin and Dess, 1996). It also displays a person's great desire for creative freedom in developing and implementing ideas (Lumpkin, Cogliser and Schneider, 2009). Lumpkin and Dess (1996, p. 148) define "competitive aggressiveness refers to a firm's propensity to directly and intensely challenge its competitors to achieve entry or improve position, that is, to outperform industry rivals in the marketplace". These activities may be motivated by product advancements and/or market expansion. Firms might display responsive or reactive behaviours in order to outperform their industry competitors.

Newest, Anderson, Kreiser, Kuratko, *et al*. (2014) conceptualised entrepreneurial orientation as a (1) EO is a multidimensional construct consisting of two non-interchangeable dimensions – entrepreneurial behaviours and managerial attitude towards risk, (2) there is positive covariance between these two dimensions, and (3) both dimensions are essentially for EO to exist. They used Covin and Slevin (1989) nine-items scale as the measurement.

## 2.2 Main issues in EO literature

Despite an increase in the number of EO studies undertaken globally, the majority of studies have examined EO in the United States or other affluent economies (Tang *et al*, 2008). EO is under-researched in underdeveloped and emerging countries, with the notable exception of China, which now ranks second in terms of EO research generated behind the United States (Wales *et al*, 2011). In Malaysia specifically, has produce two articles relating to EO (Covin and Wales, 2012). Prior study has demonstrated that the rate and extent of EO's impact might change depending on the external circumstances (Lumpkin and Dess, 1996). By gaining a greater grasp of the nature and impact of EO in other nations, academics may assist managers in designing strategies and operations that are more suited to local conditions and minimise any negative outcomes (Knight, 1997).

Another problem that has received much attention in the EO literature is the EO construct's unidimensional and multidimensional conceptualizations. The majority of empirical EO research has used a unidimensional approach to operationalizing the term (Wales *et al*, 2012). Prior research indicates that innovativeness, risk-taking, and proactiveness all have a moderate to strong association in practise (Covin, Green and Slevin, 2006; Rauch *et al*, 2009). There is a dearth of empirical research examining all five components of the EO construct as conceptualised by Lumpkin and Dess (1996). According to Covin and Lumpkin's (2011) special issue essay, the dimensionality of EO is primarily a theoretical issue, not an empirical one. Additionally, they argued that unidimensional and multidimensional conceptualizations of EO are essentially distinct notions requiring distinct definitions and measuring techniques. Both conceptualizations of the construct have the potential to make important theoretical and practical contributions to the EO knowledge base.

Entrepreneurship research has raised concerns when and why EO matters (Lumpkin and Dess, 1996). While moderator variables address when certain events occur, mediating constructions address why specific events occur (Baron and Kenny, 1986). Wales, Gupta and Mousa (2013) found two reasons for the increased emphasis on moderating variables. To begin, while EO is vital, it may be inadequate and/or dependant on greater outcomes (Stam and Elfring, 2008). Second, EO may be an enormously inefficient strategic stance in the absence of an acceptable environment, since it takes a significant commitment of resources to build and sustain. (Covin and Slevin, 1991). Figure 2.1 and 2.2 listed moderating and mediating antecedent variables explored in prior research. From Figure 2.1, it shows that most attention given to external and strategic variables. Few studies have addressed organisational characteristics including structural organicity, knowledge-based resources, management charisma, and team cohesion as

Chapter 2

moderators. It is also obvious from Figure 2.2 that mediating variables have received less attention than moderator variables in the EO literature.

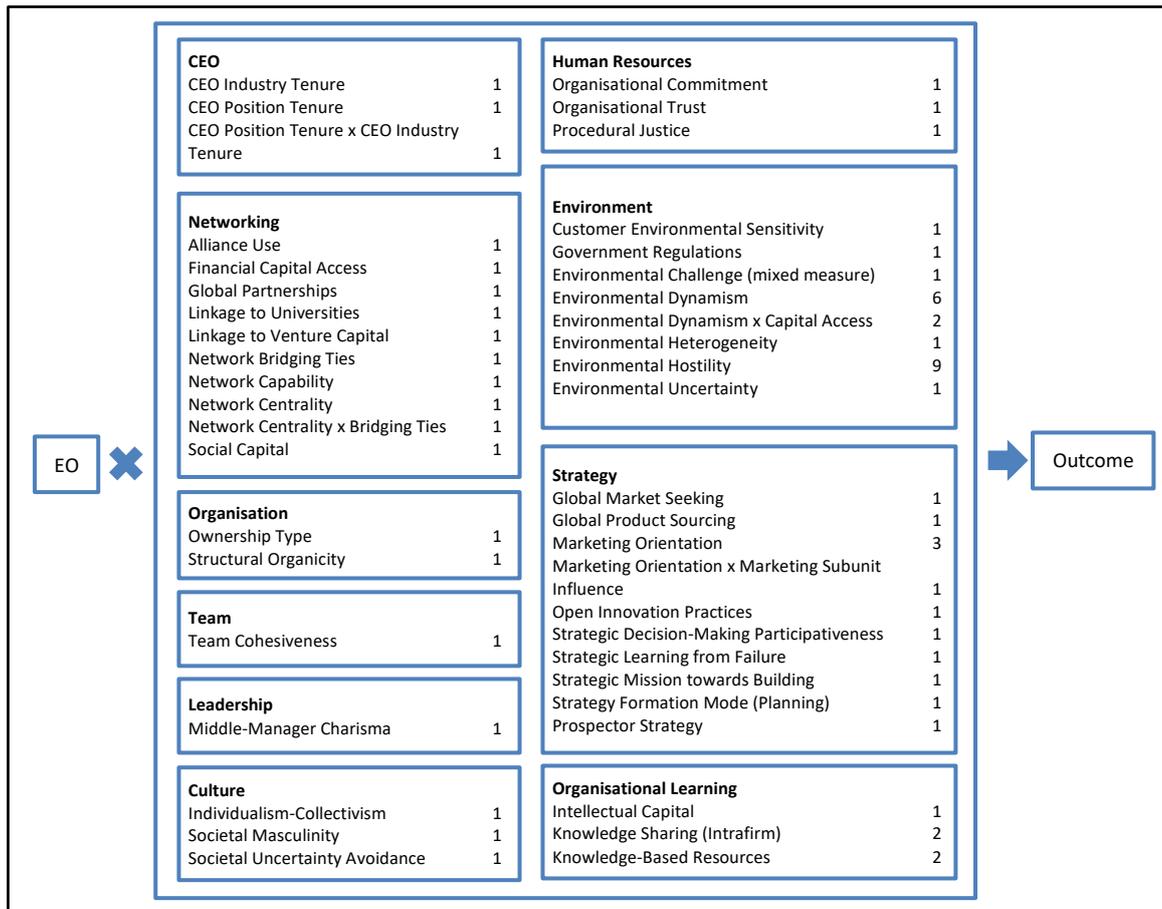


Figure 2.1 Moderating variables explored in prior research (Source: Adapted from Wales et al, 2011)

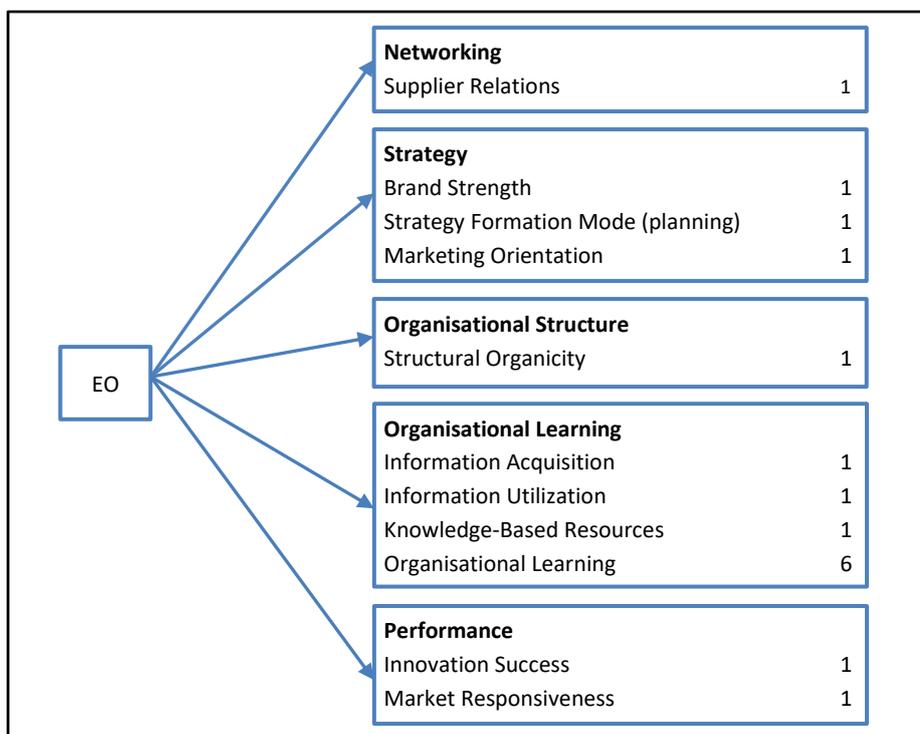


Figure 2.2 Mediating antecedent variables explored in prior research (Source: Adapted from Wales et al, 2011)

Next, whether EO is a dispositional or behavioural concept is still debated (Covin and Lumpkin, 2011; Miller, 2011). Anderson, Kreiser, Kuratko, *et al.* (2014) attempt to reconceptualise EO, drawn from measurement theory. A multidimensional construct comprising of two non-interchangeable dimensions – entrepreneurial behaviours and management attitude towards risk, they propose that (1) EO is a multidimensional construct consisting of two non-interchangeable dimensions – entrepreneurial behaviours and managerial attitude towards risk; (2) there is positive covariance between these two dimensions; and (3) both dimensions are fundamentally necessary for EO to exist.

The dependent variable in several research was performance (Rauch *et al.*, 2009; Wales, Gupta and Mousa, 2011). Historically, the most common dependent variable includes components of growth and profitability. Non-performance measures include marketing, innovation, employee commitment, environment unpredictability, and organisational learning.

### 2.3 Business relationships

With regard to any organisation, ten forms of business relationships can be considered, that are the relational exchanges involving (1) good suppliers, (2) services suppliers (grouped as supplier partnerships), (3) competitors, (4) non-profit organisations, (5) government (categorised as lateral partnerships), (6) ultimate customers, (7) intermediate customers (classified as buyer

partnerships), (8) functional departments, (9) employees, and (10) business units (grouped as internal partnerships (Morgan and Hunt, 1994). While the final three concern aspects of internal management, the first five types involve business-to-business (B2B) or business-to-government (B2G) relationships. Also, type 6 and 7 refer to B2B relationships (as long as they involve business customers). Considering B2G relationships as a form of B2B, it is noticed that B2B relationships are relevant in many relational exchanged with which companies deal. It is critical to understand them and their different aspect such as attitudinal characteristics (e.g. trust), behavioural particularities (e.g. information sharing) and outcomes (e.g. performance (based on financial)). In an early study of inter-organisational relationships, Levine and White (1961, p.588) define exchange as “any voluntary activity between two organisations which has consequences, actual or anticipated, for the realisation of their respective goals or objectives”.

Partnerships, as a form of B2B relationships, are described as intentional strategic connections between separate organisations that share same aims, seek mutual advantages, and recognise a high degree of mutual reliance. Businesses join efforts to achieve goals that each business could not reach easily if they act alone (Mohr and Spekman, 1994). Wilson and Jantania (1994) defined a strategic alliance or partnership as a relationship in which a synergistic combination of individual and shared goals motivates partners to invest time, effort, and resources in establishing a long-term collaboration that benefits both the individual and the partnership. This definition provides the relationship's motivation.

In the early studies of inter-organisational exchanges, the importance of understanding inter-organisational linkages and ties are emphasised. Benson (1975) concentrates on the notions of power, dependence, control and how political economy influences an inter-organisational network, and on how organisations' power and market position affect the extent to which they can influence the resource flows. Such research looks at dominance of organisations in the network in which they operate and how they can decide regarding acquisition and defence of resources. The relevance of exploring B2B relationships in the management literature is verified by ongoing research and publications in leading journal on the topic (e.g. Cannon and Perreault Jr, 1999; Cannon and Homburg, 2001; Wathne and Heide, 2000; Kim and Hsieh, 2003; Narayandas and Rangan, 2004; Ulaga and Eggert, 2006; Joshi, 2009; Bolton, Lemon and Verhoef, 2008).

These studies include supplier relationship management (e.g. Barnes, Naude and Michell, 2007; Joshi, 2009) as well as business customer relationship management (e.g. Palmatier, Dant and Grewal, 2007; Bolton, Lemon and Verhoef, 2008) and distributor relationship management (e.g. Anderson and Narus, 1990; Kim and Hsieh, 2003; Skarmeas *et al*, 2008). Businesses seek continuous supplier performance improvement, using available mechanisms and tools, because it

helps them become more competitive in the market (Joshi, 2009). The importance of successful business relationship management in today's competitive markets is re-emphasised by Ulaga and Eggert (2006). They focus on how suppliers can gain and sustain their status by value-based differentiation in business relationships. The results of their study challenge the traditional focus on quality, delivery, costs and price. They show that fruitful relationship has a stronger potential for differentiation in supplier relationships.

Businesses can enhance their competitive position by strategic relationship management. Buyer can reduce their current supplier base by creating single source relationships. This allows them lower costs through Just-In-Time (JIT) and quality programs. This is only possible by building and maintaining a close relationship with the supplier (Wilson and Jantrania, 1994). Long-term business relationships reduce obstacles and results in stability, which benefits businesses. Such obstacles for the buying companies can be associated with the problems that companies face in three different areas: (1) in the process of search and evaluation of the potential supplier, (2) those with regard to the organisations' internal routines and staff experiences, and (3) those due to technological adaption in the organisation's machinery and its knowledge (Håkansson and Snehota, 1995).

Change causes problems for selling companies too. The selling companies must search and evaluate customers. They have to decide whether they are ready to establish new business relationships. There are costs associated with building new contacts and adapting to the specific requirements of new customers (e.g. technical requirements). Relationships are expensive and it is cost saving to maintain old relationships rather than building a new one. In addition, it is more likely that businesses get relevant information with regard to purchasing plans and also get new ideas for product development from their old customers (Håkansson and Snehota, 1989; Håkansson and Ford, 2002; Ford *et al*, 2011; Bocconcelli and Håkansson, 2008; Johnsen and Ford, 2008).

The businesses' perception of the likelihood that the relationship will continue (expectation of continuity) reflects the degree to which a long-term relationship has been established between them (Anderson and Weitz, 1989). The selling companies benefits from the expectation of continuity as the customer is likely to assist in new product development, conduct and report formal and informal market research, engage in activities with a longer term payoff (e.g. customer education, and other forms of sales support), be responsive to the selling company's requests and react to unforeseen contingencies with flexibility (Etgar, 1979; Williamson, 1985; Arndt, 1979; Thorelli, 1986). A strong relationship with customers has a positive effect on the selling firm's financial performance (McKenna, 1991; Palmatier, Dant and Grewal, 2007). Long-term relationships and partnerships can also help firms gain competitive advantage in the marketplace,

access new technologies, be more innovative, access additional knowledge and skills and also share the risks (Ganesan, 1994; Mohr and Spekman, 1994; Morgan and Hunt, 1994).

## 2.4 Business relationships in different perspectives

B2B marketing and inter-firm studies investigate business relationships with various considerations and focuses. Different approaches have been undertaken in these studies. Theories have been developed with a transaction cost economics perspective investigating inter-organisational relationships (Heide and John, 1990; Noordewier, John and Nevin, 1990; Parkhe, 1993), which explore the role of specific investments and opportunism in business relationships and their impact on relationship outcomes. The outcomes considered include performance, inter-firm cooperation and joint action. These models have been used as a basis of a range of more recent studies into channel and inter-firm relationship management issues (e.g. Cavusgil, 2004; Heide, Wathne and Rokkan, 2007). The relational norms perspective (Heide and John, 1992) is rooted in transaction cost economies. But it challenges some aspects of that perspective particularly its underlying behavioural norm of opportunism and incorporates ideas from the earlier introduction of discrete-versus-relational norms by Macneil (1980).

The social exchange perspective is another basis of several dominant theories in understanding business relationship. Morgan and Hunt (1994) build commitment-trust theory informed by social exchange theory. Bucklin and Sengupta (1993) and Hibbard, Kumar and Stern (2001) build on social exchange theory with a dependence perspective. Dependence among partners is a consequence of exchange among them. Increased reliance between couples is one technique to increase control over resources (Pfeffer and Salancik, 2003). According to Bucklin and Sengupta (1993), power and resource inequalities are disadvantages of coalition operations and play a substantial role in restricting alliance success. They suggested that reducing power imbalance increase the effectiveness of the alliance. Hibbard, Kumar and Stern (2001) investigate how companies react to a destructive act by their partner, and how such reactions are influenced by dependence-related characteristics, considering interdependence, total and relative dependence. The Industrial Marketing and Purchasing (IMP) research group emphasises on the social exchange perspective and the role of individuals in the inter-organisational interactions and considers the social bonds and relationships in B2B marketing and purchasing and networks (Håkansson and Ford, 2006; Håkansson and Snehota, 1989; Blois, 2003; Ford *et al*, 2011).

In addition to the transaction cost perspective and social exchange perspective (and the theories that are based on them), the resource-based view of firms (Palmatier, Dant & Grewal,

2007) and resource-dependence theory (Pfeffer and Salancik, 2003) have been used for studying inter-organisational relationships.

## 2.5 Trust in business relationships

Trust is welcomed in business partnerships as a key tenet of cooperative and collaborative inter-organizational behaviours and as a crucial condition and determinant of successful business relationships (Schurr and Ozanne, 1985; Ring and Van de Ven, 1992; Geyskens *et al*, 1996; Geyskens, Steenkamp and Kumar, 1998; Zaheer, McEvily and Perrone, 1998b; Das and Teng, 2001; Palmatier *et al*, 2006; Li, Poppo and Zhou, 2008; Jiang, Henneberg and Naudé, 2011; Squire, Cousins and Brown, 2009; Waluszewski, Harrison and Hakansson, 2004; Palmatier, Dant and Grewal, 2007). It has been identified as a significant characteristic of successful partnerships (Mohr and Spekman, 1994). Håkansson and Snehota (1989) analyse fine detail dyadic exchange relationships using interaction approach and introduced the concept of atmosphere to capture the idea of trust – the atmosphere of the interaction affects and is affected, by the interaction. Trust is conceptualised as a consequence of human adaptation and costs saving (Ford, 1980). It is introduced as a criteria for evaluating a business relationship (Chow and Holden, 1997).

The significance of trust in inter-organisational relationships is verified by more recent studies with the inclusion of various countries with different cultures. Fink and Kessler (2010) validate this issue in three countries (i.e. Austria, Slovenia and the Czech Republic). Jiang, Henneberg and Naudé (2011) investigate the importance of trust at inter-personal level and reliance at inter-organisational level in four countries (i.e. UK, India, Pakistan and Poland). Further literature on the conceptualisation of trust, how it is measured, and its role is discussed in article I, II and III.

## 2.6 Overview of the articles and research addressed

The three articles were written between 2015-2019. The articles are presented in Chapter 3, 4 and 5. The articles are arranged in this way to show the empirical evidence of the value of trust-based ties to businesses, follow by the role of trust-based ties in entrepreneurship from the perspectives of macro and micro levels. Each study also addresses specific research questions.

The purpose of the first article was primarily to examine the effect of trust-based ties on business performance in different external environment characteristics using meta-analysis. From the first article, we find out the effect of trust on business performance by confirming outcomes from previous empirical trust studies. The behaviours of trust were further tested in hostile and

## Chapter 2

dynamic environment. Meta-analysis was used in the first article. Results from meta-analysis can increase the precision of effect estimates, resolve conflicting results from previous studies and produce new ideas or concepts in trust literature.

The second article will be focused on the effect of trust on entrepreneurial activity and economic growth on the developing countries. Basically, the second article examine the importance of trust toward performance and growth on the macro level as the data was mainly taken from World Values Survey (WVS), Global Entrepreneurship Monitor (GEM) and World Bank. Quantitative statistical analysis (i.e. correlation and regression of growth model) are employed to answered the research questions.

The third article examine the significance of trust on performance and growth on the micro level. The EO constructs will be included in third article, examining the moderator role<sup>3</sup> of trust on the EO-performance relationship. The data was collected from SMEs in Malaysia. Reliability and validity assessment of each concept was conducted. Moderated hierarchical regressions are employed to test the hypotheses developed. This article further contributes to trust and EO literature by conducting quantile regression, showing when does trust-based ties and environmental dynamism matter to an entrepreneurial firm.

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<sup>3</sup> Trust variables will be tested either they affect the strength of the relation between EO constructs and business performance or otherwise.

## Chapter 3 Article I

When does trust-based ties beneficial to businesses? : A meta-analysis of the relationship between inter-organisational trust and constructive behaviours

### Abstract

There is widespread consensus that inter-organizational trust boosts business performance, as trust is typically related with social capital or the resources inherent in personal networks. For example, network connectivity helps entrepreneurs to discover new business prospects, acquire new resources at a discount to market prices, and establish legitimacy with external stakeholders. Despite these possible benefits, the complex layer of trust raises the following question: at what stage of trust ties is the business most beneficial? However, no consensus exists about the factors that contribute to improved company performance. This perplexity persists because of significant changes in construct definitions, study methodologies, and sample circumstances among earlier investigations. Thus, elucidating what is known about the link between trust ties and company success becomes both topical and critical.

We use meta-analyses to synthesise existing empirical data on the trust-performance relationship in this study. Thus, we can ascertain the direction and effect of trust strength on the performance of inter-organizational connections. Additionally, the meta-analysis technique enables us to demonstrate if moderators influence the trust performance connection. Our study combines data from 52 empirical investigations examining 17516 connections. Our findings indicate that trust has a beneficial influence on interorganizational relationship performance. These discoveries, taken together, have significant theoretical and practical ramifications. By synthesising research findings from a large number of studies and identifying novel moderators, this meta-analysis contributes to a better understanding of the contingent value of trust ties for large and small firms and demonstrates how sampling, study design, and construct measurement can affect research findings. For small enterprises, our findings clearly demonstrate the benefit of developing trust networks that are dense with structural flaws, but also demonstrate that unique networking techniques are required at various moments in time, across industries, and across nations. Our analysis, although confirming the rising prominence of social capital theory in the literature, raises additional concerns regarding its temporal and contextual boundary requirements

### 3.1 Introduction

Entrepreneurial activity is increasingly recognised as being entangled in network ties by researchers. Direct access to resources for entrepreneurs that are more connected in some way (Hoang and Antoncic, 2003). According to the resource-based approach (RBV), the organisational structure of an organisation can affect its ability to harness the competitive potential of its resources and capabilities, resulting in competitive advantages and superior performance (Alvarez and Barney, 2017; Dess *et al*, 2003; Hult and Ketchen Jr., 2001). According to organisational theorists, the position of an organisation within a network of other organisations that supply

critical resources can serve as a constraint or a facilitator of international entrepreneurial behaviour (Kilduff and Tsai, 2003). Businesses with a diverse network of distributors, overseas finance sources, and alliance partners may find themselves in a favourable network position. They may fill a "structural void" by connecting critical vendors and purchasers and extorting higher rents in any internationalisation efforts (Burt, 2001). A new product or market entrance may be possible without taking significant risk. Additionally, network theorists distinguish between bridging and bonding ties, with the former being more permanent, homogeneous, and few in number, while the latter are more transient, heterogeneous, and diverse (Uzzi, 1996). In some emerging economies with underdeveloped institutional infrastructures, business networks are characterised by a scarcity of "bonding" ties. Businesses cannot rely on legal, financial, or market systems for resources; rather, they must form close relationships based on trust or familial honour (Khanna and Palepu, 2000). According to some, this constraining network constrains creativity by limiting exposure to valuable ideas. There is considerable exposure to novel ideas in industrialised nations with robust and sophisticated institutional infrastructures, particularly for enterprises operating in big metropolitan areas.

Businesses' networks are highly diverse—consisting of several bridge relationships that provide a diverse range of experiences and resources to promote innovation and proactive initiative. (Uzzi, 1996). One of the networks that has been widely studied across the field is trust network. In fact, recent meta-analysis has identified the beneficial outcomes of inter-organisational trust (IOT) towards businesses and relationships (Delbufalo, 2012). Despite these potential benefits, however, when will trust network becoming really important and useful resource and competitive advantage to the company? How trust network affects the dyadic inter-organisational relationship? So far, little consensus exists about the external factors (when and what situations) that lead to enhanced entrepreneurial orientation behaviour of the firm which will be contributing towards business performance. By responding to the least research areas of trust, the dark side of IOT will be explore as well.

Hence, the aim of this research is to explore the potential moderators that enrich the beneficial role of IOT and lessen the damages side of IOT towards business performance. To reach the goal, this research conducts a meta-analysis that builds on empirical research of trust and business performance with the objective to demonstrate the external environmental influences on the dynamic role of trust in explaining business performance by quantitatively evaluates existing empirical evidence. As the aim is to develop a meaningful theoretical mechanism by which trust affects business performance, this research combines the meta-analysis with meta-regression. This approach allows this research to come out with decision analytical modelling in which will help in forecasting business performance through variable trust-based ties. Moreover,

meta-analysis allows this research to correct for statistical artifacts (e.g., sampling error, measurement error), allowing a reliable estimation of the suggested moderator model.

Additionally, the current research is prompted by two aspects. To begin, it sheds light on the prevalence of empirical studies examining the idea of trust (focusing on inter-organisational collaboration). This study determines the degree of commonality by examining the number of publications over time. Second, the rising body of literature has shed new light about trust in inter-organizational collaboration. Examining and evaluating the extent to which this variable has been investigated in the literature sheds light on common themes and noticeable biases.

Meta-analysis is useful when empirical findings differ. First, meta-analysis gives empirical generalisations across trials by determining mean values and range of effects. As a result, researchers can estimate genuine correlations between variables. Second, meta-analytic evidence may be utilised to produce a more comprehensive list of qualities and analyse their relative influence on behaviour outcome (process block) and hence crucial organisational outcomes. To find moderating effects, meta-analysis might be used.

In summary, this study seeks to give an overview of empirical literature on the inter-organisation trust associated with business performance. As for IOT-performance research, it focuses specifically on the literature review, given that extant IOT-performance research has been primarily empirical in nature and the opportunity and call to conduct current research. Thus, by combining prior findings, this research further developed an economic modelling for forecasting the best condition that support trust-performance relationship.

## 3.2 Trust and hypotheses

### 3.2.1 Nature of trust-based ties

There has been no agreement on the meaning of trust to yet. Despite disagreements, certain concerns appear to be consistent across definitions. As Rousseau *et al.* (1998) note from micro psychological theories (e.g. Lewicki and Bunker, 1995, 1996; McAllister, 1995; Zand, 1972) to social/economics approach (e.g. Barber, 1983; Bromiley and Cummings, 1995), **positive expectations and the openness to vulnerability** are major components to describe trust.

“The willingness to be vulnerable” from Mayer, Davis and Schoorman (1995), is one of the most quoted definitions of trust and has been essential to other conceptualizations, including those by Bromiley and Cummings (1995) and by Mishra (1996). In other definitions, different words have been used to propose the same meaning such as, “the willingness to rely on another”

(Doney, Cannon and Mullen, 1998), the “increase of one’s vulnerability to another” (Deutsch, 1962; Zand, 1972), and the “intention to accept vulnerability” (Rousseau *et al*, 1998). Some authors emphasize the expectations underlying the trust concept. For example, Elangovan and Shapiro (1998) assume that trust is a “set of optimistic expectations”, and for Lewicki and Bunker (1996) trust involves “positive expectations about characteristics or intentions of those involved and risks associated with the acting or situations”. Some authors have proposed that trust is a “risk taking behaviour” or “the willingness to engage such behaviour” (Bromiley and Cummings, 1996). According to Zand (1972), underlying the “decision to trust” is also the individual willingness to become vulnerable, and the expectation or belief that others will act in a way that is beneficial or at least not detrimental for the relationship (Gambetta, 1998).

Thus, what is the nature of organisational trust? Inter-organizational trust is frequently defined as the degree to which members of one organisation have a collective trust orientation toward another (Zaheer, McEvily and Perrone, 1998a). In inter-organizational interaction, trust fosters an atmosphere in which firms seek to go above and beyond the relationship's basic needs in order to maximise the chance of mutual gain (Panayides and Venus Lun, 2009).

Additionally, trust<sup>4</sup> is a multidimensional notion, with recursive connections between many levels, forms, and sources (Walter, 2012). Jones and George (1998), for example, view trust as a product of the interaction of values, attitudes, and emotions or moods. Sako (1992) examines three distinct causes for the capacity to create trust - that is, distinct reasons for the capacity to foresee another's behaviour in a "mutually acceptable manner." To begin, because the participants to the connection are bound by a contractual agreement. Secondly, because of a conviction in people involved's abilities. Thirdly, because of a conviction in the participants' benevolence. This is quite similar to Shapiro, Sheppard and Cheraskin's (1992) trust typology, which distinguishes between deference-based trust, knowledge-based trust and identification-based trust. Other authors emphasised on the development and maintenance of trust. Zucker (1986) distinguishes three primary mechanisms of trust formation: process-based (i.e. based on reciprocal, recurrent interaction), characteristic-based (i.e. based on social resemblance), and institutional-based (i.e. based on expectations embedded in societal norms and structures). Newell and Swan (2000) then classify existing typologies in the literature into three categories: companion, competence and commitment trust.

Previous researchers have attempted to explain the nature of trust in business interactions using a variety of ideas. By addressing the relational component of trust in terms of the kind and

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<sup>4</sup> Summary of definitions of trust and its measurement scales can be found at the Appendix A.1.

quality of contact between exchange partners, the prospect of a trade-off between weak and strong links has been emphasised. Using Granovetter's (1973) weak tie theory, it has been proposed that a firm may examine more unique information via weak links. According to homophily theory (McPherson, Smith-Lovin and Cook, 2001), strong overlapping relationships between socially nearby individuals tend to establish, making weak ties more likely to connect individuals from a far social circle. On the other hand, researchers stress the benefits of strong relationships, saying that they boost a network actor's desire and capacity to give essential resources (Batjargal, 2003). Uzzi's (1997) embeddedness study shown that regular, intimate encounters allow trustworthy resource transfers and tacit knowledge transmission. According to Burt's (2000) theory of structural holes, businesses gain strategic advantages by building connections with previously disconnected individuals (Batjargal, 2010). This finding, based on resource dependence logic (Pfeffer and Salancik, 2003), arises from the notion that mediating trades between unrelated players boosts an entrepreneur's timely access to and control over external resources (Burt, 2005). Adopting from Coleman's (1988) idea of network closure, this section discusses the benefits of a cohesive network in which entrepreneurs' connections are directly connected and structural flaws are eliminated (Hansen, 1999). Based on exchange theory (Blau, 1964), closed networks foster trust, social support, and reciprocity rules that enable network members to cooperate (Obstfeld, 2005).

### **3.2.2 The model framework**

The constructs of the attitude-behaviour (Fishbein and Ajzen, 1975; Ajzen and Fishbein, 1977), which is part of the framework is learnt particularly by social exchange theory and transaction cost economics. The framework is extended by adding the outcomes based on the resource-based view of firms. It presents how the constructs' selection and conceptualisation is informed by different perspectives. This study focuses on trust and particularly on the B2B relationships. The trust construct forms the input block of the framework. The behavioural characteristics form the process block, which consists of commitment and information sharing. The trust and commitment are informed by social exchange theory (Anderson and Weitz, 1992; Jap and Ganesan, 2000; Morgan and Hunt, 1994). While, the behavioural characteristics of information sharing (Heide and John, 1992; Cannon and Homburg, 2001) is selected based on the emphasis on them in transaction cost economics (McEvily, Perrone and Zaheer, 2003; Delbufalo, 2012).

Additionally, using ideas from resource-based view with regard to its emphasis on outcomes and performance of the relationship (Palmatier, Dant and Grewal, 2007), the influence of various characteristics on the relationship performance is investigated. This investigation extends the framework and developed input-process-output model. The model framework is

illustrated in Figure 3.1 showing its different building blocks. Finally the impact of dynamic environment is examined (Krishnan, Martin and Noorderhaven, 2006), which resulted to the growth of a model with the moderating effects.

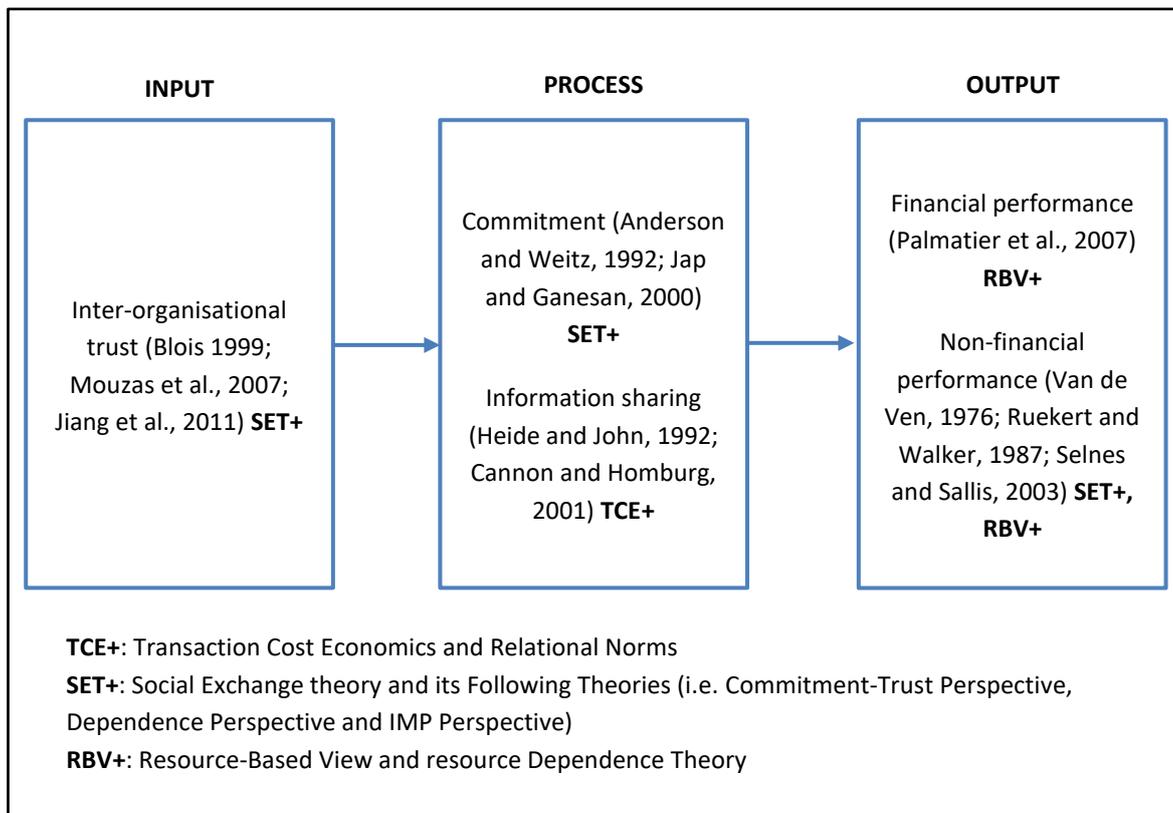


Figure 3.1 The model framework (Source: Adapted from Fishben and Azben, 1975; Ashnai et al, 2016)

### 3.2.3 Inter-organisational trust and information sharing

The wide literature demonstrates a strong case for trust's overall favourable influence on business transactions, operational performance, and product quality (Shin, Collier and Wilson, 2000), as well as inter-organisational connections (Szulanski, Cappetta and Jensen, 2004). Empirical research indicate that trust decreases the specification and monitoring process by establishing good confidence in the intent, dependability, and fairness of partner behaviour (Zaheer, McEvily and Perrone, 1998a; Krishnan, Martin and Noorderhaven, 2006).

Information sharing<sup>5</sup> is one of the most critical behavioural traits in commercial relationships (Mohr and Spekman, 1994). The lack of trust will be toxic to information sharing (Zand, 1972; Mohr and Spekman, 1994) and these two are seen being positively related to each

<sup>5</sup> Summary of definitions of information sharing and its measurement scales can be found at the Appendix A.3.

other (Denize and Young, 2007). Trust gives the exchange partners the confidence to be open with each other, knowing that information shared will not be used against them (Zaheer, McEvily and Perrone, 1998a; Dirks and Ferrin, 2001), opens possibilities of leveraging business relationships and opening networks to achieve competitive advantage (Young, 2006; Denize and Young, 2007). Network with high level of trust may favour the transfer of tacit knowledge (Becerra, Lunnan and Huemer, 2008), which greater relevance for competitive advantage in the resource-based view (Barney, 1991; Grant, 1996). Trust also lowers the filtering of information obtained from others (McEvily, Perrone & Zaheer, 2003).

Trust in the recipient, from the standpoint of the knowledge sender, alleviates worries about information appropriation and abuse. When trust is established, organisational actors are expected to be willing to communicate sensitive and private information about themselves, others, and their organisation. The degree of openness with which a sender shares knowledge with a recipient is influenced by the sender's confidence in the receiver (Inkpen, 2001; Nahapiet and Ghoshal, 1998; Ouchi, 1981). Such openness lays the groundwork for organisational learning by increasing the opportunity for knowledge exploitation to be more widely spread and by creating the circumstances for the investigation of how information may be recombined in creative ways. These initiatives are essential for optimising the impact of EO on corporate success (Covin, Green and Slevin, 2006). Following that, EO may give management assistance for the organisational learning process and capabilities (Wang, 2008; Zahra, Sapienza and Davidsson, 2006). Similarly, according to Zahra, Nielsen and Bogner (1999), EO encourages and supports organisational learning and learning principles such as cooperation and transparency.

Trust influences the apparent veracity of information from the receiver's perspective. When knowledge is obtained from a reliable source, the recipient is less inclined to question its accuracy and is more likely to accept it as is. Such information acquisition shortcuts can accelerate organisational learning, awareness, and responsiveness.

At the same time, there are limitations to sharing knowledge exclusively on the basis of trust. Even the most trustworthy source might accidentally disseminate information that is incorrect, invalid, or out of date. This is one of the reasons why organisations that rely too heavily on trust as an organisational principle may suffer from strategic blindness, overconfidence, inertia, or an inability to innovate.

Knowledge sharing carries some risk, as neither person has complete control over how the other partner may utilise the provided knowledge (Becerra, Lunnan and Huemer, 2008). For example, disclosing a buyer's exclusive knowledge may result in unintended knowledge spill over to competing enterprises, as rival buyers usually purchase from the same suppliers in various

sectors (Kotabe, Martin and Domoto, 2003). The danger of helping competitors inhibits a buyer from disclosing knowledge unless it has faith in the knowledge recipients' goodwill. Thus, in the absence of trust, a buyer will take defensive measures to prevent the sharing of knowledge (Edmondson, 1999; Wu, 2008). However, trust enhances both the desire to share knowledge (Kaufman, Wood and Theyel, 2000; Renzl, 2008; Cai, Jun and Yang, 2010) and the volume of information that may be communicated (Szulanski, Cappetta and Jensen, 2004) increases. Second, trust lowers the barrier to information exchange and fosters collaboration among partners. Indeed, buyers are more eager to share useful technical knowledge with suppliers, such as research and development, manufacturing, and marketing information; suppliers are more willing to accept and assimilate the knowledge provided by the buyer (Andrews and Delahaye, 2000). Therefore:

**Hypothesis 1a:** Inter-organisational trust positively related with information sharing.

### 3.2.4 Inter-organisational trust and commitment

Concerning commitment as a result of trust in a relationship, Lewicki and Bunker (1996) asserted that as parties gain knowledge about one another (through knowledge-based trust), they may also develop a strong identification with the needs, preferences, and priorities of others and come to regard them as their own (p.125). While the research on social identity shows that identification can help improve the perceived importance of group objectives and values and the belief that an actor's personal aims and values are comparable to those of other group members (Kramer, Brewer and Hanna, 1996; Kramer and Brewer, 1984). "When ingroup members perceive similarities in goals and values, they believe that other ingroup members are more likely to behave in accordance with these values (i.e., belief on ingroup members; integrity) and that ingroup members are more likely to care about goals that are good for all group members (i.e., belief about ingroup members' benevolence)" (Williams, 2001, p.382). Shared identity fosters a sense of interconnectedness and shared destiny among members of a collectivity (Gaertner, Dovidio and Bachman, 1996; Kramer, 1991), which are necessary components of commitment and collaboration. Individuals who are dedicated to a collectivity demonstrate more loyalty to it and are more eager to invest their time, effort, and attention in its favour (Currall and Inkpen, 2002). As identification grows stronger, so does the level of attachment, or commitment, to a collectivity and its goals (Kramer, 1993). Identification fosters commitment by creating expectations about the collective members' behaviours and intentions.

Despite prior research demonstrating a substantial positive association between trust and commitment, the influence of trust on commitment is likely to rely on the degree and dimensions

at which trust is understood. Over-identification creates a slew of complications for the organisation. Members of organisations are less inclined to consider different points of view or to analyse their own organisation critically, which results in groupthink, the not-invented-here syndrome, and other types of limited thinking. In extreme circumstances, excessive identification can breed inertia and fundamental rigidities inside an organisation, impeding its capacity to adapt and respond to environmental change (McEvily, Perrone and Zaheer, 2003).

Trust-commitment theory, which based on social exchange theory, suggests that commitment is the fundamental in business relationship (Thibaut and Kelley, 1959; Blau, 1964) and further emphasises on commitment as an important construct strongly related to trust (Morgan and Hunt, 1994). In this study, commitment is also considered relevance in inter-organisational studies and link to the concept of trust.

Commitment has been conceptualised<sup>6</sup> as a root for willingness to accept temporary compromises (Leonidou, 2004; Van Bruggen, Kacker and Nieuwlaet, 2005; Anderson and Weitz, 1992; Jap and Ganesan, 2000). It is a desire to sustain the relationship (Mohr, Fisher and Nevin, 1996; Siguaw, Simpson and Baker, 1998; Selnes and Sallis, 2003; Jap and Ganesan, 2000; Palmatier, Dant and Grewal, 2007).

This research examines commitment as a concept that encompasses both behavioural and attitudinal dimensions, with an emphasis on the behavioural dimension for two primary reasons: (1) the importance of the definition's behavioural focus (i.e., the desire to develop the relationship and willingness to make sacrifices) and (2) the underlying emphasis on 'intention' to maintain and continue the relationship (Anderson and Weitz, 1992; Mohr and Spekman, 1994) versus an attempt to look for and replace it with another partner (Cook and Emerson, 1978; Anderson and Weitz, 1992). This purpose is consistent with the theory of reasoned action's emphasis on 'behavioural intention' (attitude-behaviour framework) (Fishbein and Ajzen, 1975). According to that theory, behavioural intention refers to the relative strength of an intention to undertake a behaviour, which corresponds to the way commitment is conceptualised here. Additionally, behavioural assessment items predominate in the operationalization of commitment (e.g. supporting the other firm when others criticise them; the connection is a long-term partnership) (Anderson and Weitz, 1992).

Commitment is defined in this research by Anderson and Weitz (1992) and Jap and Ganesan (2000) as the degree to which one company desires to develop a stable relationship, is willing to

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<sup>6</sup> Summary of definitions of commitment and its measurement scales can be found at the Appendix A.2.

make short-term sacrifices to maintain the relationship, and has confidence in the relationship's stability with the other company.

**Hypothesis 1b:** Inter-organisational trust positively related with commitment.

### 3.2.5 Information sharing and firm performance

Leading management and organisation theorists popularised the notion of considering organisational knowledge as a strategic advantage (Nonaka, 1994; Grant, 1996). As a result, the impact of information sharing on supply chain performance has increased in recent years (Malhotra et al, 2005). The proactive communication of timely, meaningful information between exchange partners is referred to as information sharing (Anderson and Narus, 1990; Heide and John, 1992). It serves as the foundation for relationship learning (Frazier *et al*, 2009; Selnes and Sallis, 2003) by assisting exchange partners in developing shared expectations and understandings (Lusch and Brown, 1996).

Additionally, information sharing aids decision-making, streamlines collaboration, and enables rapid reaction to market opportunities and changes. As a result, sharing information results in increased performance (Cheung, Myers and Mentzer, 2011; Gilliland, Bello and Gundlach, 2010). Additionally, information sharing might make one's actions more apparent to the other party, hence reducing opportunism. According to Jap (2001), the capacity of one party to see the behaviour of another provides an incentive for the other party to adhere to the contract's terms more thoroughly. Thus, the capacity to watch should improve relationship performance and pleasure while also minimising opportunistic. Because inter-organizational learning is crucial for competitive performance (Dyer and Singh, 1998), organisations frequently acquire knowledge through collaboration with other organisations (March and Simon, 1958; Levinson and Asahi, 1995; Powell, Koput and Smith-Doerr, 1996). Therefore:

**Hypothesis 2a:** Information sharing in B2B relationship is expected to be positively related with business performance

### 3.2.6 Commitment and firm performance

Although different conceptualizations and measures of the commitment construct have been proposed, the idea that has been studied the most frequently is attitudinal or emotional commitment. Affective commitment refers to the extent to which an employee's emotional attachment to and acceptance of the organization's aims and values are strong. Employees that have a high level of emotional commitment continue with the business out of a desire to help

(Meyer and Allen, 1997; Meyer *et al*, 1989). While there are several operationalizations of this construct, Anderson and Weitz (1992) suggest that commitment acts as a mediator between relationship-specific investment and performance. Commitment is also emphasised as a critical factor in the performance of partnerships in mainstream theories of inter-organizational interactions (e.g. Morgan and Hunt, 1994). Palmatier *et al.*'s (2006) thorough meta-analysis demonstrates that dedication has an effect on performance. Additionally, Palmatier, Dant and Grewal (2007) demonstrate that commitment has a significant impact on relationship outcomes, including financial performance. Therefore:

**Hypothesis 2b:** Commitment is positively related with business performance.

### **3.2.7 Contingencies in the organisational trust-based ties – business performance relationship**

Although this research anticipates a beneficial relationship between trust and company success, these gains are predicted to be dependent on the firm's external circumstances. The strategic management literature emphasises the relevance of a contingency approach to strategy creation and implementation since it takes into consideration a firm's business environment's diverse features (Cyert and March, 1963; Lawrence and Lorsch, 1967; Saeed, Yousafzai and Engelen, 2014). When studying the moderating effect of external variables, we focus on the external environment's feature - that is, the hostility and dynamism of the environment in which business occurs.

#### **3.2.7.1 Environmental hostility**

The term "hostility" refers to the degree to which a business's environment constitutes a danger to its survival (Miller and Friesen, 1982). Hostility encompasses obstacles such as intense price, product, technological, and distributional competition within an industry, as well as constraints on access to necessary inputs, labour and material scarcity, government intervention, severe regulatory restrictions, and unfavourable demographic trends (Caruana, Ewing and Ramaseshan, 2002; Mcgee *et al*, 2012; Miller and Friesen, 1983; Alexandrova, 2004). Environmental hostility is a broad term that encompasses the aspects of danger and a lack of control over the agents and events that affect a business's external environment (Alexandrova, 2004).

Intense competition for resources and opportunities, as well as the additional restrictions inherent in a hostile environment, reduce profit margins and limiting strategy alternatives (Miller and Friesen, 1983). Thus, a hostile environment necessitates strategic discipline (Porter, 1980), since poor judgments might jeopardise a business's survival. According to scholars, the potential

for opportunistic profits is likely to be significant in inter-organizational connections in industries with a high level of R&D (Ulset, 1996; Allen and Phillips, 2000). However, acquiring knowledge or intelligence and using it are two distinct processes. As a result, organisations that wish to succeed in hostile environments should adopt a strategic orientation defined by modest risk taking and innovation. As a result, while trust-based ties may be ineffectual as a channel of communication or a response to hostility, they may serve as a genuine strategic direction in non-hostile situations.

**Hypothesis 3:** Trust-based tie will have lesser effect on business performance in a highly hostile environment.

### 3.2.7.2 Environmental dynamism

Environmental dynamism is a term that refers to the unpredictability and uncertainty of future market changes and advancements (Khandwalla, 1972; Thompson, 1967; Miller and Friesen, 1983). Uncertainty manifests itself in a variety of ways; for example, it might take the form of changes in client requirements, shifts in the behaviour of rivals and suppliers, or as technical discontinuities. Thus, uncertainty occurs as a result of a lack of understanding regarding future events and their repercussions, as well as how they will be responded to (Khandwalla, 1972). Developing nations are those with fast economic development, rising market liberalisation, and a significantly undeveloped formal institutional framework (Hoskisson *et al*, 2000; Puffer, McCarthy and Boisot, 2010). To combat the uncertainty brought forth by unpredictable government regulation, fast industrial expansion, and increased competitiveness, firms in emerging nations create their trusted network (Luo, 2003; Xin and Pearce, 1996).

Rapid change and the unpredictability of future occurrences present organisations with several options. For instance, demand changes enable businesses to capitalise on new client wants, while technology discontinuities create chances along a new technological trajectory (Utterback, 1994). Simultaneously, existing possibilities and resources can swiftly become obsolete in dynamic contexts characterised by rapid changes in technology, demand, and rival behaviour. While changing environments make strategic decision-making more complex, organisations that investigate and utilise possibilities in them can beat their competitors. Due to the quick pace of change and the difficulty of forecasting future occurrences, a high level of proactivity is required, which may be accomplished by effectively utilising trust-based relationships. When a side has trust in its partners, they are more willing to exchange knowledge and even human resources. Proactive businesses may explore and exploit these new resources, which are necessary for successfully exploring and exploiting new markets (Lumpkin and Dess, 2001).

Additionally, the proactive introduction of new goods and services mitigates the risk that organisations' present knowledge and capabilities would become obsolete (Leonard-Barton, 1992; March, 1991). Thus, organisations operating in a dynamic environment may achieve greater performance through the usage of trust-based linkages, which encourages firms to pursue novel strategies and make the most of their resource base's flexibility. As a result, the following is proposed:

**Hypothesis 4:** Trust-based ties will have greater effect on business performance for firms that operate in highly dynamic environment.

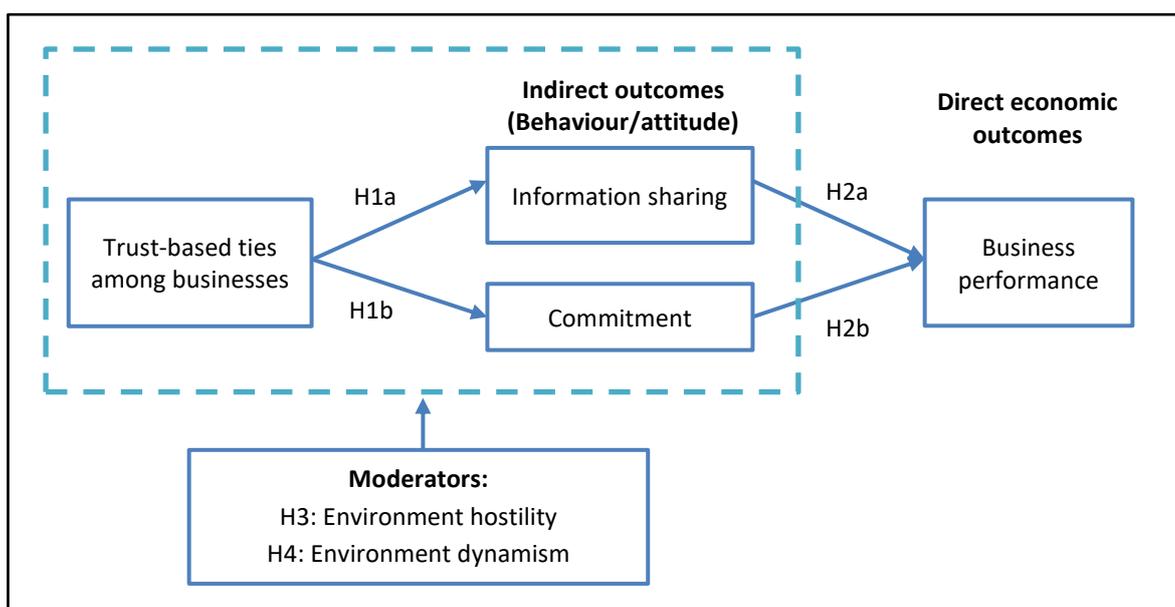


Figure 3.2 Summary of hypotheses and conceptual model (Source: self-developed)

### 3.3 Methodology

#### 3.3.1 Literature search and sample

The goal of the study-identification process was to gather a sample of published and unpublished studies that are representative of the literature on trust-based ties and firm performance. To capture as many studies as possible and limit biases caused by the study-identification process, this research relied on two procedure: computerized keyword searches in the Business Source Premier and Web of Science databases and a manual search in relevant journals including *Academy of Management Journal* (1980-2015), *Journal of Business Venturing* (1985-2015), *Journal of Management* (1980-2015), *Journal of Management Studies* (1980-2015) and *Strategic Management Journal* (1980-2015). Also, edited volumes and special issues devoted to trust were searched (e.g. Kramer & Cook, 2004; McEvily, Perrone & Zaheer, 2003). The computer-based

searches were conducted using following key words: trust, performance. Wildcard symbols (e.g., \*, ?) were used to account for multivariations of the key words.

### **3.3.2 Inclusion and exclusion criteria**

To be included in the meta-analysis, studies had to fulfil several selection criteria that frame the scope of our study. The study needed to (a) be empirical and quantitative in nature, (b) measure trust in inter-organizational level, (c) use measures that align with this study's definition of core constructs, (d) report sufficient information to allow effect size computation using the formulas provided by Hunter and Schmidt (1990) – sample size and a correlation coefficient or another outcome statistic (e.g., univariate  $F$ ,  $t$ ,  $\chi^2$ ), and (e) be published peer-reviewed journal article, both practitioner and academic. Equally, books, chapters in books, conference proceedings, working papers and other unpublished works were excluded, as this was aimed at enhancing quality control (David and Han, 2004).

When essential information was missing, efforts were made to contact the authors. When 'duplicate studies' that relied on the same sample and variables were faced, the relevant information was combined and treated it as a single study to measure effect size. The measures of trust-based ties needed to be in line with our acceptable conceptualization. The final sample consisted of 52 empirical studies with a combined sample size of 17516 organizations and relationships. Studies included in the meta-analysis are listed in the Appendix A.5.

### **3.3.3 Coding and measure**

Prior to the analyses, this research coded the studies for our key constructs, which are trust-based tie as the independent variable, performance, information sharing and commitment as the dependent variable, and external environmental characteristics as the moderators (See details in the Appendix A.6).

### 3.3.3.1 Measurement for dependent variables

- *Performance*<sup>7</sup> may include objective indicators of financial performance, subjective indicators of goal accomplishment, financial performance, and/or the organization's overall success (e.g. Parkhe, 1993; Luo, 2002).<sup>8</sup>
- *Information sharing* is a communication metric that indicates how readily a supplier/buyer communicates future or private information that may be beneficial to the partnership (Cannon and Homburg, 2001; Jap and Ganesan, 2000).
- *Commitment* is a proxy for a desire to build a stable relationship, a readiness to make short-term sacrifices to keep the relationship solid, and a belief in the partnership's durability.

### 3.3.3.2 Measurement for independent variable

*Trust-based tie* measurements quantify the degree to which members of one organisation have a common trust orientation toward another (Zaheer, McEvily and Perrone, 1998a). These include integrity-based measure (Zaheer, McEvily and Perrone, 1998a) as well as benevolence-based measures (e.g. Carson *et al*, 2003). All trust measures were classified according to the proportion of items measuring (1) integrity-based trust, (2) benevolence-based trust, (3) "overall" trust, and (4) other forms of trust (e.g., competence-based trust) or a more mixed relationship construct. This research included only trust measures that included at least 75% of items measuring integrity and/or kindness (as was the case for 95% of the studies included in this meta-analysis) or that measured "overall" trust in the relationship using a single, global item (which was the case for 5 percent of the studies in this meta-analysis).

### 3.3.3.3 Moderator variables

(1) *Environment hostility* is a proxy for the degree to which the business environment poses threats to a business's survival (Miller and Friesen, 1982). To quantify hostility, this study used poor regulation quality as a composite indicator of the prevalence of market-unfriendly policies such as price controls or insufficient bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development in the host country, as defined by Kaufmann, Kraay and Mastruzzi (2010). This research utilised the

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<sup>7</sup> Summary of definitions of firm performance in terms of financial performance and non-financial performance and their measurement scales can be found at the Appendix A.4 and A.5.

<sup>8</sup> Studies that employed alliance survival, creation, and length as performance indicators. Survival fails to distinguish between failure and completion of the predetermined period. Duration may not represent performance, but exit obstacles do. (Gulati, 1998).

regulatory quality score for the year in which the data were obtained to determine the sample size for each study<sup>9</sup>. Scores vary from -2.5 and 2.5. The original scores have been flipped, with greater numbers indicating a worse level of regulation quality.

(2) Measures of environmental dynamism capture the degree of change and unpredictability associated with future environmental developments and their repercussions (Khandwalla, 1972; Miller and Friesen, 1983; Thompson, 1967). To measure environment dynamism, this research adopt Krishnan, Geyskens and Steenkamp's (2016) measurement. Specifically, the coefficient of alienation ( $1-R^2$ ) of the regression of the industry sales in the sample year on the industry sales of the preceding years (c.f. Delacroix and Swaminathan, 1991; Krishnan, Martin and Noorderhaven, 2006b; Krishnan, Geyskens and Steenkamp, 2016) were calculated. Then, a weighted environmental dynamism score was derived by multiplying the environmental dynamism score for each industry by the fraction of inter-organizational linkages in the sample that were associated with that industry and summing across industries. Scores for environmental dynamism vary from 0 to 1. The sales figures for all 50 industries included in the primary research were gathered from Compustat and the United Nations' INDSTAT4 database.

### **3.3.4 Meta-analytic procedure**

This current study followed the meta-analytic methods by Hunter and Schmidt (2004), which uses a random effect model<sup>10</sup> and correct for both sampling error and measurement error in the independent and dependent variables. For studies that not reported reliability estimates, the missing reliabilities for both independent and dependent variables were reconstructed using the mean of available alpha's, as recommended by Hunter and Schmidt (2004). This study used Pearson's correlation coefficients as effect sizes metric.

The random effects model is appropriate for this research since the data was collected from studies conducted by others. It seems improbable that each study was functionally identical. Typically, the variables or interventions in these studies would have differed in ways that would have affected the results. Hence, we cannot assume a similar effect size. In addition, meta-analysis aims to generalise to a range of populations or demographics (Borenstein et al, 2007).

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<sup>9</sup> When the year of data collection was unavailable, the score for the year of publication of the study was used.

<sup>10</sup> Random-effects models assume the population is variable and heterogenous and can show different effects according to the distinct features that characterize it. Therefore, the differences in the reported correlations reflect the heterogenous effect sizes in the population.

The study would not be informative, as the results would not be extrapolated from this population to others.

**Treatment of multiple effect size.** Because various impact estimates from the same research are statistically dependent, effect sizes were averaged (e.g., different aspects of knowledge sharing) (Hunter and Schmidt, 2004). When research evaluated several outcome variables (for example, information sharing and commitment), the impact estimates were combined in separate meta-analyses.

**To test for heterogeneity and potential moderating effects,** this study used multiple techniques as recommended by (Cortina, 2003). Firstly, we computed a Q-statistic test (chi-square test of homogeneity for each relationship, which is indicative of the presence of moderator variables (Hunter and Schmidt, 2004). However, the Q-statistic is only a measure of variation around the average and is not yet a measure of heterogeneity. Therefore, this study also used  $I^2$  as a criterion for a decision whether a subgroup or moderator analysis is indicated (Borenstein *et al*, 2009). In addition, the presence of moderators was examined by constructing 95% credibility intervals around each mean-corrected effect size, using the corrected standard deviation around the mean. For heterogeneity test, Cochran's  $Q^{11}$ , which provides a p-value for the test of homogeneity, has been used traditionally (Brockwell and Gordon, 2011). However, the test is known to be ineffective at detecting heterogeneity due to its low power when the number of studies is limited (Hardy and Thompson, 1998).  $I^2$  is an alternate metric that is regarded to be more informative in analysing study inconsistency.  $I^2$  values of 25%, 50%, and 75%, respectively, correspond to low, moderate, and high heterogeneity (Higgins *et al*, 2003)<sup>12</sup>.

**To facilitate hypothesis testing,** 95% confidence interval around the sample-size weighted mean correlation were calculated and effect size were considered to be significant when the confidence interval did not include zero (Whitener, 1990). To test the hypotheses, the obtained effect sizes were divided into subgroups and comparing the mean estimated effect sizes (Hunter and Schmidt, 2004). However, this method does not control for the influence of other moderators. Therefore, a multivariate meta-regressions in which the overall effect size of trust on performance constitutes the criterion and the predictors are the moderators (Geyskens *et al*, 2009).

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<sup>11</sup> The value of Q of this study can be found in Table 3.1 – Meta-analytic relationships between trust-based ties and business performance.

<sup>12</sup> The value of  $I^2$  of this study can be found in section 3.4.1 – Main effects of trust-based ties on business performance.

**To assess potential publication bias**, this study used Rosenthal's (1979) "file-drawer" method, where a fail-safe N (FSN) was calculated for each variable studies in order to determine the robustness of results and to assess the possibility of publication bias or the 'file-drawer' problem in the analysis.<sup>13</sup> FSN refers to the number of non-significant studies that would be necessary reduce the effect size to a non-significant value (Rosenthal, 1991).

Publication bias jeopardises the validity of meta-analyses and evidence-based practise (Banks, Kepes and Mcdaniel, 2012; Kepes *et al*, 2012). Three publication bias tests were conducted to determine the presence and severity of potential publication bias: (a) Egger's test of the intercept (Egger *et al*, 1997); (b) the moderate and severe a priori weight-function model technique (Vevea and Woods, 2005); (c) the trim and fill test (Duval, 2005) supplemented with the contour-enhanced funnel plot (Palmer *et al*, 2008). To avoid confounding possible publication bias and second order sampling error, analyses were undertaken using distributions with at least  $k = 10$  (Sterne *et al*, 2011).

### **3.3.5 Meta-analysis and causal inference**

Meta-analysis process may include a systematic review. For instance, it can contain thorough literature searches, precise inclusion and exclusion criteria, evaluations of the reliability and, consequently, bias of the study, and clearly stated definitions and inference guidelines for chosen causative elements (Weed, 1997; Breslow, Ross, and Weed, 1998). Numerous crucial criteria for what causes what may be found or improved with the use of quantitative studies of heterogeneity and effect summaries, particularly meta-analyses of research groups from observational or biological knowledge levels.

As a result, meta-analysis is important for determining causal relationships but is insufficient on its own to draw conclusions about causality. The meta-analysis provides a mechanism for identifying various sets of studies, whether they are epidemiological or biological in character, as well as a more formal statistical approach to the consistency criterion. Additionally, it can provide more accurate assessments of impact magnitude and dose-response correlations (Weed, 2000).

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<sup>13</sup> This study reported 875 failsafe number and 6.94 as the overall Z-score. The ad-hoc rule (by Rosenthal (1979)) indicated that the number estimated is large.

## 3.4 Results

### 3.4.1 Main effects of trust-based ties on business performance

Table 3.1 report the meta-analytic results for the results of our test of Hypothesis 1a, 1b, 2a, and 2b. Although this research made no hypothesis about direct relationship between trust-based ties and business performance, this research explored the relationship as a matter of interest and as a baseline by which to compare the other results. The sample size weighted and reliability corrected effect size was 0.37 which can be considered as moderately associated<sup>14</sup>. Furthermore, the 95% confidence interval did not include zero, indicating that the overall effect size was statistically significant. Yet the effect did exhibit heterogeneity, as the percent of variance attributed to sampling error (0.22% was well below the threshold value of 75% needed for assuming homogeneity). The credibility interval was also relatively large and included zero, indicating the presence of moderators. Moreover,  $I^2$  for overall relationship was nearly 98%<sup>15</sup>. This very high proportion suggests that the studies in this meta-analysis cannot be considered to be studies of the same population.

For the set of hypotheses between trust and the indirect outcomes, the results show moderate and positive correlation for both hypotheses ( $r = 0.37$  for information sharing (H1a) and  $r = 0.40$  for commitment (H1b)). For the set of hypotheses between indirect outcomes and direct economic outcomes, the results show moderate and positive correlation as the sample-size weighted correlation information sharing and performance (H2a) was  $r = 0.34$  and the sample-size weighted correlation commitment and performance (H2b) was  $r = 0.37$ . The 95% confidence interval of all constructs under indirect outcomes and direct economic outcomes did not include zero indicating that support for all four Hypotheses 1a, 1b, 2a and 2b (see Table 3.1).

### 3.4.2 Theoretical moderator analysis

This research used a series of moderator studies to determine if environmental antagonism and environmental dynamism had a differential effect on corporate success. When the homogeneity Q statistic is substantial, it is necessary to investigate moderators (Hedges and Olkin, 1985). As indicated in Table 3.1, this requirement was fulfilled for all four outcome variables. Because the samples for the other effect sizes were fairly small, the anticipated moderator effects were

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<sup>14</sup> Guidelines set forth by Cohen's (1988) standards for interpreting effect size (correlation coefficient,  $r$ ), where correlations less than 0.10 are considered to be "small" correlations ranging from 0.10 to 0.25 are "medium", and correlations greater than 0.40 are "large".

<sup>15</sup>  $I^2$  is an alternative for heterogeneity measure (Higgins et al, 2003). This heterogeneity of this study is high.

## Chapter 3

examined exclusively for the link between trust-based ties and company success (Hedges and Pigott, 2004).

Hypothesis 3 predicted that trust would be more strongly related to business performance when environmental hostility was low rather than high. Consistent with this prediction, as shows in Table 3.2, the result indicate that the magnitude of trust-performance relationship varies across level of environmental hostility ( $\rho_{\text{high}} - \rho_{\text{low}} = 0.06$ ,  $CI_{95\%} = 0.27, 0.49$ ), with an above-medium true correlation estimate for high hostile environment ( $r = 0.34$ ), but a strong estimate for low hostile environment ( $r = 0.40$ ). The moderating role of environmental dynamism proposed in Hypothesis 4 was also supported. The magnitude of trust-performance relationship varies considerably across level of environmental dynamism ( $\rho_{\text{high}} - \rho_{\text{low}} = 0.07$ ,  $CI_{95\%} = 0.29, 0.50$ ), with a strong true correlation estimate for high dynamic environment ( $r = 0.43$ ), but an above-medium estimate for low dynamic environment ( $r = 0.36$ ).

Table 3.1 Meta-analytic relationships between trust-based ties and business performance

Variable	k	N	$r_c$	95% confidence interval (p)	95% credibility interval (p)	Sampling error (% variance)	Q
Trust – business performance	20	3549	0.37	0.26 to 0.47	-0.26 to 0.78	0.41%	315.33*
Trust - information sharing (H1a)	11	17516	0.37	0.29 to 0.41	-0.37 to 0.81	0.22%	2209.27*
Trust – commitment (H1b)	14	7067	0.40	0.29 to 0.50	-0.36 to 0.84	0.41%	712.86*
Information sharing – business performance (H2a)	37	7063	0.34	0.25 to 0.43	-0.47 to 0.84	0.42%	1237.93*
Commitment – business performance (H2b)	27	3630	0.37	0.25 to 0.48	-0.14 to 0.72	0.28%	206.82*

k = number of independent samples; N = total sample size,  $r_c$  = sampling error corrected average correlation, Q = chi-square test for homogeneity statistic (\* $p < 0.001$ ), H = hypothesis



Table 3.2 Results of bivariate theoretical moderator analysis

Subset	Within-subgroup statistics						Between- subgroup statistics		
	k	N	$r_c$	Sampling error (% variance)	95% Confidence interval	95% Credibility interval	Z-score	$r_{p1}-r_{p2}$	95% CI
<b>Environment Hostility (H3)</b>									
High	6	930	0.34	0.51%	-0.17 to 0.70	-0.76 to 0.94	5.10*	0.06	0.27 to 0.49
Low	13	5793	0.40	0.16%	0.24 to 0.54	-0.35 to 0.84			
<b>Environment Dynamism (H4)</b>									
High	12	2637	0.43	0.30%	0.26 to 0.58	-0.23 to 0.82	5.46*	0.07	0.29 to 0.50
Low	8	4430	0.36	0.14%	0.01 to 0.63	-0.58 to 0.89			

k = number of independent samples; N = total sample size,  $r_c$  = sampling error corrected average correlation

### 3.4.3 Meta-regression

Following that, the robustness of the bivariate analyses was determined by meta-regressions. As demonstrated in Table 3.3, the link between trust-based ties and indirect outcomes is predicted by the main effect and interaction terms of trust-based ties, as well as by the two moderators. The importance of the interaction terms was used to determine if the impact size of trust relationships varied between moderator subgroups.

As shown by the significant interaction effects in Table 3.3, effect size of strong ties was smaller for inter-organisational relationship in hostile environment but larger in dynamic environment rather less dynamic or predictable environment. It applies to both dependent variables. However, these two models show contradict direction of causality. Trust ties have a negative effect on the information sharing commitment in hostile environment, while positive slope on the trust ties-information sharing and trust ties-commitment relationships in dynamic environment.

Model 2, 3, 5 and 6 was not hypothesized in this study. However, additional effort was taken in order to see whether there might be different result if these two environment characteristics analysed independently. As refer to the Table 3.3, the values are quite similar.

Table 3.3 Results of meta-regression predicting effect size of trust-based ties on indirect outcomes

Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	B	p-value										
Environmental hostility	-0.047	0.401	-0.032	0.081			-0.059	0.350	-0.400	0.003		
Environmental dynamism	0.012	0.101			0.083	0.000	0.014	0.110			0.070	0.001
Trust ties	0.094	0.216	0.094	0.000	0.084	0.000	0.094	0.100	0.095	0.000	0.100	0.000
Trust ties * Environmental hostility	-0.067	0.001	-0.015	0.071			-0.009	0.001	-0.020	0.055		
Trust ties * Environmental dynamism	0.091	0.046			0.026	0.209	0.088	0.044			0.030	0.068
R <sup>2</sup>	0.495		0.447		0.497		0.487		0.444		0.488	
F-value	5.77		4.92		5.94		5.56		4.80		5.57	
Significance level	0.001		0.001		0.001		0.001		0.001		0.001	

Note: Dependent variable for model 1, 2 and 3 is **the overall effect size of trust-based ties on information sharing**; Dependent variable for model 4, 5 and 6 is **the overall effect size of trust-based ties on commitment**.

### 3.5 Discussion

Trust-based tie has been proved to influence constructive behaviours (which in this research referring to information sharing and commitment) where ultimately improve business performance. Based on the performance measures used in this research, the performance variables consider the subjective evaluation perspective (Zaheer, McEvily and Perrone, 1998a), the financial perspective (Gulati and Nickerson, 2008), the cost perspective (Corsten and Felde, 2005) and the business process perspective (Carson *et al*, 2003). Analysed out of our interest, the meta-analysis provides a strong support for the link between trust and performance. However, this result combines all difference perspectives (direct and indirect economic outcomes) into one economic outcome. In line with our literature review, future research may investigate specific or separate direct economic outcome.

Interorganizational trust research indicates that it also results in non-economic but nevertheless positive benefits for the partnership. Numerous studies agree that inter-organizational trust facilitates information sharing by improving the relationship's openness (Squire, Cousins and Brown, 2009) and decreasing the requirement for information protection mechanisms (Cheng, Yeh and Tu, 2008; Norman, 2004).

According to past study (Geyskens, Steenkamp and Kumar, 1998), the relationship between trust and commitment has been well-documented throughout the chosen studies. For instance, it has been demonstrated that a high level of inter-organizational trust increases partners' loyalty and support for change (Jambulingam, Kathuria and Nevin, 2009; Chow and Holden, 1997). Similar to our findings, trust and commitment have an above-average association. However, it was Morgan and Hunt's (1994) seminal work that caught our attention, since several research address the fact that trade participants desire only trustworthy partners, as commitment includes vulnerability. The idea is backed up by meta-analysis, which demonstrates that increased inter-organizational trust promotes emotional commitment while decreasing calculative commitment. While this study combines these two factors into a single variable, this might explain why the results are contradictory. Additional research may be conducted on this subject.

#### 3.5.1 Practical implications of theoretical moderators

As for the theoretical moderators, this research examines two moderators under external environment characteristics which are the hostility and dynamism of the environment. The results indicated that trust ties will be greater effect towards business performance for low hostile and highly dynamic environment. This finding consistent with Krishnan, Geyskens and Steenkamp

(2016), where their findings show a non-significant inter/intra-culture differences in the performance implications of trust-based tie.

The term of “hostility” in this research refer to danger and lack of control over the events or subjects that may affect to business’s survival (refer to Section 3.2.7.1). According to Ulset (1996) and Allen and Philips (2000), the possibility for opportunistic behaviour is likely to exist in heavily R&D companies. According to Krishnan et al. (2016), trust loses utility under high behavioural uncertainty as environmental uncertainty grows. In other words, the players tend to engage in opportunistic behaviours and disregard the values of trust links that have been preserved, where tacit knowledge and innovation are critical to the survival and growth of the business, and they are doing business in a hostile environment. The issue of trust diminishing usefulness favours more research.

### **3.5.2 Limitations and future research directions**

Numerous limitations of the current meta-analysis suggest intriguing areas for further investigation. To begin, in addition to the factors studied, there are additional risk-related moderators of the trust-performance relationship that could not be addressed in the current meta-analysis. For example, owing to misunderstandings, stereotyping, and a lack of common social norms, demographic or functional diversity within an organisation may exacerbate risk perceptions in inter-organizational connections.

Second, a substantial portion of the main studies included in this meta-analysis used cross-sectional data. Thus, reverse causation cannot be ruled out. Longitudinal data should be used in future research to separate the causal effects. Along with resolving issues about causation, this form of research may allow for the exploration of novel problems. For instance, which trust network paths generate the highest value? How do interpersonal and inter-organizational trust interact to influence corporate performance? When is the stability of a trust network more desired and advantageous?

Additionally, our findings are confined to surviving enterprises, as the majority of original research failed to account for failing businesses. Examining survivor bias is crucial since an organization's trust relationships may affect both its desire and capacity to exit endeavours. For example, by expanding their liberty and exposure to different business prospects (Gimeno *et al*, 1997) ties may improve business performance thresholds (Burt, 2005). Future studies should examine how trust relationships affect the chance of firm closure and the exact processes at work.

Previously, there are researchers examined the multifaceted nature of inter-organizational trust. In summary, topics concerning the establishment and level of inter-organizational trust offer several avenues for academic investigation. While the advantages of trust have been thoroughly examined, there has been little attention paid to the costs of trust formation. Additionally, scholars may expand on the concept of “the dark side of inter-organizational trust”, as this field currently lacks theoretical focus and empirical effort (Delbufalo, 2012). The opportunities for research into the relationship between inter-organizational and interpersonal trust are also vast, as they encompass issues of construct validity and analysis level, as well as their mutual influence and the contingent role of interpersonal trust in affecting the outcomes of inter-organizational trust. In general, the study of moderating circumstances for the impact of trust-based linkages across organisations is only getting started.

Finally, future studies should disentangle trust from other emerging states. For example, given the strong meta-analytic correlation between trust and direct economy outcomes ( $r = 0.40$ ), future research should examine the extent to which different types of trust and direct economy outcomes are associated with different types of risk-taking behaviours, as well as the extent to which their effects are moderated differently by risk perceptions. Such research would lend better conceptual clarity to the literature on group dynamics.

### **3.6 Conclusion**

By synthesising cumulative findings and identifying novel moderators, this meta-analysis contributes to a better understanding of the contingent value of trust-based ties for organisations and their inter-organizational relationships and demonstrates how external factors such as environmental and cultural characteristics may influence research findings. For firms, our findings clearly demonstrate the value of creating trust networks rich in bridging social capital, but also demonstrate the need for market- and country-specific networking strategies. For scholars, this research undoubtedly expands the transaction costs hypothesis, which is primarily utilised to justify and explain the beneficial effects of trust relationships on corporate performance. Additionally, this research confirms the growing prominence of social capital and social network theory in the field of entrepreneurship but raises fresh concerns regarding their temporal and contextual boundary constraints. We hope that our meta-analysis will serve as a springboard for further study on this vital subject.

## Chapter 4 Article II

The relationship of trust-based ties, entrepreneurial activity and economic growth in developing countries

### Abstract

The importance of trust has been acknowledged in the economic literature for some time. Numerous prominent economists have emphasised the importance of trust in economic progress (Smith and Barclay, 1997; Keynes, 1963). Keefer and Knack (1997) and Zak and Knack (2001) established the present literature on trust-growth relationship by utilising World Values Survey (WVS) data on generalised trust. They demonstrate that trust is positively connected with growth when numerous established factors of growth are taken into account. Numerous research initiatives have been launched in response to their work, where the causal effect of trust on growth in further detail has been examined and concluded that trust did indeed promote growth (Aghion *et al*, 2010; Algan and Cahuc, 2010; Nunn and Wantchekon, 2011; Tabellini, 2010).

While the importance of trust-based relationship for firms and economic growth is underlined in a large number of scholarly studies, especially those in low institutional forces, its influence on firms' economic performance remains largely unstudied (Berulava, 2013). Are companies that rely on trust in their dealing with partners are better off than those that do not? Are organisations that leverage their trust network able to seize opportunity for expansion or exit? Despite its relevance, there is yet no discernible empirical response to this topic (Berulava, 2013). As such, this research attempts to seek proof that the favourable functions played by trust links contribute to an increase in entrepreneurial activity, which in turn results in economic growth. In other words, this research aims to see the interconnection between trust and economic growth, via entrepreneurial activity.

### 4.1 Introduction

The relationship between trust and economic development has drawn more attention in the literature since Putnam's seminal study in 1993. Knack (1999) claims that due to lower transaction costs in high-trust societies, economic development is better. Resources do not need to be moved from production to protection because trust safeguards both property and contractual rights. Using data from a wide range of countries, Knack and Keefer (1997) and Zak and Knack (2001) demonstrate a favourable correlation between trust and economic development (poor, middle, and high-income). Helliwell (1996), on the other hand, uses data from a set of high-income OECD countries to demonstrate a negative connection. On the other hand, Beugelsdijk and van Schaik (2005) examine local data from high-income European countries and find no correlation at all. Using data from US states, Dincer and Uslander (2007) discovered a favourable link between trust and growth. As previous literatures provide mixed findings on the relationship between trust and

## Chapter 4

economic growth, it triggers us of the missing link that might explain this situation. What if the missing variable is entrepreneurship?

What is entrepreneurial activity? In corporate settings, entrepreneurship occurs naturally. The entrepreneurial mindset that successful corporate organisations embrace supports change and growth. However, the entrepreneurial process enables people to persist and develop while encountering commercial instability. Entrepreneurship may come from a variety of places, including opportunity- and market-driven businesses, innovation, digital technology, and entrepreneurship education. Entrepreneurship has previously been classified into opportunity-based and necessity-based categories. Other studies divided entrepreneurship into small business entrepreneurship and entrepreneurship driven by innovation.

Data reveals that entrepreneurs have a generally positive impact on economic growth, with drastically different results in diverse economic areas (Acs, 2006). Politicians are particularly interested with entrepreneurs, which unquestionably contribute to economic growth (Nuemann, 2021). However, researchers argue that the potential for entrepreneurship to boost the economy may be exaggerated (Summers, 2015). Entrepreneurship leads to unequal growth throughout the economy's different sectors. Studies of economic growth indicate that despite the presence of innovation, entrepreneurs, and innovation ideology, productivity growth has been "at best moderate in recent years." According to studies from the National Bureau of Economic Research, this is because innovation affects industries relatively differently, meaning that it has a major impact on the growth of some economic sectors but not all of them (Andrews et al., 2022). Academic literature reviews reveal that, although there is a generally positive relationship between entrepreneurship and improving welfare, it is complex and depends on a variety of factors, including the size of the local population, the density of entrepreneurs nearby, and the sector in which they operate (Nuemann, 2021).

"Entrepreneurship as trust". Why is that the case? The foundation of our interactions with others is trust. Since these entrepreneurs work with people, trust is at the core of all entrepreneurial activities. As a result, trust is a crucial component of being an entrepreneur since it is helpful when things are unknown (Mickiewicz and Anna, 2020).

To the author's knowledge, there are independent studies on trust and economic growth, entrepreneurship and economic growth, and trust and entrepreneurship. In order to address the mixed findings of trust and economic growth, this study makes use of data from emerging markets, as Helliwell (1996) suggest gathering trust statistics for a wider range of nations and regions. To further the line of research, this study adds entrepreneurship as the missing link to

explain the causal relationships between trust and economic growth as there is research show that trust have been holding most business together in developing economies and .

Against this background, the present study examines the following research questions:

RQ1: Is there any causal relationship between trust and economic growth in developing economies?

RQ2: If there is causal relationship, is entrepreneurial activity mediates it?

The study adds two distinct pieces of knowledge to the body of literature in order to address its research objectives. It first makes an effort to add to the body of knowledge on trust and economic development by employing a sample of developing nations. Second, this study intends to contribute to the explanation of the contradictory findings of trust and economic growth in other studies by include entrepreneurial activity in the interconnection.

The rest of the paper is structured as follows: Section 4.2 examines the theoretical and empirical research on the relationship between trust, entrepreneurial activity, and economic growth. The study methodology and data sources are described in Section 4.3. Section 4.4 goes through the estimation findings, and Section 4.5 wraps things up.

## **4.2 Literature review**

Trust-based ties are intangible resources that comprise skills and capabilities (something that the business 'does') that help firms to select, design, implement and achieve value-creating market strategies (Hall, 1992; Amit and Schoemaker, 1993; Day, 1994; Galbreath, 2005). Drawing from the resource view based (RBV) perspective, organisations may establish a sustained competitive advantage by leveraging productive trust-based relationship (Wernerfelt, 1984; Peteraf, 1993; Barney, 1991). The trust factor is critical in informal or relational governance (Bradach and Eccles, 1989). The idea of trust that underpins contractual relationships is founded on societal standards and personal interactions (Lewis and Weigert, 1985). Indeed, as Heide and John (1992) demonstrate that norms are critical for building economic and efficient relationships between autonomous enterprises. They suggest that supporting norms offers a considerable economic value when certain assets must be secured. By lowering the probability of opportunistic behaviour and uncertainty, trust alleviates demand for vertical integration (Granovetter, 1985). On non-contractual economic cooperation, Macaulay (1963) discovered that commitment norms place duties on parties to transactions at the price of personal relationships. Arrow (1979) highlighting the control mechanism role of trust, characterises it as "...an important lubricant of a social system" (p. 23). Obtaining alternative sanctions and assurance would be highly costly without

confidence, and many possibilities for mutually beneficial collaboration would have to be lost (Arrow, 1969).

#### **4.2.1 Theoretical literature linking trust ties and entrepreneurial activity**

Welter (2012; p. 194) summarises the linkages between trust and entrepreneurship: “When pursuing entrepreneurial activities and trusting, individuals deal with the unknown; when acting entrepreneurially, we do not know whether we will achieve the intended results; and when trusting, we do not know whether the persona in whom we trust will be worthy of it”.

Trust, network, social norms and associational activity are all thought to be critical components of successful economies in the previous research. As Bjørnskov (2006) discusses how generalised trust and social norms are significant components of social capital (along with associational/network activity). In this research, we will use generalised trust to quantify trust-based ties (i.e. an optimistic expectation about the behaviour of fellow citizens, many of whom we do not know personally).

Entrepreneurship is a process that involves the discovery, creation and exploitation of possibilities to introduce new products and services, new organisational structure, or new processes (Venkataraman, 1997; Shane and Venkataraman, 2000). By focusing on the initial stage of entrepreneurial process, this research adopts the Kirzner (1973) perspective on opportunity recognition, which states that entrepreneurial possibilities come from individuals’ uneven access to information. In summary, people uncover opportunities as a result of their realisation of the worth of fresh knowledge (Shane, 2000). Trust ties has been researched as the mechanism that facilitate information sharing.

According to the network literature, people obtain information through interactions with other people, who are in turn connected to others, and that network features affect the availability, timeliness, and quality of information access. To date, the literature on individuals’ network embedding has presented two perspectives. Specifically, Burt's (1992) structural hole arguments and Coleman's (1990) network closure argument. Both perspectives begin with the premise that the nature of networks influences information flow and hence the amount to which people may benefit from it.

Trust is essential for conducting business. Simply having an employment contract or engaging in business activities necessitates some amount of trust. Trust is an emotional as well as a cognitive act. Emotionally, it is when you disclose your vulnerabilities to others but feel they will not exploit your vulnerability. Logically, it is the point at which you have analysed the probability

of gain and loss, computed expected utility based on hard performance data, and decided that the individual in issue would behave predictably (McEvily et al., 2003).

#### **4.2.1.1 Measurement of trust ties**

The generalized trust variable has been a widely used trust and social variable, including data from the World Values Survey (WVS). The data are obtained in waves of survey, with each wave lasting around 4-5 years. There are six waves between 1981 and 2015<sup>16</sup>. In other words, if the country is covered by all waves, the maximum number of observations per country is six. As a result, the dataset's weakness when panel data is approximated (supported by Ahmad and Hall, 2016)<sup>17</sup>.

#### **4.2.1.2 Empirical evidence linking trust with entrepreneurial activity and economic growth**

Knack and Keefer (1997) and Zak and Knack (2001) are essential works to the empirical cross-country macro research on social trust<sup>18</sup>. For instance, Zak and Knack (2001) examine economic development in 41 countries, most of which are industrialised, by regressing both interpersonal trust (as measured by the WVS) and an index of formal institutional strength. When formal institutions are kept constant, the authors discover that interpersonal trust has a positive and substantial relationship with growth. They do not, however, examine the potential of non-linear trust effects of trust that vary according to the number of formal institutions. Beugelsdijk, De Groot and Van Schaik (2004) discover that the findings of Zak and Knack's (2001) robustness analysis are generally robust, even when institutions-related indicators (such as religion and political stability) are included, but that the marginal effect of trust is stronger in low-trust countries. Likewise, Tabellini (2010) demonstrates a beneficial effect of interpersonal trust on growth in European areas using an instrumental variable method, but does not examine on the differential influence by formal institutions<sup>19</sup>.

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<sup>16</sup> In all, there will be six waves of survey: 1981-1984, 1989-1993, 1994-1999, 1999-2004, 2005-2008 and 2010-2014. The first wave has just 21 countries, the fourth wave has 69, the fifth has 57, and the last has 60.

<sup>17</sup> Ahmad and Hall (2016) show that generalized trust variable obtained from the WVS does not produce robust results in panel estimation. This is apparently due to the variable's limited data availability across year.

<sup>18</sup> For a critical assessment of this line of study, see Durlauf (2002) and Durlauf and Fafchamps (2005).

<sup>19</sup> Tabellini utilised data from 69 Western European areas with national fixed factors. The tools employed include the literacy rate around 1880 and executive constraints in the years 1600-1850. However, he excludes measures of formal institutions at the regional level. Beugelsdijk and Van Schaik (2005) found that associational activity best predicts growth as the results from analysing 54 European regions.

#### **4.2.2 Theoretical literature linking entrepreneurship and economic growth**

Davidsson (2003) explores many contemporary viewpoints on entrepreneurship and argues in favour of Kirzner's (1973) view that "entrepreneurship consists of the competitive behaviours that drive the market process". Entrepreneurship, in this context, is defined as the introduction of new economic activity into the marketplace. As such, entrepreneurship is demonstrated not just by new enterprises entering the market, but also by established firms entering the market in inventive and imitative ways.

From historical perspectives on entrepreneurship, theoretical and descriptive reasons connecting entrepreneurship and economic growth have arisen in a variety of domains of economics and management research, including economic history, industrial economics, and management theory. Wennekers and Thurik (1999) and Carree and Thurik (2003) conduct comprehensive reviews of the broad literature on entrepreneurship and economic growth. According to the literature, entrepreneurship improves economic performance through introducing innovations, fostering change, fostering competition, and fostering rivalry. The knowledge and technology revolutions of the last two decades have revitalised theoretical thinking on the relationship between entrepreneurship and growth, with new ideas coming from the fields of industrial evolution and evolutionary economics (Jovanovic, 1982; Audretsch, 1995). Entrepreneurs, according to evolutionary economics, act as change agents, introducing novel ideas to markets and stimulating growth through a process of competitive company selection.

Wennekers and Thurik (1999) synthesised diverse strands of literature to build an operational framework linking entrepreneurship and economic growth. They underline the entrepreneur's function beyond that of innovation. Entrepreneurs' role in innovation involves newness (implementing inventions), as well as new entrance (starts-up and entry into new markets). In their final framework, they clearly explain the myriad consequences and conditions occurring at various levels for entrepreneurial activities to ultimately impact on economic growth. In this paradigm, the impact direction of impact is not predetermined. However, if other factors remain constant, an increase in the number of entrepreneurs should lead to improved national economic growth.

To address a dearth of formal growth models that place a strong emphasis on the entrepreneur, Schmitz Jr (1989) conceived a model inspired by Romer's endogenous growth models (1986). According to these theories, new business formation is an endogenous predictor of economic growth that results from rational choice by individuals between employee and entrepreneur positions. This theoretical model concludes that increasing the degree of entrepreneurial activity in an economy results in increased economic output.

#### 4.2.2.1 Evidence relating new business creation to economic growth

There are few empirical research studies examining the econometric relationship between national economic development and entrepreneurship in the form of new business formation. This is partially because it has been difficult to create a measure of national entrepreneurialism that is suitably connected with national economic growth as measured by production, productivity, or wealth. As demonstrated in Wennekers and Thurik (1999) paradigm, macro level assessment of entrepreneurship requires operationalising entrepreneurship as a multidimension notion based on micro-level typologies.

The job creation literature abounds with evidence that small businesses and recently established enterprises generate a significant number of new employments, with some research indicating that tiny and newly formed organisations generate most new jobs. This result has been found in various studies on employment creation in a variety of nations, including the United States (Birch, 1979, 1987), Sweden (Davidsson, Lindmark and Olofsson, 1998) and Canada (Picot, Baldwin and Dupuy, 1995). Numerous writers have done within-country regional-level analyses correlating economic development and well-being with company entrance and departure dynamism. Like this paper's attempt to correlate new business creation with national economic development. Using data from business births and deaths in 382 United States labour market sectors, Reynolds and Curtin (2008) established a direct link between creative destruction as expressed by firm formation dynamics and economic growth as measured by job creation.

Apart from the literature on job creation, several studies analyse the ambiguous causal relationship between the development of new enterprises and the level of unemployment. Audretsch, Carree and Thurik (2001) present an outline of the relationship's opposing bidirectional pressures. Increased unemployment may have a good or negative influence on entrepreneurial activity (according to the push effect hypothesis of income choice) (according to the pull effect theories on entrepreneurial capability and risk attitude). Similarly, the reversed causality connection is uncertain. New start-up businesses create jobs for themselves and for established businesses (Fritsch and Mueller, 2004). However, given the poor survival and growth rates of new enterprises, their contribution to unemployment reduction would be modest.

Empirical studies indicate the existence of divergent causal linkages in both directions. Storey (1991) conducted an early study to describe the mixed empirical data about the unidirectional effect of unemployment on company start-up. According to certain research, such as Picot *et al* (1998), new firms boost employment levels through encouraging economic activity and producing new jobs. On the other hand, Evan and Leighton (1989, 1990) and Reynolds *et al* (1994), among others, established a "refugee" or "shopkeeper" effect, in which unemployment

causes individuals to seek self-employment, hence increasing entrepreneurial activity. Van Stel and Storey (2004) added that this "refugee" push effect, when combined with low entry barriers, may result in start-ups that provide employment for business owners but do not create revenue.

Numerous empirical studies have included this bidirectional causation and modelled entrepreneurship as an endogenous predictor of employment. These studies argue for the existence of both a "Schumpeter" and a "refugee" impact. The "Schumpeter" effect is said to likely to be noticed in advanced countries, whereas the "refugee" impact is more likely to be detected in lower-income countries with less established social security systems. In time series models, the refugee impact occurs during a business cycle slump. Audretsch and Thurik (2000) used these assumptions to develop an estimating equation that included changes in firm ownership as a component in the change in unemployment rate. They concluded, using data from 23 OECD nations from 1974 to 1994, that an increase in the number of entrepreneurs results in a decrease in the rate of unemployment.

The analysis was then broadened to include economic growth as measured by per capita production (GDP). Carree *et al* (2002) developed an error correction model to estimate the equilibrium rate of entrepreneurial activity as a function of an economy's stage of development. The equilibrium rate concept is rooted in the labour market's option between self-employment and paid employment. Additionally, this study used data from 23 OECD nations to calculate the equilibrium rates of entrepreneurship and shown that departures from these rates have a large and negative effect on GDP growth. Audretsch *et al* (2002) in a different field, used this framework to examine the influence of small business predominance and obtained a similar conclusion. Any country that deviates from the equilibrium rate of entrepreneurship pays a growth cost in terms of economic growth that is sacrificed. Thus, depending on whether a country's actual rate of entrepreneurship is greater than or less than its equilibrium rate, the link between economic growth and entrepreneurship can be negative or positive.

Entrepreneurship is defined in the research that use data from 23 OECD countries as firm ownership or self-employment, in accordance with Storey (1991). Carree *et al* (2002) admit that business ownership is not identical with entrepreneurship. They argue that in contemporary countries, the rise in firm ownership is a reasonable representation of the trend in entrepreneurship. The advantage of using firm ownership as a proxy for entrepreneurial activity is that comparable cross-country data on this metric are available via the Compendia 2000 – a dataset, which incorporates OECD labour force statistics and other country-specific data. However, because data from non-OECD countries is scarce, the study's scope is limited to developing nations. Additionally, company ownership statistics measures existing self-employed

firms, not the new ones. While the two may correspond strongly in developed nations, this is unlikely in emerging countries, where entrepreneurial activity is projected to be more variable. The GEM's fresh empirical data may help overcome these problems (Reynolds *et al*, 1999). However, prior research on the relationship between entrepreneurial activity rates as assessed by GEM and economic growth has been confined to bivariate correlations with short-term GDP rates, with no attempt to adjust for other variables (Reynolds *et al*, 2000, 2001, 2002).

Thus, two hypotheses are proposed to evaluate the link between trust ties, entrepreneurial activity and economic growth:

**Hypothesis 1:** Trust ties matter to economic growth in developing countries under study

**Hypothesis 2:** Trust ties affects economic growth via total entrepreneurial activity in developing countries under study

### 4.3 Methodology and data sources

#### 4.3.1 Data sources

**Rate of Economic Growth**, the dependent variables, is calculated using the growth in GDP per employed person over a five-year period. The growth rate is calculated by averaging the yearly compound growth rates from 2008/2009 to 2013/2014. The average growth rate over a five-year period is used to level out yearly growth rate volatility. GDP figures are derived from the International Monetary Fund's World Economic Outlook (IMF). Euromonitor Global Market Information Database (GMID) data on employed individuals are derived from national sources.

**Total entrepreneurial activity.** The GEM Adult Population Survey provides data on TEA<sup>20</sup>. This collection provides a variety of entrepreneurial metrics derived from surveys of around 3000 respondents per nation (70 countries in 2013). The TEA is defined as the proportion of adults (18-64 years old) who are actively interested in establishing a new endeavour or who are the owner/manager of a firm that is less than 42 months old (Reynolds *et al.*, 2002).

**Generalized trust.** The World Value Survey (WVS) data on generalised trust are available for 72 countries. The WVS is undertaken in a number of countries: generally, more than 1000 respondents in each nation reply to several questions about their values on generalized trust. The poll contains a question concerning the respondent's level of trust: "Generally speaking would you

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<sup>20</sup> The list of countries included in this study can be found in Appendix B.1.

say that most people can be trusted or that you cannot be too careful in dealing with people?”. A total of 49 countries are taken as sample as they are categorised as developing economies and there are data collected on the generalized trust survey<sup>21</sup>.

### 4.3.2 Methods of analysis

The fixed effect estimation methodology was utilised in this study because it has the potential to lessen omitted variable bias and time-invariant heterogeneity when compared to the more often used cross-sectional estimation. This study carries two regression models.

To begin, this study uses a 49-country dataset to examine the relationship between trust and economic development. By altering the control variables, various models were evaluated, resulting in a standard model that would serve as the foundation for subsequent regression research. Second, we incorporate TEA indications. Thus, this research examines whether trust links have an effect on the TEA rate, while accounting for a variety of other factors. Second model, using economic growth as the dependent variable, the models are validated using controls and supplemented with TEA and the WVS trust indicator. The following generic types of regression models are used:

Equation 4-1

$$\begin{aligned} & \textit{Rate of economic growth} \\ & = \alpha_0 + \alpha_1 \textit{GNI per capita} + \alpha_2 \textit{Gini} + \alpha_3 \textit{growth population} \\ & + \beta_1 \textit{generalized trust} \end{aligned}$$

Equation 4-2

$$\begin{aligned} & \textit{Rate of economic growth} \\ & = \alpha_0 + \alpha_1 \textit{GNI per capita} + \alpha_2 \textit{Gini} + \alpha_3 \textit{growth population} \\ & + \beta_1 \textit{generalized trust} + \beta_2 \textit{TEA} \end{aligned}$$

### 4.3.3 Control variables

When studying the link between entrepreneurial activity and general trust, it is necessary to include additional elements that affect a country's entrepreneurial activity rate. Economic, institutional, and demographic factors are used as controls in this study to evaluate the hypotheses.

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<sup>21</sup> List of the countries included in the study can be found in Appendix B.1

The per capita income is used to determine the economic development level. Gross national income (GNI) per capita is represented in purchasing power parities per \$US and is derived from the World Bank's 2018 World Development Indicators database.

To account for institutional context, this research contains a variable on income inequality by nation. According to Zak and Knack (2001), trust erodes when a country has pay discrimination that is not motivated by economic motives. On the other side, trust is increased when a country's inhabitants experience a fair and equal distribution of money. Easterly, Ritzen and Woolcock (2006) argue that socially cohesive countries will ensure that the rich and poor share the costs and benefits of reforms equally, and thus will enjoy greater prosperity than more divided countries, where benefits accrue primarily to the rich and costs accrue to the poor. As a result, a country that is equitable in terms of economic distribution frequently has socially cohesive inhabitants who have a high level of trust among themselves.

In a demographic environment, growing population is critical. Growing population is predicted to boost entrepreneurship (Armington and Acs, 2002). An increasing population offers new economic opportunities as new and larger consumer markets arise because of population growth (demand side of entrepreneurship). Population expansion may also operate as a catalyst for new economic activity to earn a livelihood, particularly when immigration is the primary driver of population growth (supply side of entrepreneurship). The population growth rate from 1998 to 2014 is based on data from Gapminder, HYDE, and the United Nations Population Division (2018).

The correlation coefficients for the variables utilised in the study are listed in Table 4.1. Correlations between GDP per capita growth and predictors (generalised trust and TEA) appear to be in the opposite direction of the basic, with a negative significant connection between TEA and growth and no significant association between trust and growth.

Table 4.1 Correlation coefficients between variable in estimation equation

	Real GDP per capita growth	Generalized trust	TEA	Income inequality	Population growth
Generalized trust	-0.0029				
TEA	-0.4509*	-0.2617			
Income inequality	0.5093*	-0.5373*	0.1055		
Population growth	-0.2175*	-0.1452	0.0646	-0.3991*	
GNI per capita	0.9631*	-0.1034	-0.3749*	0.5971*	-0.1631

Note: \* Significant at 5%

#### 4.4 Estimation results and discussion

As panel data are employed in this investigation, fixed effect estimate is performed. The fixed effect technique is capable of decreasing estimate bias due to omitted variables and time-variant heterogeneity. The Hausman test was used to determine whether strategy is superior, and the test statistics show that fixed effects are favoured.

The rate of GDP growth in Equation 4.1 is calculated using generalised trust and its conditional convergence parameter. The results are summarised in Table 4.2 – refer to Model 1. Because there are no TEA data before to 2002, these regressions employ generalised trust from Waves 4, 5, and 6. Hence, it explained the drastic lesser number of observations in Model 5, 6, 7 and 8. Appendix B.1 is a list of the developing nations that participated in this study in detail.

All model specification in Table 4.2 use income inequality, population growth and gross national income per capita as control variable. Result for Model 1 include generalized trust and all three control variables. Separately, the control variables were added to examine their independent contingency in the link between trust and economic development, respectively to Model 2 – income inequality, Model 3 – population growth and Model 4 – GNI per capita. Our initial hypothesis is refuted by the results. Except for Model 4, where the coefficient is small. Model 1, 2 and 3 are insignificant. However, as the adjusted  $R^2$  value is high, there is some chance that the model is overfitting as lots of “insignificant” predictors.

The second level involves the use of variable trust and TEA as a predictor of economic development as show in Equation 4.2. The study indicates that the link between TEA and economic growth is inverse. All three models 5, 6, and 7 have a statistically significant weak and

negative association with economic growth. The TEA rate's opposing effect on economic growth is consistent with the findings of van Stel, Carree and Thurik (2004), who discovered that the TEA rate had a negative effect on relatively poor nations and a positive one on relatively wealthy countries. The most plausible explanation for this situation is that these developing nations do not have enough large firms. Large firms play an important role in leveraging economies of scale and breadth, allowing them to produce low-tech things. Many local residents may be hired by large firms, and via on-the-job training, these local residents may become more productive than when they managed a small business and struggled to make ends meet as an entrepreneur.

Furthermore, smaller businesses may thrive near larger organisations since they may act as suppliers to giant corporations (by outsourcing) and learn a lot from them. Nonetheless, as a viable alternative to unemployment, entrepreneurship should be supported in developing countries.



Table 4.2 Regression of growth model

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Constant	4.2035***	6.809***	9.0988***	2.6144***	8.4670***	11.517***	10.2018***	3.1306***
<i>Control variables</i>								
Income inequality	-0.0053	0.0547*			-0.0241***	-0.0282***		
Population growth	-0.3006*		-0.3970**		0.4553**		-0.0547	
GNI per capita	0.6352***			0.7629***	0.2717**			0.7297***
<i>Predictors</i>								
Generalized trust	-0.0013	-0.0039	-0.0021	0.0061***	-0.0027	-0.0080**	0.0035	0.0019
Entrepreneurial activity					-0.0231***	-0.0307***	-0.0424**	-0.0072
Observations	32	33	92	87	18	18	37	36
Adjusted R <sup>2</sup>	0.9104	0.2152	0.0271	0.9369	0.8530	0.7208	0.1354	0.9374*

Notes: Dependent variable: Log real GDP per capita growth. \*\*\*p<0.01, \*\*p<0.05, \*p<0.10

## 4.5 Conclusion

The article's main aim is to examine the link between trust, entrepreneurial activity, and economic growth in developing nations in the Asia, African, and Latin American areas over a ten-year period, 2004–2014. This study uses panel estimation to examine the most generally used measure of trust, generalised trust as measured by the WVS. However, due to the variable's low availability of data across years, any significant panel estimations are hardly to be achieved. It is supported by Ahmad and Hall's work (2016).

In general, a higher level of entrepreneurialism does not imply improved economic success. This condition may be compared to the definition of the total TEA rate, which defines entrepreneurship broadly as the proclivity to engage in entrepreneurial endeavours and manage newly founded enterprises. This implies that only specific entrepreneurial activities and services may generate growth at the microeconomic level. Because the current research is at the aggregate macroeconomic level, the study is unable to discriminate between these various entrepreneurial responsibilities. However, emphasise this as an area in need of empirical research.

## Chapter 5 Article III

Trust-based ties and perceived environmental dynamism in the entrepreneurial orientation-performance relationship in a developing economy: A study of B2B relationships of SMEs in Malaysia

### Abstract

Previous academic researchers have indicated a favourable association between entrepreneurial orientation (EO) and corporate performance, although the relationship is contingent on a number of variables. The RBV, contingency theory, and regulatory focus theories are used to demonstrate how the different domain of inter-organisational trust relationships and external environmental dynamism interact to effect EO-business performance. In dynamic market situations, a survey of 253 Malaysian small and medium-sized companies (SMEs) in the service sector reveals that the positive moderating effect of inter-organizational cognitive and affective-based trust marginally enhances the EO-performance connection. Quantile regression was used to elucidate the nature of these relationships further. The study's ramifications are reviewed, as well as future research options.

**Keywords:** SMEs, entrepreneurial orientation, developing economies, cognitive trust, affective trust, perceived environmental dynamism

### 5.1 Introduction

Entrepreneurial orientation (EO)<sup>22</sup> scholars have conducted empirical research on the independent effect on EO on performance (e.g., Zahra and Covin 1995) and its conditional relations with various contingencies (e.g., Lyon, Lumpkin and Dess, 2000; Wiklund and Shepherd, 2005; Rauch *et al*, 2009). It is including internal variables (e.g., Covin, Green and Slevin, 2006) and external conditions (e.g. Covin and Slevin, 1989b). For example, Zahra and Covin (1995) discovered a statistically significant positive association between EO and company performance, which is strengthened over time. Additionally, they emphasised the significance of acquiring first mover advantages as a consequence of high EO, which resulted in improved company performance. According to a recent assessment of EO studies, certain business resources and competencies may result in increased EO and/or improve EO-outcome correlations (Covin and Miller, 2014; Miller, 2011; Wales, 2016).

Entrepreneurial studies in the past have demonstrated that businesses may favourably impact EO via networking (Parida, Westerberg and Ylinenpaa, 2009). As a result, new businesses

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<sup>22</sup> EO is an assessment of an organization's strategic orientation, exhibiting unique entrepreneurial features of decision-making styles, processes, and practises (Covin and Slevin, 1991; Lumpkin and Dess, 1996).

and small organisations profit from joining networks and thereby getting advantages from external links. Networking has been shown to favourably impact entrepreneurial possibilities (Stam, 2010; Giudici, 2013).

Pursuing entrepreneurial strategy requires a high level of resource commitment (Covin and Slevin, 1991). Due to the time and difficulty involved in developing all the resources necessary to effectively market a company concept on their own, businesses typically rely on external relationships to gain access to limited and specialised resources necessary for establishment and growth (Giudici, 2013).

While past research has acknowledged the value of networking for businesses, it has not evaluated the impact of various network topologies on EO and performance. No clear data exists on how different network configurations affect business performance. Studies have demonstrated that network relationships can help improve EO and performance. However, it is unclear which network topologies are most beneficial for new and current businesses (Luke Pittaway *et al*, 2004).

To the author's knowledge, as in regard of how networking is used as a moderating variable in EO research, there have been no rigorous attempts in examine the trust-based tie within the EO-performance relationship. It looks as though EO and networking researchers have concentrated exclusively on how organisations are structured to undertake entrepreneurial activities, ignoring the role of trust that act as lubricant and governance agent of an inter-organisational relationships<sup>23</sup>. To further this line of research, this study examines whether the link between EO-firm performances is dependent on the firm's trust-based ties. The current study contributes to the body of knowledge on how EO interacts with firms' trust-based links to boost performance by claiming that trust in relationships plays a role in converting and aiding EO into enhanced performance.

A significant argument is that, given the unpredictable success of new goods and services and the difficulties inherent in building new companies with limited resources, trust relationships may serve as a critical motivator of entrepreneurship (Doh and Zolnik, 2011; Gedajlovic *et al*, 2013). Thus, trust relationships may operate as supplementary capital, enabling entrepreneurial actions to convert into enhanced corporate performance. In response to the diverse and multidimensional character of trust, this research's model of trust relationships incorporates

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<sup>23</sup> Alliance, joint venture, supply chain agreement, franchising or cross-sector partnership are all examples of inter-organisational connections that are increasingly becoming more important in obtaining competitive edge (Parmigiani and Rivera-Santos, 2011)

cognitive and affective dimensions (McAllister, 1995). Whereas cognition-based trust is founded on an individual's cognitive assessment of another's reliability, integrity, and competency, affect-based trust is founded on an individual's emotional participation and others' genuine concern for their wellbeing (De Jong, Dirks and Gillespie, 2016).

Thus, the current study contributes to the body of knowledge on how EO interacts with the aspects of inter-firm trust ties to improve firm performance by claiming that trust ties are crucial in transforming EO into improved performance. A significant insight is to claim that, while EO guides firms in pursuing new market prospects, its effective execution demands commitment and a strong team across the whole chain of operations. For instance, Shane, Locke and Collins (2003, p. 259) stated that “the entrepreneurial process occurs because people act to pursue opportunities.” Further, Nootboom (2002, p. 45) provides links on trust and opportunities; “Trust in things or people entails the willingness to submit to the risk that they may fail us, with the expectation that they will not, or the neglect or lack of awareness of the possibility that they might”. This demonstrates that the discipline of entrepreneurship, where full of uncertainty, the value of being vulnerable and dependent to others might be useful in executing entrepreneurial operations or otherwise.

This study looks at how the dynamic of the environment in which the company works effects the interplay of EO and aspects of trust connections to generate a more nuanced knowledge of how EO and elements of trust ties interact. The existing evidence suggests that environmental factors have an impact on trust aspects (e.g. Perrone, Zaheer and McEvily, 2003; Krishnan *et al*, 2006). Based on the view that trust may contribute systematic bias that might result in faulty judgments in dynamic environments, this study proposes that leveraging each aspect of trust-based connections on the EO-performance relationship should be stronger in situations defined by continual flux (Krishnan, Martin and Noorderhaven, 2006). This suggests that the moderating impact of trust ties factors on the link between EO and firm performance will be larger in contexts where high levels of activation are generated than in environments where low levels of activation are generated. In these conditions, the development of fresh information and expertise, as well as a quick reaction to changing circumstances, appear to be particularly vital for entrepreneurial enterprises. As a result, this study concluded that the link between EO and performance is weaker when the environment is dynamic than when it is static.

Against this background, the present study examines the following research questions:

*RQ1.* How do the inter-organisational trust ultimately moderate the relationship between EO and firm performance?

*RQ2.* How does perceived environmental dynamism moderate this relationship?

In addressing the research objectives, the study makes two specific contributions to the literature. To begin, and most broadly, it attempts to contribute to existing research on the role of company network in entrepreneurship<sup>24</sup> in implementing entrepreneurial activities. This study analyses the significance of trust relationships' cognitive and affective dimensions in EO and firm performance. Thus, this study addresses the need to examine the business network type and level (Covin, Green and Slevin, 2006).

Second, it has been claimed that examining integrative processes might provide deeper insight into company performance by simultaneously considering internal and external influencing elements (Wiklund and Shepherd, 2003). Exogenous factors may change the role of inter-organizational trust in determining EO-firm performance. Extensive research suggests that these impacts occur against a powerful environmental backdrop (Baron and Tang, 2011). Because the contexts in which entrepreneurs operate are generally unpredictable and constantly changing, trust networks have been found to have substantial effects on the domain of entrepreneurship (Baron, 2008; Mitchell *et al*, 2007).

The foregoing factors, together with an increasing body of empirical research demonstrating the critical role of trust in the pursuit of entrepreneurial activities, demonstrate the value of exploring how trust links impact the EO-performance relationship. As a result, this study asserts that the influence of trust links on the relationship between EO and business performance changes depending to the degree of environmental dynamism. Consequently, cognitive-based and affective-based ties were proposed as a cognitive resource to expand network theory and to address the issue of what changes are likely to occur in a constantly changing business environment. By doing so, this study contributes to the trust and network literature by introducing environmental dynamism as a critical border condition.

## **5.2 Literature review and conceptual framework**

### **5.2.1 Research model and theoretical rationale**

Entrepreneurial orientation (EO) has received considerable conceptual and empirical attention, and is one of the few areas of entrepreneurship study in which a cumulative body of knowledge is forming. Meta-analysis done by Rauch *et al.* (2009) found a relatively strong connection between

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<sup>24</sup> In regards of trust network, some scholars used the terms social capital to explore the trust related ties (Stam, Arzlanian and Elfring, 2014).

EO and performance (corrected  $r = 0.242$ ). More recently, meta-analysis done Rosenbusch, Rauch and Bausch (2013) also reporting nearly similar correlation of EO and performance link, which is 0.26. Thus, we can conclude that in general, EO and performance has positive and moderately strong relationship.

The focus of this study will be on the EO-performance relationship's boundary condition, as the majority of academic research demonstrates a positive correlation between EO and business performance (Rauch *et al*, 2009). No direct-effect hypothesis is therefore given. The current study argues that the facilitating role of trust-based ties between firms on the EO-performance relationship should deteriorate in dynamic environments, on the assumption that when the environment is in flux, prime decision makers would emulate the behaviour of other organisations in their environment through the adaptation of best practises, comparable market positions, and similar technologies (DiMaggio and Powell, 1983; Greve, 1998). In other words, to remain competitive or ultimately winning the game, the opportunistic behaviour will play their role when trust-based ties is involved, and the environment is uncertain. A changing environment permits the business and its partner to exploit new market niches and regional markets ahead of competitors, rather than maintain their trust relationship.

The influence of EO is examined in this study using research from RBV (Barney, 1991), contingency theory (Venkatraman and Prescott, 1990), and regulatory focus theory (Higgins, 1997). The concept of RBV is based on a knowledge of the circumstances in which businesses may achieve sustained and superior performance through their resources, external capabilities, and market environment (Barreto, 2010; Kraaijenbrink, Spender and Groen, 2010; Katkalo, Pitelis and Teece, 2010; Barney, 1991). According to the RBV, businesses are unequally distributed bundles of resources (Wernerfelt, 1995, 1984) that generate persistent resource heterogeneity that serves as the foundation for business performance (Barney, 1991). A core belief of the RBV is that a business may create a competitive advantage by acquiring and controlling valuable, scarce, unique, and non-replaceable resources and skills, and then efficiently deploying them in a dynamic market context (Teece, Pisano and Shuen, 1997). In this aspect, a business can achieve a competitive advantage if it possesses a broader and more robust resource base than its existing and future competitors (Peteraf and Barney, 2003). As a result, businesses' EO may be considered as a strategic asset that enables them to compete in target markets by delivering consumers goods and services with additional and/or differentiated value in comparison to rivals (Kim and Park, 2010; Schilke, 2014).

This study asserts, in particular, that the association between EO and company performance is predicted to be higher at high levels of trust between firms, and that the

moderating influence of trust network on EO-firm performance relationship is less when the environment is in flux. This study argues that SMEs in emerging markets lack all of Barney's VRIO (value, uncommon, unique, and organising) characteristics (1991). When some, but not all, of the VRIO conditions are present, the RBV gives some insight into probable outcomes. For example, SMEs with a cognitive resource advantage may be able to leverage their strategically valued resources, such as EO, to build an advantage. As a result, enterprising, resource-rich enterprises are expected to generate growth. As a result, the association between EO and performance is projected to be highest in SMEs operating in emerging economies that meet all VRIO requirements.

In line with this idea, strategic orientation (e.g. EO) outlines what a company does strategically. As a result of the current study, EO is defined as a firm's proclivity to seek out new market opportunities (Matsuno, Mentzer and Özsomer, 2002; Lumpkin and Dess, 1996), and it manifests itself through a firm's proclivity to accept innovativeness, risk-taking, proactiveness, competitive aggressiveness, and autonomy (Lumpkin and Dess, 1996). The RBV-based EO study has demonstrated why EO serves as a foundation for improved business performance. To begin, increased EO indicates that organisations are more likely to adopt an opportunity-seeking approach, which is the process of identifying market segments that might provide the firm with future benefits (Wiklund and Shepherd, 2011). Due to the emphasis on experimental activities, businesses with a high level of entrepreneurial processes are adept at developing new organisational forms and industry configurations and are capable of reshaping market arrangements to their benefit (Baker and Sinkula, 2009).

While several research and meta-analyses generally affirm the beneficial effects of EO (Rauch *et al*, 2009), a small number of studies have discovered no significant link between EO and company performance (e.g. Ireland, Kuratko and Covin, 2003). Furthermore, extent research has been more consistent in demonstrating that the strength of the EO-firm performance relationship is contingent on a variety of factors (e.g. Lyon, Lumpkin and Dess, 2000), including external conditions (e.g. Zahra and Covin, 1995) and internal variables (e.g. Covin, Green and Slevin, 2006). Thus, the concept that EO benefits businesses regardless of the operating environment in which they operate presents an inadequate picture of EO and its link to firm performance.

This study implies that EO is a resource that may help companies perform better, and that trust networks between firms are a cognitive process that, when matched with EO, can help firms perform better. A considerable body of study has shown the critical nature of trust, leading to the conclusion that companies' trust-based linkages can serve as an additional resource for strengthening strategy execution in organisations. Trust promotes collaboration (Pillutla,

Malhotra and Murnighan, 2003), lowers transaction costs (Granovetter, 1985) and helps managers and organisations to perform well (Kim *et al*, 2006; Dirks and Ferrin, 2001; Jones and George, 1998). Interfirm trust appears to be inextricably linked to intrafirm trust in studies of small entrepreneurial firms (Howorth, Westhead and Wright, 2004; Larson, 1992; Sapienza and Korsgaard, 1996; Zaheer and Harris, 2006). The effectiveness of trust varies under conditions of behavioural and environmental uncertainty. As a result, this study builds on core premises from regulatory focus theory (Higgins, 1997) and contingency theory to offer a comprehensive understanding of how EO and trust networks interact in dynamic market contexts where the company operates.

The regulatory focus hypothesis emphasises how individuals may not place the same value on prospective good outcomes (opportunity) as they do on potential bad consequences (Higgins, 1997, Brockner, Higgins and Low, 2004; De Carolis and Saporito, 2006). The current study suggests that the enabling function of trust networks in the EO-firm performance connection should be highest in stable markets, based on the notion that individual qualities such as trust will deteriorate and opportunistic behaviour would grow (Morgan and Hunt, 1994). Thus, in dynamic circumstances, produce lesser outcomes (Baron and Tang, 2011). A core belief of regulatory focus theory is that individuals approach pleasure and avoidance of pain in distinctive ways (Brockner, Higgins and Low, 2004). This statement is expressed in two-main self-regulatory systems: "promotion focus" and "prevention focus." The primary distinction is that those who focus on "promotion" emphasise possible profits, while those who focus on "prevention" emphasise avoiding potential gains (Brockner, Higgins and Low, 2004). The concepts of "promotion emphasis" and "prevention focus" are congruent with entrepreneurial thinking, which holds that identifying, reshaping, and responding to possibilities lies at the intersection of the individual and the environment (Shane and Venkataraman, 2000).

In particular, a central postulate of contingency theory is that management decisions are influenced by external circumstances. According to prior study, the environment in which a business works is essential in influencing the strategy of the organisation (Covin and Slevin, 1991). The report claims that the opportunities created by the changing environment enable firms to be first and exploit new market niches and regional markets ahead of competition. To effectively adapt to external constraints and seize new market possibilities, trust networks facilitate operational efficiency and, in certain cases, information sharing. There, we use a core principle of contingency theory to demonstrate that when the environment is in flux, the value a business derives from a trust network while using EO diminishes. The suggested conceptual model in Figure 5.1 encapsulates this rationale. Firm performance is impacted by EO, as seen in Figure 5.1. Additionally, the current study asserts that the strength of trust-based linkages enhances EO's

influence on firm performance in stable circumstances. The next part discusses the study's theoretical foundations.

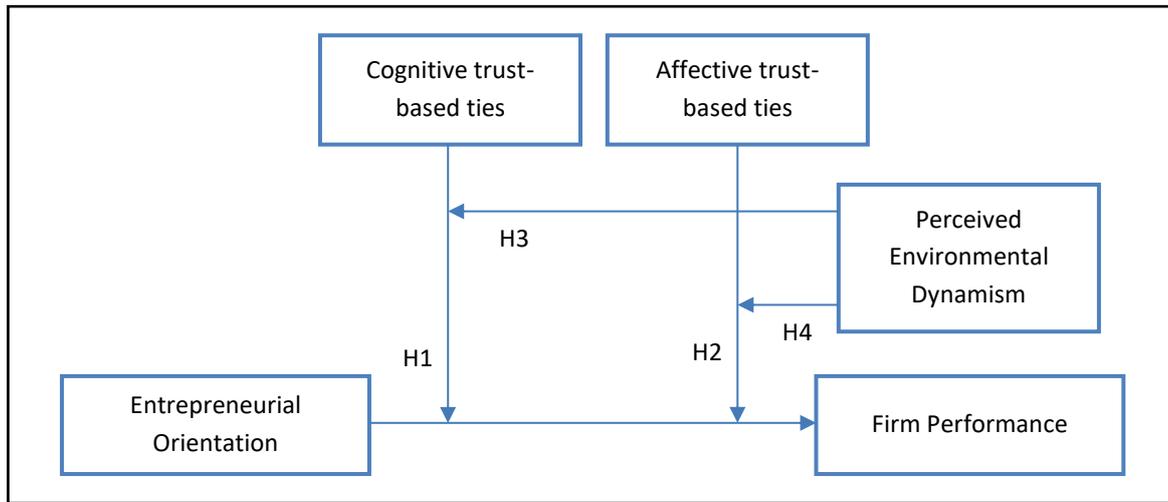


Figure 5.1 Conceptual model (Source: self-developed)

### 5.2.2 Moderating effects of inter-organisational trust-based ties

Entrepreneurial studies in the past have demonstrated that businesses may have a good impact on EO through their networking methods (Parida *et al*, 2016, 2010). New enterprises and small businesses benefit from joining networks and thereby receiving advantages from external partnerships to fully extract their entrepreneurial potential. Networking has been proven to increase entrepreneurship prospects (Stam, 2010; Giudici, 2013).

In the absence of formal contracts, the unseen relationships that bind individual actors together are likely to garner academic attention (Kilduff and Tsai, 2003). Most businesses have a mix of controllable and non-controllable behaviours. Concept of trust is applied where there exists behaviours that cannot be observed and controlled (Dirks, 2000; Dirks and Ferrin, 2001). Trust in an organizational context has widely been researched. However, there is an attempt by McEvily, Perrone and Zaheer (2003) to make trust as an organizing principle rather than an antecedent or channel to enhance or give impact towards organizational phenomena. They define trust in their paper as an expectation or an intention. To tolerate vulnerability based on favourable assumptions about another's intentions or behaviour is similar to general degree of trust (Mayer, Davis and Schoorman, 1995; Rousseau *et al*, 1998).

This research employed two elements of trust in order to correspond to the concept of multi-layered trust. They summarised in Table 5.1 and further explained in Section 5.2.2.1 and Section 5.2.2.2.

Table 5.1 Elements of trust (Source: Dowell, Morrison and Heffernan, 2015)

Base	Element	Definition
Cognitive	Competency	A person's ability to complete a task to a desired level. An industry or academic attainment that creates a perception of a person being capable to complete a task.
	Integrity	Adherence or delivering on what is promised and contracted and conforming to ethical standards.
	Goodwill	Completion of tasks over and above what is required and agreed to. The presumption of a positive orientation, motives and intentions of the other person.
Affective	Relational	Faith in the norm of reciprocity.
	Intuitive	Results from friendship with and/or feelings towards another.

### 5.2.2.1 The cognitive elements of trust

Cognitive trust is when individual looks for rational reason to trust other party (McAllister, 1995). According to Rotter (1967, p.651) trust is "generalised expectancy held by an individual that the word, promise, oral or written statement of a group can be relied upon". There are multiple components to this description, including an expectation, a promise, and the capacity to rely on the other person (Schurr and Ozanne, 1985).

A number of cognitive aspects may be discovered based on the business research conceptualization of trust (see Table 5.1). The first of the list is integrity trust, which is also referred to as contractual trust (Sako, 1992), commitment trust (Newell and Swan, 2000) and promise trust (Dasgupta, 1988). There is caused to assume that each of the cognitive parts of trust will positively impact relationship performance.

Integrity trust, one of the most critical cognitive components of trust, is defined as a partner that keeps their word or commitments as well as fulfils contracts (Ahmed, Patterson and Styles, 1999; Sako, 1992). In essence, integrity trust is founded on the moral standard of honesty (Sako, 1997). Integrity trust is likely to have a good impact on relationship performance. Adherence to contracts and values will establish one partner's credibility with the other (Mayer, Davis and Schoorman, 1995). If one partner has confidence in the other's ability to keep their word, contracts and sanctions can be reduced, resulting in cost savings and improved relationship performance (Sako, 1992). Moreover, partners must maintain their agreements or risk losing their investment, therefore integrity trust is necessary (Ahmed, Patterson and Styles, 1999).

The second component of cognitive trust is competency trust, which is often referred to as ability trust (Mayer, Davis and Schoorman, 1995) or expertise trust (Maathuis, Rodenburg and

Sikkel, 2004). This term refers to a partner's capacity to do duties or activities pertinent to their job within the partnership to a specific level of proficiency (Roy, Sivakumar and Wilkinson, 2004; Sako, 1992). Part of competency trust is assuming the partner has the necessary skills, credentials and experience to complete the task (Brashear *et al*, 2003). Competency is vital in relationships because partners are expected to do various activities to specified degrees of competency (Newell and Swan, 2000). When trust is present in this domain, the trusting partner permits them to complete the work. Thus, oversight and negotiations (discussions) can save money while improving relationships (Mayer, Davis and Schoorman, 1995).

The third cognitive aspect of trust is goodwill or benevolence trust, which refers to the degree to which one partner trusts the other would care after their interests without a formal request (Roy, Sivakumar and Wilkinson, 2004). The expectation of goodwill comprises the expectation that the partner will be prepared to perform additional and discretionary activities within the partnership, as well as the expectation that the partner will be accommodating and act fairly when new relationship situations develop (Ganesan, 1994). Thus, goodwill trust arises from additional activities made by one of the parties in a relationship that are visible. Thus, it is founded on a reasonable appraisal and understanding of the other party's prior behaviours and, consequently, proclivities (Morrow Jr, Hansen and Pearson, 2004).

Prior study has established that goodwill trust influences relationship performance. Partners who are more benevolent and less self-centred are more likely to be trusted in situations when little control over the relationship can be exerted, allowing for actions and efforts that may provide greater results (Ganesan, 1994). As a result, if goodwill trust exists, partners are more willing to trust the other despite short-term imbalances because of the advantages connected with the other partner taking advantage of them, lowering monitoring costs and enhancing performance (Ganesan, 1994).

### **5.2.2.2 The affective elements of trust**

Not all interactions can be explained rationally (Lawler and Thye, 1999) and some studies have emphasised the benefits of affective trust in supporting the formation of long-term relationships (McAllister, 1995). Thus, Young and Albaum (2002, p.255) propose a more encompassing definition of trust as “an evolving, affective state including both cognitive and affective elements and emerges from the perceptions of competence and a positive, caring motivation in the relationship partner to be trusted”.

Unlike cognitive trust, affective trust is a non-causally trusting attitude or motivation toward another person (Becker, 1996). Affective trust is built on demonstrated interpersonal

reciprocity, caring, and concern (McAllister, 1995). Essentially, affective trust is the confidence placed in another person as a result of the partner's sentiments, care, and concern (Johnson-George and Swap, 1982). It is founded on shared experiences with a partner and evolves over time, depending on contact frequency (Johnson and Grayson, 2005). Affective trust may be defined as an emotional connection, as well as sentiments of well-being and care (Lewis and Weigert, 1985).

Affective based trust is associated with emotions and the social skills including both care and concern for the other person (Dayan and Di Benedetto, 2010; Massey & Dawes, 2007), thus suggesting that affective trust has two components. This shows emotional insight and some reliance in the partner. Thus, the study defines two components of affective-based trust as relational and intuitive. Relational trust is associated with the reciprocity standard and the “leap of faith” component of affective trust. Relational trust is a reliance in the other partner to act in a trustworthy manner (Mollering, 2001). It implies the assumption that others will treat you in the same manner in which you treat them (McAllister, 1995). This is non-rational approach to the assessment of trustworthiness, based on the norm of reciprocity and not on knowledge or an actual assessment of past behaviours (Mollering, 2001). The emotions involved in a relationship may be observed here, as the beginning stages of a relationship will rely significantly on faith in the reciprocity norm. The second component of affective trust is intuitive trust, which refers to a subjective assessment of another person's character based on mood and sentiments (Hansen, Morrow Jr and Batista, 2002; Newell and Swan, 2000). For instance, a customer may just trust or distrust a provider without providing a rationale, resulting in an emotional judgement.

As the evidence that affective trust influences performance, it may improve relationship performance by reducing monitoring and increasing personal interaction through enhanced relational citizenship and support (Massey and Dawes, 2007). Morrow Jr, Hansen and Pearson (2004b) discovered that intuitive trust influenced performance, though it was mediated by general trust. McAllister (1995) found that affective trust influences performance, through mediated by citizenship behaviour and monitoring. However, Johnson and Grayson (2005) found that affective trust had a direct influence on subsequent encounters. For relational trust, they discovered that a lack of confidence in a partner's reciprocity would likely result in the individual terminating the connection or seeking more guarantees. While intuitive trust was shown to drive the need for further reassurance, they discovered that initial distrust based on various sorts of indicators would also drive the demand for additional guarantees, potentially leading to distrust and early termination of the relationship.

Thus, this study hypothesises the following:

**Hypothesis 1:** Cognitive trust acts as a moderator between EO and firm performance.

**Hypothesis 2:** Affective trust acts as a moderator between EO and firm performance.

### **5.2.3 The combined impacts of trust-based ties and perceived environmental dynamism**

To get a better understanding of the boundary condition and the role of inter-organizational trust in the relationship between EO and firm performance, this study explores how environmental dynamism affects the EO-firm performance relationship. Dynamism is a term that relates to the degree to which the settings in which businesses operate are unexpected and rapidly changing, resulting in high levels of uncertainty (Dess and Beard, 1984; Miller, 2007). The trust literature conceptualises trust as being more important in dynamic markets because it enables managers managing their organisations in dynamic settings to deal with turbulence and uncertainty as a result of the high levels of activation generated by these dynamic environments (Baron and Tang, 2011; Baas, De Dreu and Nijstad, 2008). On the basis of this finding, this study suggests that dynamic environments might be related to the moderating influence of trust networks on the link between EO and business performance.

According to the available management literature, entrepreneurship is defined by effective resource allocation. As a result, this study proposes that inter-organizational trust is critical for entrepreneurial organisations to fully exploit the potential of EO. This is because the degree to which people feel secure while performing work-related activities motivates them not only to support entrepreneurial endeavours, but also to direct their cognitive efforts toward exploiting knowledge resources in order to develop capabilities to manage environmental pressures (Kogut and Zander, 1992; Cardon *et al*, 2009; Foo, Uy and Baron, 2009). When environmental dynamism is quick, these sensations appear to be considerably more significant. This indicates that the moderating influence of inter-organizational trust on the link between EO and firm performance will be substantially larger in dynamic situations with high levels of activation than in environments with low levels of activation. In essence, more dynamic situations are more likely to elicit high levels of activation in managers than less dynamic environments.

Highly dynamic situations are unpredictable and full of quick and dramatic change, which frequently entails a significant degree of uncertainty and risk, as well as requiring crucial decisions to be made with limited knowledge (e.g. Aldrich, 2000; Miller, 2007). As a result of these factors, are likely to be greater in dynamic market conditions than in stable market environments. Under such circumstances, inter-organizational trust may be conducive to enhancing the effect of EO, resulting in increased firm performance.

Additionally, since the environment is completely unexpected, it implies that opportunities present themselves on a frequent basis, to which entrepreneurial enterprises must quickly respond (Helfat *et al*, 2007). This may be particularly difficult to detect when the environment is in motion (Haleblian and Finkelstein, 1993). As settings grow more dynamic, senior managers are required to seek intangible or tangible resources derived from trust-based relationships to better their evaluation and knowledge of new possibilities and risks confronting the organisation. Additionally, it is said that if the environment is completely predictable and unchanging, it puts less demanding and difficult requirements on enterprises that enable them to succeed.

**Hypothesis 3:** The moderating effect of cognitive trust on the relationship between EO and firm performance is stronger when environmental dynamism is high than when it is low.

**Hypothesis 4:** The moderating effect of affective trust on the relationship between EO and firm performance is stronger when environmental dynamism is high than when it is low.

## 5.3 Research methodology

### 5.3.1 Sample and data

In this study, a SME is defined as a business with 200 workers or a sales turnover of RM50 million in manufacturing, and a firm with 75 employees or a sales turnover of RM20 million in services and other industries. SME Corporation Malaysia developed these definitional criteria for Malaysian SMEs. Potential survey respondents who fit the SME definitional requirements were then chosen at random from a SME business directory (Acquaah, 2007) to test the hypotheses, yielded an initial sample of 274 SMEs. The data collection period was in July until September 2018.

Data was gathered by the administration of a questionnaire on-site. A letter or an email (whatever they desired) will be issued to CEOs requesting that the CEO or another member of senior management answer the questionnaire. Several steps will be made to increase the response rate. First, top management from the enterprises must verbally agree to participate in the research. Second, the subject will be offered a research summary report. A total of 253 businesses provided usable replies, producing a 92.3 percent response rate. This study will compare early and late responders to measure non-response bias (Armstrong and Overton, 1977). Multivariate t-tests using company age, legal form, sector, and turnover growth revealed no

significant difference between early and late responders, indicating that non-response bias is not an issue in the data.

Because the research was supposed to include primarily the service sector of the economy, firms in the industrial and agriculture sectors were not evaluated. The reason for selecting the service sector was that the Malaysian economy is based mostly on services (Malaysia, 2018).

### **5.3.2 Questionnaire design**

It has been recognised that a questionnaire is critical for data collecting (Baruch, 1999). A well-designed questionnaire enables the generation of a meaningful measure of the research questions and aids in the collection of correct data from respondents. Survey questions should be constructed in such a way that they enable the researcher to accomplish the purpose and provide responses to the research questions (Bryman, 2008; Robson, 2002).

To ensure the questionnaire's validity and reliability, it is critical to define the study's important constructs precisely. As a result, components from previously validated measures were altered for use in this study (e.g., Miller, 1987; Ganesan, 1994; Mcallister, 1995; Sirdeshmukh, Singh and Sabol, 2002; Morrow Jr, Hansen and Pearson, 2004; Vorhies and Morgan, 2005; Hughes and Morgan, 2007; Anderson and Eshima, 2013). Appendix C contains a copy of the study's questionnaire. As seen by the questionnaire, the study ensured that the questionnaire's style and structure were straightforward and easy for respondents to complete in order to secure a high response rate. Indeed, (Dillman, 1978) stated that a questionnaire's form should consist of a succession of parts, each of which should be tied to a certain research variable. The questionnaire was developed to cover the study's five primary categories. Section I was created to collect data on small and medium-sized firms' inter-organizational trust-based connections. Section II of the questionnaire included questions regarding the business climate. Section III was created to elicit information on a business's processes, whereas Section IV focused on the growth and performance of small and medium-sized firms. Finally, Section V included questions concerning the features of the business.

The sort of questions to ask respondents is an important aspect of constructing a research questionnaire. According to Zikmund (2003), there are two primary categories of inquiries. They might be closed or open. Unlike closed-ended questions, open-ended questions require responders to submit replies based on their observations and judgement. The researcher can use open-ended questions to examine the viability of a more thorough investigation, Zikmund (2003) states. Open-ended questions are difficult to code, modify, and analyse, which may contribute to interview bias (Zikmund, 2003).

Closed-ended questions need less interviewer ability and yield quicker replies (Zikmund, 2003). Closed-ended questions are also standardised since they are drawn from already verified scales and literature. Closed-ended questions' uniformity may speed up coding, tabulation, and data analysis. Closed-ended questions were utilised since past research on entrepreneurial orientation, inter-organizational trust, company development, and other factors was available. Closed-ended questions also prevent interviewer bias (Zikmund, 2003).

### 5.3.2.1 Questionnaire development

The current study's questionnaire was designed in three stages. First, the literature was thoroughly evaluated to identify candidate conceptions and measurements. A questionnaire was created. Each item was rated on a Likert scale of 5. Then, a structured face-to-face interview with four Malaysian small and medium business owners using the draught questionnaire as a guide. The protocol specifies the structures and explores the influence of non-measurable factors. Three researchers assessed the draught questionnaire in the third stage, ranked each item's content validity, and proposed changes in phrasing and structure. Table 5.2 shows the construct instrument used in this study.

### 5.3.2.2 Scales of measurements

**EO.** This study defined EO using a nine-item scale devised by Miller and Friesen (1983) and Covin and Slevin (1989), which included proclivity for innovation, proclivity for risk taking, and proclivity for proactive behaviour. The dimensions-measuring items were adapted from previously published literature (e.g. Covin and Slevin, 1989; Hughes and Morgan, 2007). Each scale was evaluated using a seven-point rating scale with anchors: 1 = not at all; 7 = to an extreme extent.

**Cognitive trust.** Scales for measuring integrity (Sirdeshmukh, Singh and Sabol, 2002), competency (Ganesan, 1994) and goodwill trust (Ganesan, 1994) were taken from the marketing literature.

**Affective trust.** Scales for measuring relational (McAllister, 1995) and intuitive (Morrow Jr, Hansen and Pearson, 2004) trust were taken from management literature.

**Firm performance.** To assess company performance, this study employed a five-item, seven-point subjective performance scale. Each responder was asked to compare their firm's sales and staff growth rate to that of its intra-industry competitors. The sale performance indicators (two items) elicited top managers' assessments on the firm's sales volume and growth in comparison to the market aim. In terms of job growth, this measure probed senior managers' perceptions of employment growth in comparison to competitors. Subjective performance metrics have been used in management studies for a long period of time (e.g., Lawrence and Lorsch, 1967; Tan and

Peng, 2003; Acquaah, 2007; Anderson and Eshima, 2013; Boso, Story and Cadogan, 2013).

Because many businesses in developing nations are reticent to submit objective accounting data due to rampant tax fraud, this study adopted a subjective performance measure (Malik and Kotabe, 2009). In this setting, getting reliable and objective accounting-driven measurements is challenging due to variances in accounting methods and survey respondents' willingness to make their businesses' financial performance publicly available (Dess and Robinson Jr., 1984; Powell, 1992). Second, some researchers have claimed that founders' perceptions of the success or failure of the small business exert a more motivating impact on management choices (e.g., Dess and Robinson Jr., 1984; Powell, 1992).

**Environmental dynamism.** Environmental dynamism is a term that refers to the velocity of change and degree of instability of environmental elements (Duncan, 1972; Daft and Weick, 1984; Miller and Friesen, 1983). Miller's method is used to quantify environmental dynamism in this study (1987). All elements on the scale of environmental dynamism were rated on a seven-point scale with the anchors "strongly disagree" and "strongly agree."

**Control variables.** Numerous other corporate and individual factors were adjusted to rule out alternative reasons for the findings (Turnley and Feldman, 2000). Each of the controls was handled as a separate latent variable during estimate. We considered the respondent's managerial experience. If a responder possessed a master's degree, several master's degrees, or a PhD, their advanced degree was tapped (Hambrick and Mason, 1984). The age of a business was determined by the number of years it had been in existence (George, 2005). Business location scope is a dummy variable that indicates whether a business is urban or rural in nature (1 = urban; 0 = rural). A sector dummy with a value of 1 for finance-related operations and 0 for non-finance-related operations was generated to represent the kind of activity.

The market orientation of a corporation was determined by averaging the four aspects of its capacity to analyse and handle market information, as measured by Vorhies and Morgan's (2005) marketing capability scale. It is critical to incorporate this control, market orientation, since research indicates that EO and market orientation have a synergistic effect on company performance (Atuahene-gima and Ko, 2001; Bhuian, Menguc and Bell, 2005; Li *et al*, 2008; Boso, Story and Cadogan, 2013).

Table 5.2 Constructs, measurement items, reliability and validity tests

Items description	Factor Loading (t-values)
<i>EO (Hughes and Morgan, 2007): <math>\alpha = 0.92</math>, <math>CR = 0.78</math>; <math>AVE = 0.58</math></i>	
We actively introduce improvements and innovations in our business.	0.852 (41.23)
Our business is creative in its methods of operation.	0.815 (33.31)
Our business seeks out new ways to do things.	0.840 (38.21)
The term "risk taker" is considered a positive attribute for people in our business.	0.693 <sup>b</sup> (18.19)
People in our business are encouraged to take calculated risks with new ideas.	0.720 (21.14)
Our business emphasizes both exploration and experimentation for opportunities.	0.664 (17.24)
We always try to take the initiative in every situation (e.g., against competitors, in projects when working with others).	0.800 (30.62)
We excel at identifying opportunities	0.705 (20.10)
<i>Market orientation (Vorhies and Morgan, 2005): <math>\alpha = 0.89</math>, <math>CR = 0.71</math>; <math>AVE = 0.62</math></i>	
Our top managers are able to gather information about customers compared to most important competitors	0.662 (16.49)
We are able to use market research skills to develop effective marketing programmes	0.705 (19.30)
Our top managers have the ability to track customer wants and needs compared to most important competitors	0.815 (31.82)
We are able to make full use of marketing research information compared to most important competitors	0.895 (47.99)
This company is able to analyse its market information compared to most important competitors	0.827 (33.82)
<i>Environmental dynamism (Miller, 1987): <math>\alpha = 0.73</math>, <math>CR = 0.59</math>; <math>AVE = 0.50</math></i>	
Growth opportunities in the environment have increased dramatically	0.602 (11.70)
Rate of innovation of new operating processes and new products or services in your principal industry rate has fallen dramatically (reversed code)	0.576 (11.59)
Research and development (R&D) activity in your principal industry has substantially increased	0.888 (21.42)

Items description	Factor Loading (t-values)
<i>Cognitive trust</i> (Sirdeshmukh, Singh and Sabol, 2002; Ganesan, 1994): $\alpha = 0.91$ , $CR = 0.73$ ; $AVE = 0.55$	
Promises made by this supplier rep are reliable	0.667 <sup>b</sup> (17.69)
This supplier rep has made sacrifices for us in the past	0.743 (24.01)
This supplier rep cares for us	0.770 (27.06)
In times of shortages, supplier has gone out on limb for us	0.680 (18.47)
We feel like this supplier is our friend	0.820 (35.36)
I feel the supplier rep is very competent	0.924 (73.22)
I feel the supplier rep is very dependable	0.807 (32.79)
This supplier rep is very knowledgeable about their product/services	0.677 (18.34)
The supplier rep has problems answering our questions (reversed code)	0.525 (10.84)
<i>Affective trust</i> (McAllister, 1995; Morrow Jr, Hansen and Pearson, 2004): $\alpha = 0.91$ , $CR = 0.77$ ; $AVE = 0.63$	
We have a sharing relationship, we can freely share ideas, feelings and hopes	0.603 <sup>b</sup> (13.96)
I can talk about difficulties and they will freely listen	0.687 (18.95)
If I shared problems with them, they would respond constructively and caringly	0.730 (22.76)
My instincts tell me I can trust them	0.897 (57.19)
My intuition tells me that I can trust this person	0.910 (63.53)
I have a haunch I can trust this person	0.886 (53.95)
I have a gut feeling I can trust this person	0.781 (28.68)
<i>Firm performance</i> (Anderson and Eshima, 2013): $\alpha = 0.92$ , $CR = 0.85$ ; $AVE = 0.71$	
Top managers' evaluation of sales growth rate compared to rivals in the last three years	0.816 <sup>b</sup> (35.16)
Top managers' evaluation of growth in full-time employees compared to rivals in the last three years	0.590 (13.48)
Top managers' evaluation of productivity growth compared to rivals in the last three years	0.911 (67.88)
Top managers' evaluation of growth in profit compared to rivals in the last three years	0.928 (82.18)

Items description	Factor Loading (t-values)
Top managers' evaluation of overall company growth in full-time employees compared to rivals in the last three years	0.940 (91.19)

Notes: CR = construct reliability; AVE = average variance extracted.

<sup>a</sup>The reported factor loadings pertain to the measurement model in which the six factors are simultaneously included. To assess the constructs' validity further, we also undertake confirmatory factor analysis on each of the constructs *individually* and find that all factor loading is higher than .40. Furthermore, the fit indices for each of the individual constructs are appropriate.

### 5.3.3 Reliability and validity assessment

An exploratory factor analysis (EFA) will be conducted on the sample to determine the reliability and validity of each concept. EFA is a technique used to ascertain the number of variables influenced by various causes and to investigate the variables that move in tandem (DeCoster, 1998). Following this concept, EFA with an oblimin Kaiser Normalisation rotation was utilised to enable for the loading of a single item on numerous variables, displaying its real effect across all factors (e.g. Hair Jr. *et al*, 2014; Samiee and Chabowski, 2012). The widely established principal component analysis criteria (i.e. eigenvalue > 1) was employed to extract the components. EFA was run on each construct due to sample constraints. EFA was conducted on business performance, entrepreneurial orientation, cognitive trust, emotional trust, and environmental dynamism in order to apply this method. To be thorough and to illustrate the robustness of the items utilised in the investigation, EFA was conducted on all constructs containing all items with factor loading greater than 0.40.

Confirmatory factor analysis (CFA) utilising STATA will be used to further refine the items. The final CFA findings demonstrate an excellent match to the data.  $\chi^2$  (degrees of freedom (df)) = 840.16 (482);  $p < 0.00$ ; root mean square error of approximation (RMSEA) = 0.05; non-normed fit index (NNFI) = 0.94; and comparative fit index (CFI) = 0.92. The factor loadings for each construct are significant at 1% for the sample, indicating that the assessed constructs have convergent validity (Bagozzi and Yi, 1988).

Two indices of convergent and discriminant validity were used to determine reliability: composite reliability (CR) and average variance extracted (AVE). To begin, we estimated the discriminant validity of the constructs by computing the square roots of all multi-item AVEs (Table

5.2). The results indicate that each correlation between constructs is less than the square roots of its AVE, indicating that our measurements have discriminating validity (Fornell and Larcker, 1981). As a result, the study's measured ideas are notably different from one another (Bagozzi and Phillips, 1982). Second, the convergent validity of the study's scales was determined using the composite reliability (CR). Estimates of CR more than 0.60 and statistically significant concept-to-domain coefficients ( $t > 2.0$ ;  $p < 0.05$ ) are often regarded supportive of convergent validity (Bagozzi and Yi, 1988). All values met the stated CR criterion, and all items were statistically significant (Table 5.2). Table 5.3 contains correlations between constructs and will be explained further in section 5.4 (analysis and results).

### 5.3.4 Common method variance assessment

The data for this study will be gathered from senior management as a single source. As a result of frequent technique bias, misleading connections between some of the variables of interest may arise. According to a substantial body of research on the issue, the confounding effect of common technique bias on empirical results might be treated procedurally or statistically (Podsakoff *et al*, 2003). From a procedural standpoint, significant attention will be given in designing the questionnaire, with the predictor and criteria variables being measured separately. Statistically, this study followed Cote and Buckley (1987) in order to examine potential technique bias issues that are frequently encountered.

Three models were estimated: (1) method 1 involved estimation of a method-only model in which all indicators were loaded on a single latent factor:  $\chi^2 / df = 5617.22/934 = 6.01$ ; RMSEA = 0.144; NNFI = 0.18; CFI = 0.24; (2) method 2 was a trait-only model in which each indicator was loaded on its respective latent factor;  $\chi^2 / df = 1435.38/973 = 1.47$ ; RMSEA = 0.041; NNFI = 0.93; CFI = 0.94; and (3) method 3 was a method and trait model involving inclusion of a common factor linking all the indicators in Model 2:  $\chi^2 / df = 1274.138/891 = 1.42$ ; RMSEA = 0.042; NNFI = 0.91; CFI = 0.92. These three models were examined in order to determine which one fits the best. The results suggest that Models 2 and 3 fit better than Model 1, although Model 3 is not significantly better than Model 2. From these findings, this study concluded that common method bias is not a significant problem.

Table 5.3 Descriptive statistics and correlations

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1 Firm age (years)	1.95	0.59	1.00											
2 Firm location (1 = urban)	0.91	0.28	-0.059	1.00										
3 Type of business (finance-related)	0.18	0.39	0.313*	0.146*	1.00									
4 Legal (1 = informal)	0.70	0.46	-0.069	0.230*	0.171*	1.00								
5 Market orientation	5.14	0.88	0.076	0.009	0.009	0.094	1.00							
6 Education (advance degree)	0.40	0.49	-0.044	0.137*	-0.008	0.246*	0.031	1.00						
7 Management experience	0.68	0.47	0.217*	0.086	0.173*	0.161*	0.190*	0.082	1.00					
8 Entrepreneurial orientation	5.49	0.77	0.051	0.092	0.016	0.113	0.697*	0.049	0.170*	1.00				
9 Cognitive Trust	4.90	0.96	0.222*	-0.053	0.133*	-0.083	0.148*	-0.180*	0.063	0.171*	1.00			
10 Affective Trust	4.71	1.01	0.151*	-0.054	-0.026	-0.045	0.080	-0.177*	0.035	0.117	0.829*	1.00		
11 Perceived Environmental Dynamism	4.91	1.08	0.019	0.156*	-0.122	0.094	0.361*	0.028	0.130*	0.496*	0.011	0.151*	1.00	
12 Firm performance	4.93	1.01	0.038	0.134*	-0.039	0.087	0.413*	-0.049	0.170*	0.508*	0.331*	0.262*	0.217*	1.00

Notes: n = 253. SD = standard deviation. \*Correlation is significant at the 0.05 levels.

## 5.4 Analysis and results

Table 5.3 contains the descriptive and correlations statistics for the study variables. To test the hypotheses, moderated hierarchical regressions are utilised (Cohen *et al*, 2003), with a mean-centering approach for the independent and moderating variables to reduce multicollinearity. (Aiken and West, 1991). The variance inflation factors were all lesser than the threshold value of 5<sup>25</sup>, indicating that our data do not exhibit multi-collinearity (Neter, Wasserman and Kutner, 1989; Gareth et al, 2013). We estimate the following model:

Equation 5-1

$$\text{Firm Performance} = i + \beta_1EO + \beta_2CT + \beta_3EOCT + e$$

Equation 5-2

$$\text{Firm Performance} = i + \beta_1EO + \beta_2AT + \beta_3EOAT + e$$

Equation 5-3

*Firm Performance*

$$= i + \beta_1EO + \beta_2CT + \beta_3EOCT + \beta_4ED + \beta_5EDEO + \beta_6EDCT + \beta_7EDEOCT + e$$

Equation 5-4

*Firm Performance*

$$= i + \beta_1EO + \beta_2AT + \beta_3EOAT + \beta_4ED + \beta_5EDEO + \beta_6EDAT + \beta_7EDEOAT + e$$

The regression results for models tested are show in Table 5.4. Model 1 contains only the control variables, Model 2 adds the effect of EO, Model 3 add the direct effect of cognitive trust and perceived environmental dynamism and Model 4-5 add the two corresponding interaction terms one at a time, in order to prevent concealing genuine interaction effects, (Cohen *et al*, 2003; Aiken and West, 1991), as suggested in prior entrepreneurship. Model 6-8 are the similar step as Model 3-5, which is applied to affective-based trust variable. Affective- and cognitive-based trust are analysed in different model to avoid the multicollinearity issues, responding to the high correlations between these two variables.

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<sup>25</sup> Value of VIF can be found in Appendix C.3

Table 5.4 Ordinary least squares estimation of performance

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Constant	4.307***	4.449***	4.477***	4.550***	4.576***	4.440***	4.561***	4.526***
<i>Firm control variables</i>								
Company age (years)	0.041	0.039	-0.032	-0.080	-0.015	-0.010	-0.051	-0.014
Company location (urban)	0.505***	0.391**	0.457**	0.452**	0.496***	0.466**	0.416**	0.505***
Type of business (finance related)	-0.249	-0.236	-0.332**	-0.423***	-0.278*	-0.247	-0.327**	-0.112**
Legal form (informal)	0.100	0.077	0.119	0.136	-0.000	0.081	0.101	0.060
Market orientation	0.452***	0.128	0.118	0.123	0.156**	0.138	0.164	0.207***
<i>Individual control variables</i>								
Higher education	-0.206*	-0.212*	-0.129	-0.128	-0.178	-0.141	-0.148	-0.155
Management experience	0.206	0.180	0.187	0.231**	0.168	0.189	0.203*	0.127
<i>Main effect variables</i>								
Entrepreneurial orientation (EO)		0.536***	0.526***	0.274	0.385***	0.569***	0.216	0.391***
Cognitive trust (CT)			0.279***	0.337	0.237***			

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Affective trust (AT)						0.211 <sup>***</sup>	0.023	0.184 <sup>***</sup>
Perceived environmental dynamism (PED)			-0.067 <sup>**</sup>	1.124 <sup>***</sup>	-0.134 <sup>**</sup>	-0.110 <sup>+</sup>	1.090 <sup>***</sup>	-0.173 <sup>***</sup>
<i>Two-way interaction</i>								
H1: EO x CT				0.130 <sup>**</sup>	0.038			
CT x PED				-0.161 <sup>**</sup>	-0.107			
EO x PED				-0.074	-0.034		-0.091	0.005
H2: EO x AT							0.170 <sup>**</sup>	0.014
AT x PED							-0.151 <sup>***</sup>	-0.090
<i>Three-way interaction</i>								
H3: EO x CT x PED					0.192 <sup>***</sup>			
H4: EO x AT x PED								0.184 <sup>***</sup>
<i>Model fit</i>								

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
F-value	9.31 <sup>***</sup>	12.71 <sup>***</sup>	13.69 <sup>***</sup>	11.30 <sup>***</sup>	10.51 <sup>***</sup>	12.53 <sup>***</sup>	10.61 <sup>***</sup>	6.34 <sup>***</sup>
R <sup>2</sup>	0.210	0.294	0.361	0.381	0.382	0.341	0.366	0.349
Adjusted R <sup>2</sup>		0.271 <sup>*</sup>	0.335 <sup>***</sup>	0.347 <sup>***</sup>	0.349 <sup>***</sup>	0.314 <sup>***</sup>	0.329 <sup>**</sup>	0.331 <sup>***</sup>

Notes: Number of observation, N = 253. Dependent variable: firm performance. \*\*\*p<0.01, \*\*p<0.05, \*p<0.10

Equation 5.1 is the econometric models for Hypothesis 1 and the regression result in column Model 4. Equation 5.2 is the econometric models for Hypothesis 2 and the regression result in column Model 7. Equation 5.3 is the econometric models for Hypothesis 3 and the regression result in column Model 5. Equation 5.4 is the econometric models for Hypothesis 4 and the regression result in column Model 8.

In Model 2, consistent with the starting point of the theoretical review, this study finds a positive effect of EO on performance ( $\beta = .536, p < .001$ ), and the EO variable explains additional variance ( $\Delta R^2 = .271, p < .100$ ). In Model 3 and 6, the additional of each element of trust and perceived environmental dynamism further increases the explained variance ( $\Delta R^2 = .335, p < .010$ ;  $\Delta R^2 = .314, p < .010$ ), suggesting that these factors also affect firm performance. The main effect of cognitive and affective trust is positively significant, whereas the main effect of perceived environmental dynamism is negatively significant.

Hypotheses 1-2 predict positive moderating effects of the affective trust and cognitive trust variables on the relationship between EO and performance, where representing Equation 5.1 and 5.2 respectively. To test these hypotheses, the individual interaction terms were added in Model 4 (Equation 5.1) and 7 (Equation 5.2). It is noted that each of the interaction terms improves the explanatory power of the models ( $\Delta R^2 = .347, p < .01$ ;  $\Delta R^2 = .329, p < .05$ ). Model 4 and 7 reveal a positive and significant interaction effect between EO and cognitive and affective trust on performance ( $\beta = .13, p < .05$ ;  $\beta = .17, p < .05$ ). In terms of economic significance, an increase in entrepreneur's EO effort in cognitive and affective trust relationship aided will result in slightly better firm performance.

To understand the nature of the interaction, a simple slope test was conducted, following Aiken and West (1991). As illustrated in Figure 5.2 and Figure 5.3, it was found that the effect of cognitive and affective trust is stronger in highly entrepreneurial-oriented firm and the slope is steeper for high level of cognitive and affective trust. This influence pattern lends further support to H1 and H2.

Hypotheses 3-4 predict a three-way interaction effect among EO, cognitive and affective trust and environmental dynamism on firm performance, where representing Equation 5.3 and 5.4 respectively. As hypothesized, Model 5 (Equation 5.3) and Model 8 (Equation 5.4) show the three-way interactions effect is positive and significant ( $\beta = .20, p < .01$ ) ( $\beta = .19, p < .01$ ), indicating that the moderation effect of cognitive and affective trust on the EO-performance relationship is generally affected by a dynamic environment. Also, the results indicate that EO and cognitive and affective trust are jointly reinforcing and complementary in terms of their influences on firm performance and that this relationship is slightly improved in dynamic environments. In terms of economic significance, an increase in entrepreneur's perceived environment dynamism will resulting slightly strengthen the cognitive and affective trust, which ultimately resulting in slight better firm performance.

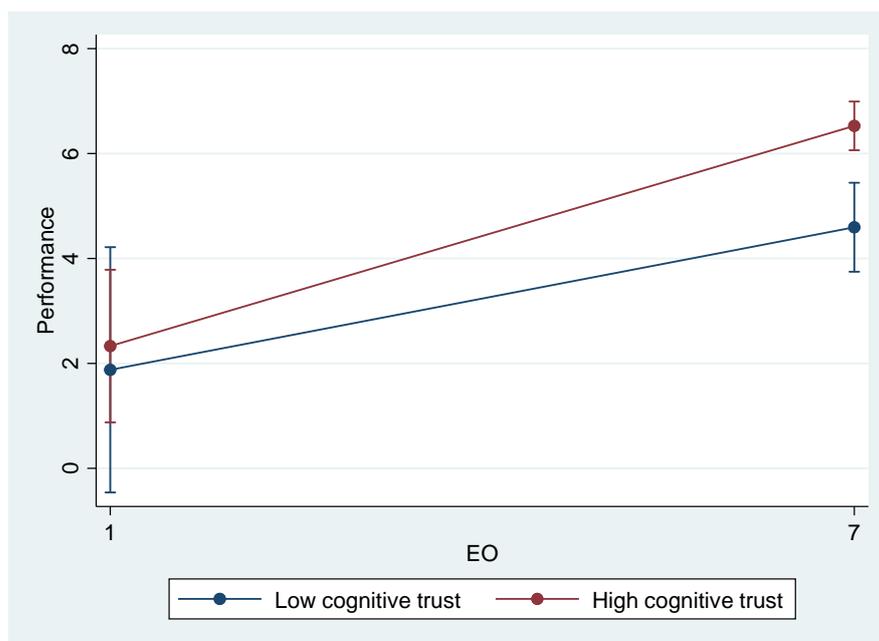


Figure 5.2 Moderating effects of cognitive-based trust ties on the EO-performance relationship

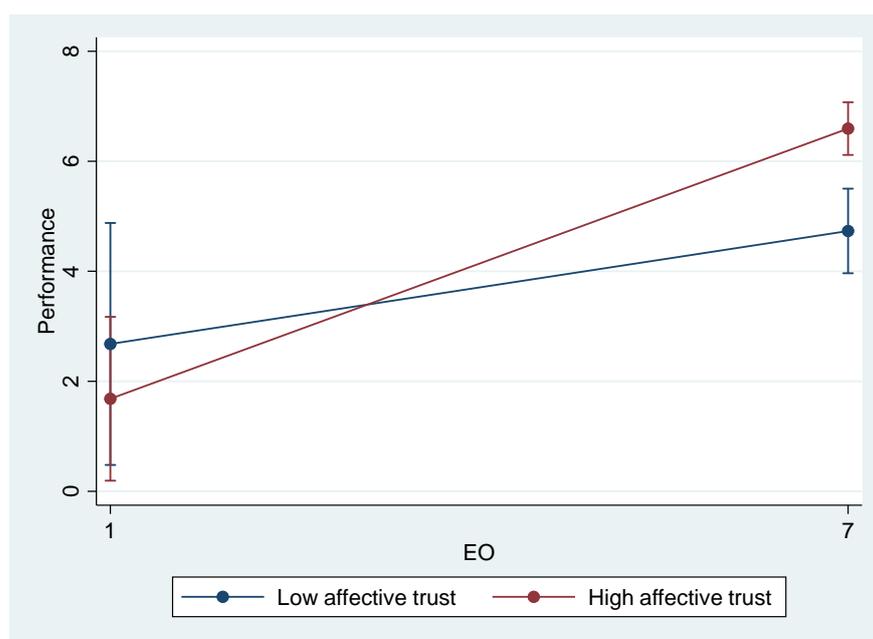


Figure 5.3 Moderating effects of affective-based trust ties on the EO-performance relationship

In Table 5.4 show that PED coefficients have negatively behave in all models, except for Model 5 and Model 8. Simple correlation test in the earlier stage shows very weak but positive relationship between PED and firm performance. The coefficient of PED might affected as other independent and controlling variables are included. Negative coefficient in regression suggest that, while controlling for other variables, as the PED increases, the firm performance is reducing.

In order to investigate the direction of this moderation, the slopes for the eight relevant cases (combining high/low cognitive- and affective-based trust and high/low environmental dynamism) were plotted (see Figure 5.4 and Figure 5.5) and the resulting plots are examined by conducting a slope different test, following procedures in previous studies (e.g. Adomako et al, 2016; Dawson and Richter, 2006). Figure 5.4 and Figure 5.5 depict the pattern of moderated results related to H3 and H4. These findings show that there are significant differences between the slopes of all eight relevant cases ( $p < .10$ ). Regarding the direction of cognitive and affective trust moderation of the EO and firm performance in dynamic environment, the simple slope test conducted reveals that, in dynamic environments, the relationship between EO and firm performance is significantly negative when cognitive and affective trust is low ( $b = -0.60, t = 11.69, p < 0.01$ ) and significantly positive when cognitive and affective trust is high ( $b = 0.80, t = 10.54, p < 0.01$ ). Overall, these findings from the three-way interaction analysis partially support H3 and H4 that EO is highly related to firm performance when the elements of inter-firms trust is high, and either dynamic environment high or low. Specifically, the performance of highly entrepreneurial oriented firm is much enhancing in high dynamic environment if trust ties is strong. Conversely, the effect of EO and performance is weakening in high dynamic environment with weak trust ties.

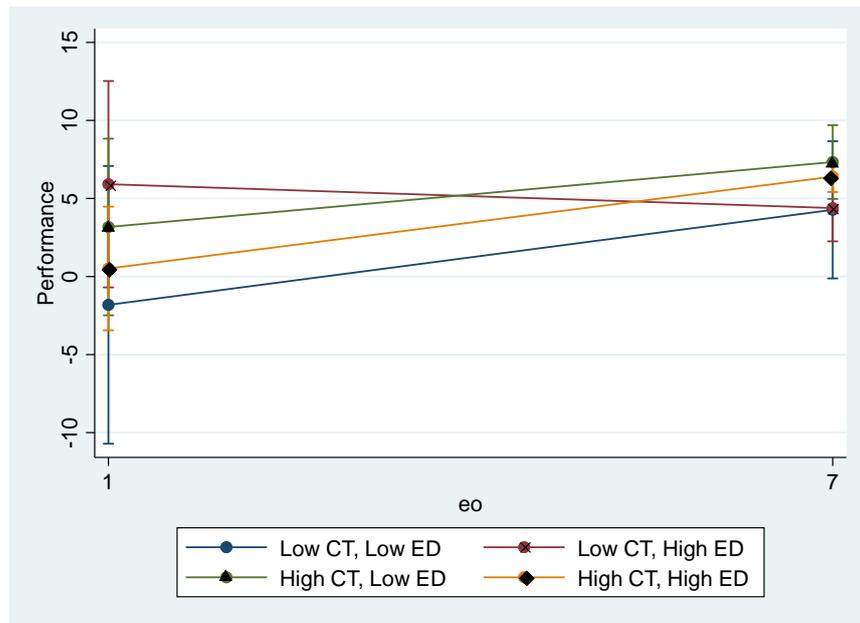


Figure 5.4 Interaction effects of EO with cognitive-based trust ties and perceived environmental dynamism on the EO-performance relationship

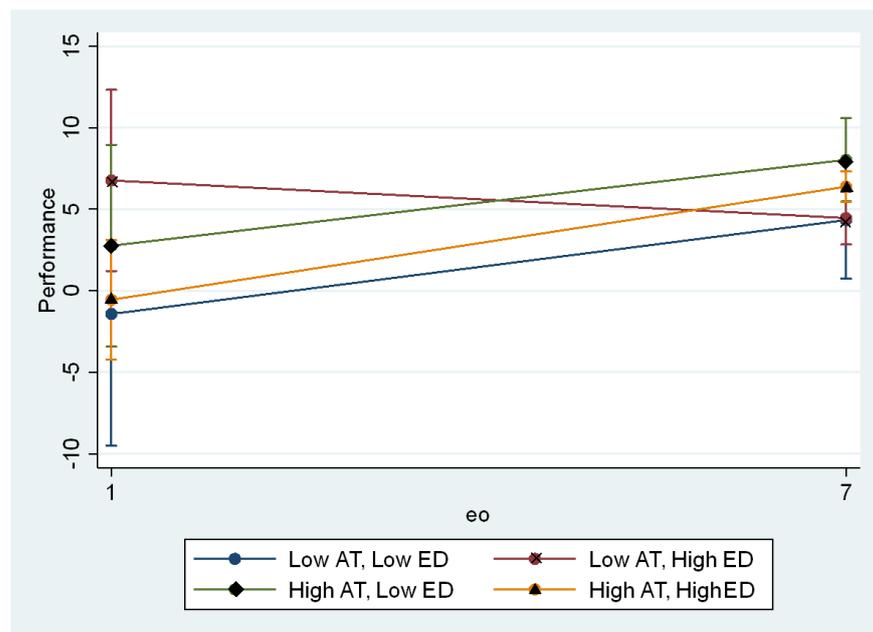


Figure 5.5 Interaction effects of EO with affective-based trust ties and perceived environmental dynamism on the EO-performance relationship

Finally, quantile analysis was to further test the robustness of results. Quantile regression have been used to get information about points in the distributions of the dependent variable other than the conditional mean (Buchinsky, 1998) and the study use it to understand the effect of trust-ties and environmental dynamism on the EO and performance relationship across the 'quantiles' in the conditional distribution of firm growth. In short, this study not only address the question, 'do trust-based and environmental dynamism matter to entrepreneurial firm?' but this study also ask the question, 'for which entrepreneurial firm do trust-based ties and environmental dynamism matter?'

Overall, quantile regression results show positive and significant interaction effect between EO and cognitive and affective trust on performance, consistent with the OLS regression results. The quantile regression coefficient for cognitive trust (refer to Table 5.6) and affective trust (refer to Table 5.7) are increasing until the 75% quantile. In other words, the effect of the interaction between EO and trust-based ties (applies to the cognitive- and affective-based trust ties) are stronger for firms with slightly higher firm growth. This discovery could be indicative of the deteriorating usefulness of trust, which has been considered in the trust literature. It can serve as a starting point for future investigation into the trust trap.

As for the three-ways interaction of EO, the quantile regression coefficient for cognitive trust (refer to Table 5.6) and affective trust (refer to Table 5.7) are positive and significance, consistent with the OLS regression results. The positive coefficients are increasing until the 50% quantile. Simply put, the effect of the interaction between EO and trust-based ties (applies to the cognitive- and affective-based trust ties) and perceived environmental dynamism are stronger for firms with moderate firm growth. In other words, while organisations continue to operate in a highly dynamic environment, trust does not play a significant role in helping EO from increasing firm performance. Entrepreneurs are less prone to take unnecessary risks in order to keep their company running and growing.

Table 5.5 Robustness analysis: quantile regression coefficients at different quantiles (cognitive-based trust)

Firm growth	Model 4					Model 5				
	0.15 Q	0.25 Q	0.5 Q	0.75 Q	0.95 Q	0.15 Q	0.25 Q	0.5 Q	0.75 Q	0.95 Q
Constant	3.558***	4.023***	5.038***	5.142***	5.348***	3.464***	4.031***	4.723***	5.278***	5.653***
Firm control variables										
Company age (years)	-0.056	-0.125	-0.135	-0.096	-0.100	-0.003	-0.030**	-0.015	-0.039**	0.032***
Company location (urban)	0.591**	0.484**	0.334	0.477	0.623***	0.877***	0.529*	0.220	0.154	0.629***
Type of business (finance related)	-0.248	-0.487***	-0.327*	-0.384	-0.816***	-0.273	-0.012	-0.114	-0.383	-1.046***
Legal form (informal)	0.143	0.193	-0.171	0.026	0.211***	0.065	0.264	0.210	0.055	-0.282***
Market orientation	0.244**	0.138	0.135	0.110	-0.321***	0.367***	0.281**	0.105	-0.096	-0.289***
Individual control variables										
Higher education	0.016	0.015	-0.131	-0.037	0.237***	-0.234	-0.107	-0.030	-0.187	-0.015
Management experience	0.110	0.200	0.148	0.180	0.442***	0.169	0.016	0.157	0.375**	0.516***
Main effect variables										
Entrepreneurial orientation (EO)	1.078	0.751	0.650	-1.034	0.938***	0.316***	0.431***	0.265***	0.396***	0.392***
Cognitive trust (CT)	1.328**	0.962 <sup>+</sup>	-0.240	-1.090	0.228	0.213**	0.316***	0.144**	0.271***	0.239***
Perceived environmental dynamism (PED)	3.122***	1.656***	1.530***	0.831	0.961***	-0.200***	-0.153 <sup>+</sup>	-0.078	-0.113	-0.037
Two-way interaction										
H1: EO x CT	0.156	0.101	0.163 <sup>+</sup>	0.335***	0.067	0.001	-0.038	0.114	0.123	0.048
CT x PED	-0.337***	-0.244***	-0.092	-0.117	-0.063	-0.150	-0.081	-0.078	-0.219	-0.024
EO x PED	-0.265***	-0.105	-0.206***	-0.053	-0.122***	0.024	-0.094	-0.107 <sup>+</sup>	-0.107	-0.225***
Three-way interaction										
H3: EO x CT x PED						0.136	0.196 <sup>+</sup>	0.260***	0.255*	0.201***

Notes: n = 253. Dependent variable: firm performance. \*\*\*p<0.01, \*\*p<0.05, \*p<0.10

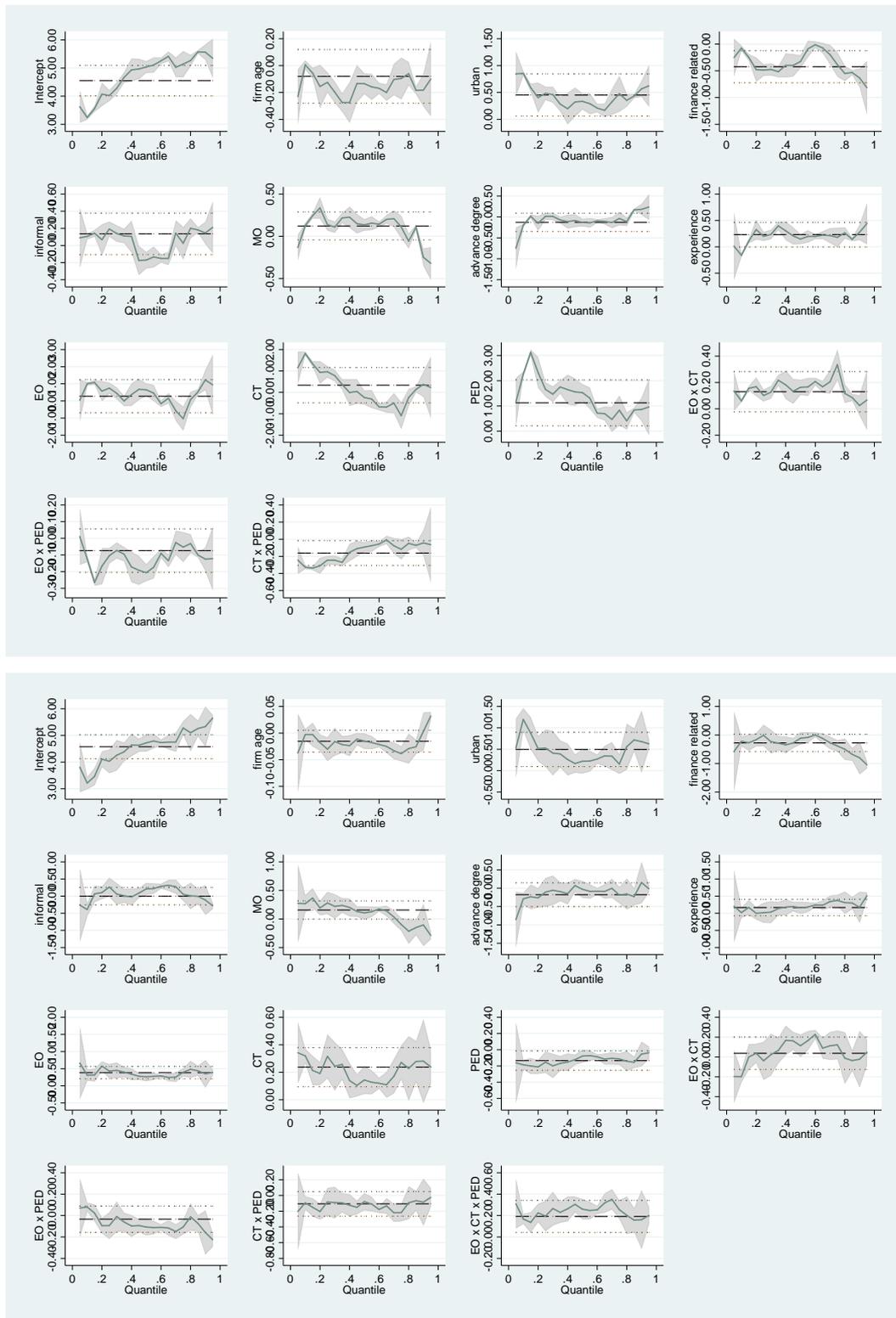


Figure 5.6 Quantile regression for two- and three-ways interaction of cognitive-based trust

Table 5.6 Robustness analysis: quantile regression coefficients at different quantiles (affective-based trust)

Firm growth	Model 7					Model 8				
	0.15 Q	0.25 Q	0.5 Q	0.75 Q	0.95 Q	0.15 Q	0.25 Q	0.5 Q	0.75 Q	0.95 Q
Constant	4.087***	3.958***	5.006***	5.119***	5.105***	4.046***	3.808***	4.883***	4.758***	5.247***
<i>Firm control variables</i>										
Company age (years)	-0.206	-0.037	-0.100	-0.044	0.152***	-0.019	-0.023+	-0.007	-0.031**	0.019***
Company location (urban)	0.397	0.629**	0.294	0.397	0.418***	0.326	0.593**	0.054	0.465	0.647***
Type of business (finance related)	-0.158	-0.572***	-0.159	-0.219	-0.751***	-0.161	0.042	-0.153	-0.090	-1.011***
Legal form (informal)	0.189	-0.082	-0.179	-0.163	0.312***	0.072	0.276+	0.019	0.435**	0.115
Market orientation	0.364***	0.300	0.103	0.275	-0.290***	0.449***	0.330***	0.183**	0.071	-0.216***
<i>Individual control variables</i>										
Higher education	-0.154	-0.039	-0.082	0.066	0.138**	-0.133	0.031	-0.014	-0.171	0.346***
Management experience	0.129	0.229	0.090	0.186	0.297***	0.088	0.024	0.106	0.393**	0.357***
<i>Main effect variables</i>										
Entrepreneurial orientation (EO)	1.348*	0.931	0.804*	-1.022	1.257***	0.382***	0.372***	0.286***	0.238+	0.377***
Affective trust (AT)	0.899	0.391	-0.240	-1.098*	0.025	0.219*	0.286***	0.112*	0.214**	0.373***
Perceived environmental dynamism (PED)	1.777**	1.496***	1.625***	0.932	0.837***	-0.254***	-0.264***	-0.130**	-0.142	-0.036
<i>Two-way interaction</i>										
H2: EO x AT	0.043	0.124	0.172**	0.349***	0.053	0.054	-0.092	0.143*	-0.095	-0.044
AT x PED	-0.168	-0.165**	-0.107*	-0.142	-0.012	-0.122	-0.148*	-0.143**	-0.062	-0.023
EO x PED	-0.211+	-0.179**	-0.224***	-0.058	-0.160***	0.056	0.044	-0.045	-0.042	-0.061
<i>Three-way interaction</i>										
H4: EO x AT x PED						0.210**	0.253***	0.258***	0.228**	0.003

Notes: n = 253. Dependent variable: firm performance. \*\*\*p<0.01, \*\*p<0.05, \*p<0.10

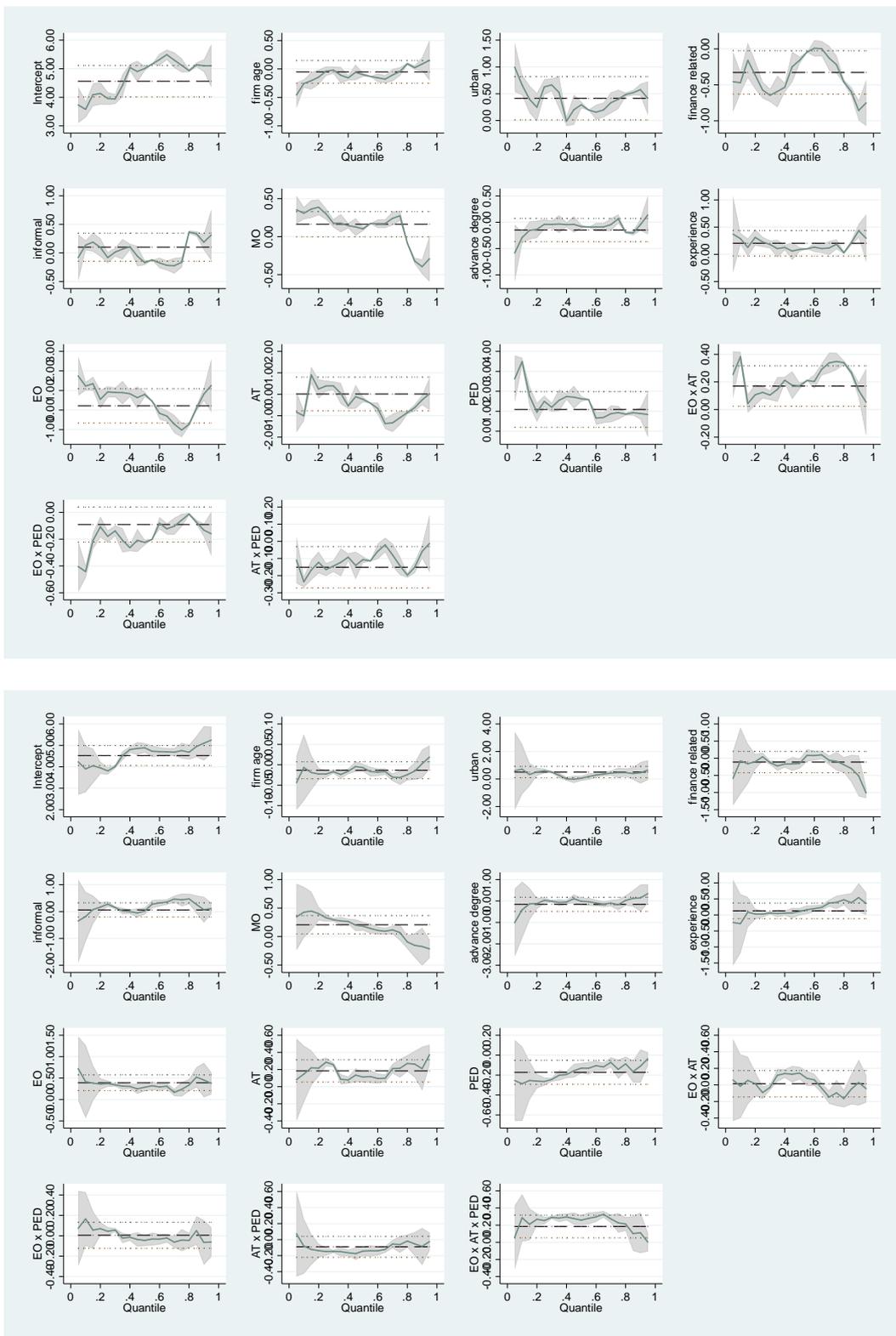


Figure 5.7 Quantile regression for two- and three-ways interaction of affective-based trust

## 5.5 Discussion and implications

The present study presents theoretical reasons about how inter-organizational trust within the supply chain facilitates the EO-firm performance link using the RBV, contingency theory, and regulatory focus theory. Additionally, it proposes the concept of environmental dynamic in order to define the boundary conditions for the function of inter-organizational trust in the EO-firm performance connection. In addressing this gap, the findings of this study emphasise a number of theoretical and practical consequences. Inter-organizational trust appears to promote the link between EO and company performance in a static setting but has the reverse effect in a dynamic context. These findings contribute to the research on economic optimization and inter-organizational trust in a microeconomic environment.

The study contributes to the EO literature by providing empirical support for the theoretical claim that the link between EO and performance of a corporation is mediated by informal networks (which is proxy by trust). According to the study's theoretical reasons, inter-organizational trust moderates the link between EO and performance, especially in dynamic situations. Additionally, this study uses the complementary perspective of RBV to examine how a business's resource (i.e. EO) interacts with its network (i.e. inter-organizational trust) to affect firm performance concurrently. To compensate for the RBV's limitations, this study examined the influence on firm performance of the three-way interaction of EO, inter-organizational trust, and environmental dynamism.

Second, this study adds to the management literature by examining the combined influence of environmental dynamism and inter-organizational trust on the link between EO and business performance (H3 and H4). Indeed, earlier academic research has examined the moderating effect of environmental dynamism or uncertainty on the link between EO and performance (e.g. Covin, 1991). Other studies have explored internal characteristics such as social exchange processes (e.g. De Clercq, Dimov and Thongpapanl, 2010), strategic processes (e.g. Covin, Green and Slevin, 2006), and top management transformational leadership as positive moderators on EO-firm performance link (e.g. Engelen *et al*, 2015). However, none of these previous researchers examined the combined influence of varying levels of inter-organizational trust and environmental dynamism on the link between EO and company performance.

The study's findings give managers a better grasp of how to attain superior business performance, particularly in entrepreneurial enterprises. To begin, the findings of this study demonstrate that cognitive trust can assist businesses in implementing a strategic orientation that improves their relationship with performance, since cognitive trust has been linked to relationship commitment and information sharing (De Clercq, Dimov and Thongpapanl, 2010). More precisely,

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a firm's cognitive trust enables it to adopt an entrepreneurially oriented strategic stance more effectively and efficiently than it could if the firm's shareholders had a high level of cognitive trust. This understanding is ostensibly critical for entrepreneurially oriented businesses that operate in dynamic industries that are frequently defined by rapid changes in client requirements or rapid technical advancements. However, empirical evidence demonstrated that opportunistic behaviours in SMEs reduce the beneficial benefit of cognitive trust.

Second, the current study, conducted in Malaysia, has significant consequences for Malaysian companies. It serves as a reminder to managers that in order to maximise business performance, organisations must be entrepreneurial in nature, but also have pure and strong inter-organizational relationships. When managers have complete trust in one another's honesty and truthfulness, they have less need to monitor potential deviant behaviour from others, more time to invest in extensive knowledge exchange, and a greater motivation to share tacit knowledge (Yli-Renko, Autio and Sapienza, 2001; De Clercq, Dimov and Thongpapanl, 2010; Zaheer, McEvily and Perrone, 1998a), all of which facilitate the effective EO. In comparison, when trust is poor, the EO-performance relationship may deteriorate, maybe as a result of giving up authority while sharing information (Kim and Mauborgne, 1998), which can be damaging to the organization's entrepreneurial prospects (Floyd and Lane, 2000). In this scenario, insufficient knowledge exchange may exacerbate the uncertainty and related costs associated with EO (Lumpkin and Dess, 1996).

Third, organisations must acknowledge that trust networks alone do not necessarily increase the link between EO and corporate success. The existing empirical evidence suggests that the benefits of aligning EO with a firm's cognitive and affective trust networks are contingent on the external market environment's quick change (i.e. environmental dynamism). The outcomes of this study imply that the beneficial moderating impact of inter-organizational trust is increasing in dynamic situations. Thus, firms that prioritise EO can improve their performance by training or placing managers who are capable of analysing and observing the signs of opportunistic behaviour in the firm's external networks, thereby mitigating the impact of mistrust and enabling the firm to be more receptive to EO implementation. Individuals may not give the same weight to prospective opportunities as they do to potential hazards, as stated by the regulatory focus hypothesis (Higgins, 1997). This study suggests that it is critical to establish a self-regulation strategy that will benefit managers who are most capable of regulating and directing the firm's external networks.

## 5.6 Conclusion, limitations, and future research

Numerous limitations exist in this study, which provide opportunities for further research. To begin, this study analysed business performance using subjective metrics. The use of self-reported and perceptual measures of company performance risks subjecting the sample to respondent bias. Although earlier research indicates that subjective ratings of business success are highly connected with objective measurements (e.g. Dess and Robinson Jr. 1984), there may be discrepancies between subjective measures and financial information disclosed by corporations. This study proposes that future research should use secondary sources of financial data in order to evaluate business performance.

Second, the study's cross-sectional sample prevented casual statements. Because this study focuses on business performance, future research should employ longitudinal data to eliminate potential endogeneity bias (Hamilton and Nickerson, 2003).

Third, this study acknowledges the limitations inherent in relying on a single responder to get information about both the dependent and independent variables. The preponderant literature suggests that when research rely on single respondents for information, there is a worry about common method variation (Podsakoff *et al*, 2003; Chang, van Witteloostuijn and Eden, 2010). This study employed a variety of strategies to account for frequent procedure variation. For instance, before to the major survey (dubbed the pilot research stage), questions were mixed using reverse-coded items, and informants were promised of total secrecy about the information they supplied (Chang, van Witteloostuijn and Eden, 2010). In terms of statistics, this study followed earlier academic work (Cote and Buckley, 1987; Boso, Story and Cadogan, 2013; Adomako, n.d.) and estimated three competing models to determine if common method variance was an issue in this study. The three models' findings indicate that common technique bias is not a significant problem in this investigation. Future research is advised to overcome frequent methodological bias by attempting to get data from archive sources, if possible, but also by attempting to collect data at a later point in time (Podsakoff *et al*, 2003).

Fourth, because the results are based on senior managers at small and medium-sized enterprises in the service sector, it is unknown if senior managers at small and medium-sized businesses in other sectors would display the same degree of understanding of the business external environment and trust towards their supplier or business partners. This must be considered while evaluating the study's findings. While focusing on a single industry allows for the elimination of confounding industry-specific factors (Baum and Locke, 2004), this study proposes that future studies cover more sectors. Finally, using self-reported and perceived metrics of company growth risks introducing respondent bias into the sample. While the company growth

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metric utilised in this study is frequently used in management research (e.g. Rauch *et al*, 2009; Anderson and Eshima, 2013), the current study promotes more research that utilises secondary sources of financial data.

In conclusion, the purpose of this study was to advance our knowledge of how EO, components of inter-organizational trust, and environmental dynamism affect the performance of businesses in general. Specifically, this study discovered that inter-organizational cognitive trust acts as a moderator of the effect of EO on firm performance. Thus, the current study not only emphasises the critical role of inter-organizational trust in firm performance conceptually, but also provides supporting empirical data, expanding our knowledge of EO and its implications for firm performance. Additionally, the study discovered that environmental dynamism moderates the combined effect of EO and inter-organizational trust on company performance. These findings shed light on how firms could strike a balance between EO and trust-based connections in ever-changing market situations.

## Appendix A Article I

### A.1 Table of trust definitions and operationalisation

References	Construct	Definition	Measures
Wang et al. (2008)	Trust	A belief that a trustor is concerned with a trustee's welfare (benevolence); will reliably fulfil its commitment (integrity); and has the skills, competencies, and knowledge to fulfil its obligations (expertise)	Adapted from Doney and Cannon (1997) 1. Both firms keep promises made to each other. 2. Both firms are very honest in dealing with each other. 3. Both firms would go out of our way to help each other out. 4. Both firms consider each other's interest when problems arise. 5. Both firms can depend on each other. (5-point scales anchored by 1: strongly disagree and 5: strongly agree) (Cronbach's alpha: .89)
Van Bruggen et al. (2005)	Trust	Trust is the perceived credibility and benevolence of the partner. Trust in the partner's credibility is the belief that the partner stands by its words, fulfils promised role obligations, and is sincere. Trust in the partner's benevolence is the belief that the partner is interested in the firm's welfare and will not take unexpected actions that will negatively affect the firm.	Customer trust 1. This distributor is open and honest with us 2. This distributor is knowledgeable about its products 3. In difficult times this distributor will support us 4. This distributor is trustworthy (5-point scales anchored by 1: completely disagree and 5: completely agree) (Cronbach's alpha: .81)
Kumar et al. (1995)	Trust	Trust encompasses two essential elements: (1) trust in the partner's honesty, that is, the belief that the partner stands by its word, fulfils promised role obligations, and is sincere, and (2) trust in the partner's benevolence is the belief that the partner is interested in the firm's welfare and will not take unexpected	Trust in partner's honesty 1. Even when the supplier gives us a rather unlikely explanation, we are confident that it is telling the truth. 2. The supplier has often provided us information that has later proven to be inaccurate. (R) 3. The supplier usually keeps the promises that it makes to our firm. 4. Whenever the supplier gives us advice on our business operations, we know that it is sharing its best judgement.

References	Construct	Definition	Measures
		actions that will negatively affect the firm. Trust, therefore, exists when a firm believes its partner is honest and benevolent.	5. Our organisation can count on the supplier to be sincere. Trust in partner's benevolence 1. Through circumstances, we believe that the supplier will be ready and willing to offer us assistance and support. 2. When making important decisions, the supplier is concerned about our welfare. 3. When we share our problems with the supplier, we know that it will respond with understanding. 4. In the future, we can count on the supplier to consider how its decisions and actions will affect us. 5. When it comes to things that are important to us, we can depend on the supplier's support. (7-point scales anchored by 1: strongly disagree and 7: strongly agree) (Cronbach's alpha: .91)
Morgan and Hunt (1994)	Trust	Trust is conceptualised as existing when one part has confidence in an exchange partner's reliability and integrity.	1. In our relationship, my major supplier cannot be trusted at times (R) 2. In our relationship, my major supplier can be counted on to do what is right. 3. In our relationship, my major supplier has high integrity. (7- point scales anchored by 1: strongly disagree and 7: strongly agree) (Reliability: .95)
Anderson and Narus (1990)	Trust	Trust in a working relationship and its implications for a firm's actions have been defined as the firm's belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm.	Trust for distributor firms (Example Measure) Based upon your past and present experience, how would you characterise the level of trust your firm has in its working relationship with Manufacturer X? (7-point scales: don't trust Manufacturer X/trust Manufacturer X completely)  Trust of manufacturer firms (Example Measure) Based upon your past and present experience, how would you characterise the level of trust your firm has in its working relationship with Firm X? (7-point scales: don't trust Firm X/trust Firm X completely)
Ganesan (1994)	Trust	Trust is the willingness to rely on an exchange partner in whom one has confidence. An important aspect of this definition is the notion of trust as a belief, a sentiment, or an expectation about an exchange partner that	Retailer's trust in vendor Vendor's credibility 1. This resource's representative has been frank in dealing with us. 2. Promises made by this resource's representative are reliable. 3. This resource's representative is knowledgeable regarding his/her products.

References	Construct	Definition	Measures
		results from the partners expertise, reliability, and intentionally. The definition of trust proposed here reflects two distinct components: (1) credibility, which is based on the extent to which the retailer believes that the vendor has the required expertise to perform the job effectively and reliably and (2) benevolence, which is based on the extent to which the retailer believes that the vendor has intentions and motives beneficial to the retailer when new conditions arise, conditions for which a commitment was not made.	<p>4. This resource's representative does not make false claims.</p> <p>5. This resource's representative is not open in dealing with us. (R)</p> <p>6. If problems such as shipment delays arise, the resource's representative is honest about the problems.</p> <p>7. This resource's representative has problems answering our questions.</p> <p>(Cronbach's alpha: .90)</p> <p>Vendor's benevolence</p> <p>1. This resource's representative has made sacrifices for us in the past.</p> <p>2. This resource's representative cares for us.</p> <p>3. In times of shortages, this resource's representative has gone out on a limb for us.</p> <p>4. This resource's representative is like a friend.</p> <p>5. We feel the resource's representative has been on our side.</p> <p>(Cronbach's alpha: .88)</p>
Doney and Cannon (1997)	Trust	Perceived credibility and benevolence of a target of trust	<p>1. This supplier keep promises it makes to our firm.</p> <p>2. This supplier is not always honest with us (R)</p> <p>3. We believe the information that his vendor provides us.</p> <p>4. This supplier is genuinely concerned that our business succeeds</p> <p>5. When making important decisions, the supplier considers our welfare as well as its own.</p> <p>6. We trust this vendor keeps our best interest in mind.</p> <p>7. This supplier is trustworthy.</p> <p>8. We find it necessary to cautions with this supplier. (R)</p> <p>(7-point scales anchored by 1: strongly disagree and 7: strongly agree)</p> <p>(Cronbach's alpha: .94)</p>
Siguaw et al. (1998)	Trust	Trust is a fundamental relationship model building block that requires credibility and benevolence. Credibility is comprised of the belief that a trading partner is expert and reliable in conducting transactions effectively; benevolence is based on the beneficial intentions and motives of one partner for the other.	<p>Trust: Credibility</p> <p>1. This supplier has been frank in dealing with us.</p> <p>2. Promises made by this supplier are reliable.</p> <p>3. This supplier is knowledgeable regarding his/her products.</p> <p>4. This supplier has problems understanding our position. (R)</p> <p>5. This supplier does not make false claims.</p> <p>6. This supplier is not open in dealing with us. (R)</p> <p>7. This supplier has problems answering our questions. (R)</p>

References	Construct	Definition	Measures
			(Item 1 and 7 deleted) Trust: Benevolence 1. This supplier has made sacrifices for us in the past. 2. This supplier cares for us. 3. In times of shortages, this supplier has gone out on a limb for us. 4. This supplier is like a friend. 5. We feel this supplier has been on our side. (Item 1 deleted) (7-point scales anchored by 1: strongly disagree and 7: strongly agree)
Selnes and Sallis (2003)	Trust	Relational trust is the perceived ability and willingness of the other party to behave in ways that consider the interests of both parties in the relationship, and mainstream thinking states that trust is a facilitator of effective cooperative behaviour in customer-supplier relationships.	1. I believe the other organisation will respond with understanding in the event of problems. 2. I trust that the other organisation is able to fulfill contractual agreements. 3. We trust that the other organisation is competent at what they are doing. 4. There is general agreement in my organisation that the other organisation is trustworthy. 5. There is general agreement in my organisation that the contact people in the other organisation are trustworthy. (7-point scales anchored by 1: strongly disagree and 7: strongly agree) (Reliability for sellers: .92; for buyers: .89)
Palmatier et al (2007a)	Trust	Trust is confidence in an exchange partner's reliability and integrity.	Adopted from Crosby et al. (1990) [Seller] is a company that stands by its word. I can rely on [Seller] to keep the promises they make to me. [Seller] is sincere in its dealings with me. (5-point scales anchored by 1: strongly disagree and 5: strongly agree)
Moorman et al. (1992)	Trust	Trust is the willingness to rely on an exchange partner in whom one has confidence.	Not relevant
Jap (1999)	Trustworthiness	Trust is the ability to predict the actions of the other party in the relationship reliably and the belief that the other party	1. Our promises to each other are reliable. 2. We are very honest in dealing with each other. We trust each other. 3. We would go out of our way to help each other out. 4. We consider each other's interests when problems arise.

References	Construct	Definition	Measures
		will not act opportunistically if given the chance to do so.	("Our" and "We" refer to the individual representatives.) (7-point scales anchored by 1: strongly disagree and 7: strongly agree) (Reliability for buyers: .94; for suppliers: .88)
Ivens and Pardo (2007)	Trust	Trust is an attitude that can be defined as the willingness to rely on an exchange partner in which one has confidence	1. This supplier keeps promises it makes to our firm 2. This supplier is not always honest with us (R) 3. We believe in information this supplier provides us 4. This supplier is truly interested in our own success 5. This supplier is trustworthy 6. We find it necessary to be cautious with this supplier (R) (7-point scales anchored by 1: totally disagree and 7: totally agree) (Cronbach's alpha: .5)
Zhao and Cavusgil (2006)	Trust	Trust is defined as a willingness to rely on an exchange partner in whom one has confidence. The literature provides two general definitions of trust: (1) predictability in another party's behaviour and (2) confidence in another party's goodwill.	1. The level of trust our company has in its working relationship with this supplier is very high. 2. In our relationship, this supplier cannot be trusted at times. (R) 3. In our relationship, this supplier can be counted on to do what is right. 4. This supplier keeps promises it makes to our firm. 5. In our relationship, this supplier has high integrity. (Reliability: .92)
Del Bosque Rodriguez et al. (2006)	Trust	Credibility and benevolence	Adapted from Ganesan (1994) <b>Trust: Credibility</b> 1. [The counterpart company] is honored and sincere in its relations with us. 2. [The counterpart company] complies what promises. 3. If difficulties exist, [the counterpart company] is honest at the moment of to notify us that problems. 4. If [the counterpart company] detects problems, responds of understandable form trying to help us. 5. [The counterpart company] does not carry out false claims. (Reliability: .84)

References	Construct	Definition	Measures
			<p><b>Trust: Benevolence</b></p> <ol style="list-style-type: none"> <li>1. [The counterpart company] has been sacrificed for us in the past.</li> <li>2. [The counterpart company] worries about our welfare and interests or future profit value.</li> <li>3. In difficult situations, [the counterpart company] is willing to provide us aid and support.</li> <li>4. Generally [the counterpart company] does not adopt decisions, neither actions that they damage us.</li> </ol> <p>(Reliability: .84) (7-point scales anchored by 1: strongly disagree and 7: strongly agree)</p>
Farrelly and Quester (2005)	Trust	N/A	<ol style="list-style-type: none"> <li>1. Our firm can rely on X in this sponsorship relationship.</li> <li>2. X is knowledgeable about this sponsorship relationship.</li> <li>3. X understands our position in this sponsorship relationship.</li> <li>4. X cares for our welfare in this sponsorship relationship.</li> <li>5. X is open in dealing with us in this sponsorship relationship.</li> <li>6. We trust that X will serve our best interests.</li> <li>7. X is well known for their fair dealing with sponsorship partners.</li> </ol> <p>(Coefficient alpha: .92)</p>
Leonidou (2004)	Trust	Trust is a fundamental dimension, which denotes a belief by one party in a working relationship that the behaviour of the other party is honest and fair, leading it to perform actions that will result in positive outcomes or prevent actions that will result in negative outcomes. Trust signifies an attitude by the one party of having confidence in,	<ol style="list-style-type: none"> <li>1. These customers have so far been very frank in dealing with our company.</li> <li>2. These customers always keep a trade secret concerning our business venture.</li> <li>3. Several times these customers were caught making false claims. (R)</li> <li>4. These customers are engaged in a behaviour characterised by deceit and fraud. (R)</li> <li>5. These customers are honest about problems caused by them in the working relationship.</li> </ol> <p>(7-point scales anchored by 1: strongly disagree and 7: strongly agree)</p>

References	Construct	Definition	Measures
		attracting credibility to, and showing benevolence toward the other party in the working relationship.	
Zaheer and Venkatraman (1995)	Trust	Trust between the focal carrier and the agency	<ol style="list-style-type: none"> <li>1. The focal carrier and our agency have a high level of mutual trust.</li> <li>2. The focal carrier is well known for fair dealing.</li> <li>3. The focal carrier stands by its word.</li> </ol> (7-point scales anchored by 1: totally disagree and 7: totally agree) (Cronbach's alpha: .81)
Mohr and Spekman (1994)	Trust	The belief that a party's word is reliable and that a part will fulfill its obligation in an exchange	<ol style="list-style-type: none"> <li>1. We trust that the manufacturer's decisions will be beneficial to our business.</li> <li>2. We feel that we do not get a fair deal from this manufacturer.</li> <li>3. This relationship is marked by a high degree of harmony.</li> </ol> (5-point scales anchored by 1: totally disagree and 5: totally agree) (Reliability: .75)
Jiang et al. (2011)	Reliance	Positive expectations held by organisation members that the focal organisation's specific needs will be fulfilled by its exchange partner given its proven capability	<ol style="list-style-type: none"> <li>1. We are confident with this supplier's ability to fulfil our agreements.</li> <li>2. We are confident that this supplier is competent at what they are doing.</li> <li>3. The performance of this supplier can always meet our expectations.</li> <li>4. We have faith in the supplier's ability to fulfil their promises.</li> </ol> (Cronbach's alpha: .86) (7-point scales anchored by 1: strongly disagree and 7: strongly agree)
Norman (2002)	Trust	Willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control the other party	<ol style="list-style-type: none"> <li>1. We can rely on our partner to abide by the alliance agreement.</li> <li>2. There is a high level of trust in the working relationship with our partner.</li> </ol> . We trust that our partner's decisions will be beneficial to the alliance. . We trust that our partner's decisions will be beneficial to our firm. (Cronbach's alpha: .89) (7-point scales anchored by 1: totally disagree and 7: totally agree)
Blois (1999)	Trust and Reliance	Trust is about the other's dependable goodwill as	N/A

References	Construct	Definition	Measures
		distinct from reliance on their dependable habits and proven capability. A firm might rely on a particular supplier because of its proven technical competence and the nature of the contract plus its reputation for fair dealing. However, it will be its employees who actually trust the supplier and who determine whether or not the supplier is trustworthy.	
Mouzas et al. (2007)	Trust and Reliance	Trust constitutes an emotive state that operates at an interpersonal level, while reliance sets a rational standard that operates at the interorganisational level.	N/A

## A.2 Table of commitment definitions and operationalisation

References	Construct	Definition	Measures
Morgan and Hunt (1994)	Commitment	An exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working to ensure that it endures indefinitely.	The relationship that my firm has with my major supplier: <ol style="list-style-type: none"> <li>1. Is something we are very committed to.</li> <li>2. Is something my firm intends to maintain indefinitely.</li> <li>3. Deserves our firm's maximum effort to maintain.</li> </ol> (7-point scales, anchored by 1: strongly disagree and 7: strongly agree) (Reliability: .89)
Van Bruggen et al (2005)	Commitment	A desire to develop a stable relationship, a willingness to make short-term sacrifices to	<b>Customer commitment</b> <ol style="list-style-type: none"> <li>1. We are constantly looking for another distributor to buy our materials from. (R)</li> <li>2. We have a good relationship with this distributor and want to keep buying from them.</li> </ol>

References	Construct	Definition	Measures
		maintain the relationship, and a confidence in the stability of the relationship	<ol style="list-style-type: none"> <li>3. We will continue buying our pains from this distributor.</li> <li>4. The quantity of paints we buy from this distributor will grow in the coming years (5-point scales, anchored by 1: completely disagree and 5: completely agree) (Cronbach's alpha: .66)</li> </ol>
Mohr et al. (1996)	Commitment	The desire to maintain membership in the dyadic relationship.	<ol style="list-style-type: none"> <li>1. We are very committed to carrying this manufacturer's products.</li> <li>2. We would like to discontinue carrying this manufacturer's product. (R)</li> <li>3. We have a minimal commitment to this manufacturer. (R)</li> </ol> (5-point scales, anchored by 1: strongly disagree and 5: strongly agree) (Reliability: .75)
Siguaw et al. (1998)	Commitment	Commitment is defined as a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship.	<ol style="list-style-type: none"> <li>1. We define this supplier when outsiders criticise the company.</li> <li>2. We are continually on the lookout for another supplier to replace or to add to our current supplier. (R)</li> <li>3. 3. If another supplier offered us better coverage, we would most certainly take them on, even if it meant dropping this supplier.</li> <li>4. We are patient with this supplier when they make mistakes that cause us trouble.</li> <li>5. We are willing to dedicate whatever people and resources it takes to grow sales for this supplier. (Item 3 deleted)</li> </ol> (7-point scales, anchored by 1: strongly disagree and 7: strongly agree)
Palmatier et al. (2007)	Customer Commitment	Commitment is an enduring desire to maintain a valued relationship	Adapted from Kumar et al (1994) <ol style="list-style-type: none"> <li>1. We continue to represent [Seller because it is pleasant working with them.</li> <li>2. We intend to continue representing [Seller] because we feel like we are part of the [Seller] family.</li> <li>3. We like working for [Seller] and want to remain a [Seller] agent.</li> </ol> (5-point scales, anchored by 1: strongly disagree and 5: strongly agree)
Kumar et al. (1995)	Affective commitment	As a dimension of commitment, affective commitment is the desire to continue relationship because of positive affect toward the partner.	<ol style="list-style-type: none"> <li>1. Even if we could, we would not drop the supplier because we like being associated with it.</li> <li>2. We want to remain a member of the supplier's network because we genuinely enjoy our relationship with it.</li> <li>3. Our positive feelings towards the supplier are a major reason we continue working with it.</li> </ol> (7-point scales, anchored by 1: strongly disagree and 7: strongly agree)
Mohr and Spekman (1994)	Commitment	Commitment refers to the willingness of trading partners to exert effort on behalf of the relationship. It suggests a future	<ol style="list-style-type: none"> <li>1. We'd like to discontinue carrying this manufacturer's product. (R)</li> <li>2. We are very committed to carrying this manufacturer's products.</li> <li>3. We have a minimal commitment to this manufacturer. (R)</li> </ol>

References	Construct	Definition	Measures
		orientation in which partners attempt to build a relationship that can weather unanticipated problems.	(5-point scales, anchored by 1: strongly disagree and 5: strongly agree) (Reliability: .81)
Selnes and Sallis (2003)	Collaborative Commitment	Commitment is defined as an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it.	<ol style="list-style-type: none"> <li>1. To what degree do you discuss company goals with the other party in this relationship?</li> <li>2. To what degree are these goals developed through joint analysis of potentials?</li> <li>3. To what degree are these goals formalised in a joint agreement or contract?</li> <li>4. To what degree are these goals implemented in day-to-day work?</li> <li>5. To what degree have you developed measures that capture performance related to these goals?</li> </ol> (7-point scales, anchored by 1: strongly disagree and 7: strongly agree) (Reliability for seller: .94; for buyer: .91)
Anderson and Weitz (1992)	Commitment	Commitment to a relationship entails a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship	<p><b>Distributor's commitment</b></p> <ol style="list-style-type: none"> <li>1. We defend this supplier when others criticise the company.</li> <li>2. We have a strong sense of loyalty to this supplier.</li> <li>3. We are continually on the lookout for another product to add to or replace this supplier for this product type. (R)</li> <li>4. We expect to be distributing this supplier's products for some time.</li> <li>5. If another company offered us a better product line, we would most certainly take them on, even if it meant dropping this supplier (R)</li> <li>6. We are not very committed to this supplier (R)</li> <li>7. We are quite willing to make long-term investments in selling this supplier's line.</li> <li>8. Our relationship with this supplier is a long-term alliance.</li> <li>9. We are patient with this supplier when they make mistakes that cause us trouble.</li> <li>10. We are willing to dedicate whatever people and resources it takes to grow sales of this supplier's products.</li> </ol> (7-point scales, anchored by 1: strongly disagree and 7: strongly agree) (Cronbach's alpha: .83) <p><b>Manufacturer's commitment</b></p> <ol style="list-style-type: none"> <li>1. We defend this distributor when others criticise the company.</li> <li>2. We have a strong sense of loyalty to this distributor.</li> <li>3. We are continually on the lookout for another distributor to replace or to add in this distributor's territory. (R)</li> </ol>

References	Construct	Definition	Measures
			4. We expect to be using this distributor for some time. 5. If another distributor offered us a better coverage, we would most certainly take them on, even if it meant dropping this distributor. (R) 6. We are not very committed to this distributor (R) 7. We are quite willing to make long-term investments in this distributor. 8. Our relationship with this distributor is a long-term alliance. 11. We are patient with this distributor when they make mistakes that cause us trouble. 12. We are willing to dedicate whatever people and resources it takes to grow sales of this distributor. (7-point scales, anchored by 1: strongly disagree and 7: strongly agree) (Cronbach's alpha: .87)
Anderson and Weitz (1992)	Distributor's/ Manufacturer's Perception of Manufacturer's/ Distributor's commitment	Commitment to a relationship entails a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship.	<b>Distributor's perception of manufacturer's commitment</b> 1. This supplier defends us when others criticise us. 2. This supplier has a strong sense of loyalty to us. 3. This supplier is continually on the lookout for a distributor to replace us. (R) 4. This supplier expects us to be distributing their products for a long time. 5. If another distributor offered better sales effort, this supplier would most certainly take them on, even if it meant dropping us. (R) 6. This supplier is not very committed to us. (R) 7. This supplier is quite willing to make a long-term investment in helping us. 8. This supplier sees our relationship as a long-term alliance. 9. This supplier is patient with us when we make mistakes that cause them trouble. 10. This supplier is willing to dedicate whatever people and resources it takes to grow our sales. (7-point scales anchored by 1: strongly disagree and 7: strongly agree) (Cronbach's alpha: .90) <b>Manufacturer's perception of distributor's commitment</b> 1. This distributor defends us when others criticise us. 2. This distributor has a strong sense of loyalty to us. 3. This distributor is continually on the lookout for a supplier to replace us. (R) 4. This distributor expects us to be working with them for a long time. 5. If another seller offered better sales support, this distributor would most certainly take them on, even if it meant dropping us. (R)

References	Construct	Definition	Measures
			<p>6. This distributor is not very committed to us. (R)</p> <p>7. This distributor is quite willing to make a long-term investment in helping us.</p> <p>8. This distributor sees our relationship as a long-term alliance.</p> <p>9. This distributor is patient with us when we make mistakes that cause them trouble.</p> <p>10. This distributor is willing to dedicate whatever people and resources it takes to grow our sales.</p> <p>(7-point scales anchored by 1: strongly disagree and 7: strongly agree)</p> <p>(Cronbach's alpha: .90)</p>
Jap and Ganesan (2000)	Commitment	The supplier's desire to develop a stable relationship with the retailer, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship.	<p><b>Supplier's commitment to the retailer</b></p> <p>(Adapted from Anderson and Weitz (1992))</p> <p>1. X is quite willing to dedicate whatever people and resources it takes to grow our sales.</p> <p>2. X spends a higher amount of time and effort with us relative to other businesses that it works with.</p> <p>3. X is quite willing to make sacrifices to help us out from time to time.</p> <p>4. X is continually on the lookout for other customers to replace us. (R)</p> <p>5. It takes too much time, effort, and energy to get X's attention to our problems. (R)</p> <p>6. X is more interested in doing business with our competitors than with us (R)</p> <p>(7-point scales anchored by 1: strongly disagree and 7: strongly agree)</p> <p>(Cronbach's alpha: .73)</p>
Cook and Emerson (1978)	Commitment	Commitment between exchange partners is an attachment leading person to exchange repeatedly with the same partners.	A measure of commitment is $[C_i]_t$ , for person $I$ after $t$ transactions having a maximum value of 1.0 when (a) $I$ completes a transaction at every opportunity, and (b) has done so always with the same partner. The minimum value of $[C_i]_t = 0$ should be obtained when $I$ 's transactions have been equally distributed among potential partners.
Ivens and Pardo (2007)	Commitment	Relationship commitment (just like trust) is mainly being interpreted as an attitude, defined as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinite".	<p>1. We intend to maintain our relationship with this supplier as long as possible.</p> <p>2. We do all we can not to threaten the relationship with this supplier.</p> <p>3. We are ready to invest more as usual into this relationship.</p> <p>4. Our cooperation with this supplier is frictionless.</p> <p>5. From time to time we seek for alternatives to the products we buy from this supplier</p> <p>(7-point scales anchored by 1: totally disagree and 7: totally agree)</p> <p>(Cronbach's alpha: .83)</p>

References	Construct	Definition	Measures
Farrelly and Quester (2005)	Commitment	A willingness of the parties in the sponsorship relationship to make short-term investments in an effort to realise long-term benefits from the relationship	<ol style="list-style-type: none"> <li>1. We have developed formal sponsorship objectives for this sponsorship relationship with X.</li> <li>2. Sponsorship objectives are integrated into our corporate or marketing plan.</li> <li>3. We have, together with X, jointly established sponsorship objectives.</li> <li>4. We intend to allocate greater resources to this sponsorship relationship with X in the future.</li> <li>5. We have a strong sense of loyalty to this relationship with X.</li> <li>6. We are committed to the sponsorship relationship with X.</li> </ol> (Coefficient alpha: .81)
Leonidou (2004)	Commitment	The effort made by one party to accept short-term sacrifices, costs, or restrictions required by the working relationship, to obtain common results with the other party and realise long-term benefits	<ol style="list-style-type: none"> <li>1. Feeling of very little loyalty and commitment to these customers. (R)</li> <li>2. Preserving a long-lasting working relationship with these customers.</li> <li>3. Investing a lot of time in learning the “ins and outs” of these customers.</li> <li>4. Willingness to make any effort in making the working relationship function well.</li> <li>5. Dedication of whatever people/resources are necessary to develop working relationship.</li> </ol> (7-point scales anchored by 1: strongly disagree and 7: strongly agree)
Dwyer et al. (1987)	Commitment	An implicit or explicit pledge of relational continuity between exchange partners	N/A

### A.3 Table of information sharing definitions and operationalisation

References	Construct	Definition	Measures
Heide and John (1992)	Norm of Information Exchange	A bilateral expectation (concerning the information exchange behaviour) that parties will proactively provide information useful to the partner	<ol style="list-style-type: none"> <li>1. In this relationship, it is expected that any information that might help the other party will be provided to them.</li> <li>2. Exchange of information in this relationship takes place frequently and informally, and not only according to a prespecified agreement.</li> <li>3. It is expected that the parties will provide proprietary information if it can help the other party.</li> <li>4. It is expected that we keep each other informed about events or changes that may affect the other party.</li> <li>5. (7-point scale anchored by 1: strongly disagree and 7:strongly agree)</li> </ol>
Cannon and Perreault (1999)	Information Exchange	It is defined as expectations of open sharing of information that may be useful to both	Information Exchange [In this relationship it is expected that...] <ol style="list-style-type: none"> <li>1. Proprietary information is shared with each other.</li> </ol>

References	Construct	Definition	Measures
		parties. More open sharing of information is indicated by the willingness of both parties to share important, even proprietary, information. In practice, this might include involving the other party in the early stages of product design, and sharing cost information, discussing future product development plans, or jointly providing supply and demand forecasts.	<ol style="list-style-type: none"> <li>2. We will both share relevant cost information.</li> <li>3. We include each other in product development meetings</li> <li>4. We always share supply and demand forecasts.</li> </ol> <p>(7-point scales anchored by 1: very inaccurate description and 7: very accurate description ... of this relationship)</p> <p>(Coefficient alpha: .79)</p>
Cannon and Homburg (2001)	Information Sharing	As a component of communication, information sharing is the extent to which the supplier openly shares information about the future that may be useful to the customer relationship.	<ol style="list-style-type: none"> <li>1. This supplier rarely talks with us about its business strategy (R)</li> <li>2. This supplier frequently discusses strategic issues with us</li> <li>3. This supplier openly shares confidential information with us</li> </ol>
Doney and Cannon (1997)	Confidential Information Sharing	Supplier Firm Confidential Information Sharing: Confidential information sharing involves the extent to which suppliers share private information with their customers	<ol style="list-style-type: none"> <li>1. This supplier shares proprietary information with our firm.</li> <li>2. This supplier will share confidential information to help us.</li> </ol> <p>(7-point scales anchored by 1: strongly disagree and 7: strongly agree)</p> <p>(Reliability: .78)</p>
Jap and Ganesan (2000)	Information Exchange	Information exchange is the expectation that the parties will freely and actively provide useful information to each other.	<p>Adapted from Dwyer and Oh (1988); Heide and John (1992)</p> <ol style="list-style-type: none"> <li>1. In this relationship, it is expected that any information that might help the other party will be provided to them</li> <li>2. Information is informally exchanged in this relationship.</li> <li>3. It is expected that we keep each other informed about events or changes that may affect the other party.</li> <li>4. Exchange of information in this relationship takes place frequently</li> <li>5. It is expected that the parties will provide proprietary information if it can help the other party</li> </ol>

References	Construct	Definition	Measures
			(7-point scales anchored by 1: strongly disagree and 7: strongly agree)  (Cronbach's alpha: .71)
Denize and Young (2007)	Information Exchange Norms	They are joint expectations concerning information exchange behaviours within the relationship and incorporate actors acting to create and exchange resources through time.	Parties to this relationship... <ol style="list-style-type: none"> <li>1. Rely on each other to be informed.</li> <li>2. Keep the other informed about the things they ought to know.</li> <li>3. Are informed about all useful information from each other.</li> <li>4. Have confidence in the accuracy of information from each other.</li> <li>5. Search for solutions to any joint problems they might have.</li> </ol> (6-point scales anchored by 1: strongly disagree and 6: strongly agree)  (Reliability alpha: .82)
Wang et al. (2008)	Knowledge-Sharing Routines	The systematic patterns of interaction between organisations that permit the transfer, recombination or creation of specialised knowledge.	<ol style="list-style-type: none"> <li>1. Budgets for information sharing are assigned in a regular basis.</li> <li>2. Both firms have set up rules for information sharing activities.</li> <li>3. Both firms have a procedure for sharing information.</li> </ol> (5-point scales anchored by 1: strongly disagree and 6: strongly agree)  (Cronbach's alpha: .76)
Heide and Miner (1992)	Information Exchange	The degree to which each party discloses information that may facilitate the other party's activities, as opposed to keeping all information proprietary.	<ol style="list-style-type: none"> <li>1. In this relationship, it is expected that any information that might help the other party will be provided to them.</li> <li>2. Exchange of information in this relationship takes place frequently and informally and not only according to a pre-specified agreement.</li> <li>3. It is expected that the parties will provide proprietary information if it can help the other party.</li> <li>4. It is expected that we keep each other informed about events or changes that may affect the other party.</li> </ol> (7-point scales anchored by 1: completely inaccurate description and 7: completely accurate description)

References	Construct	Definition	Measures
			<p>(Cronbach's alpha for buyer side: .79)</p> <p>(Cronbach's alpha for supplier side: .62)</p>
Mohr and Spekman (1994)	Information Sharing	Information sharing refers to the extent to which critical, often proprietary, information is communicated to one's partner.	<ol style="list-style-type: none"> <li>1. We share proprietary information with this manufacturer.</li> <li>2. We inform the manufacturer in advance of changing needs.</li> <li>3. In this relationship, it is expected that any information which might help the other party will be provided.</li> <li>4. The parties are expected to keep each other informed about events or changes that may affect the other party.</li> </ol> <p>(5-point scales anchored by 1: strongly disagree and 7: strongly agree)</p> <p>.,(Reliability: .68)</p>
Anderson and Narus (1990)	Communication	Meaningful communication between firms in a working partnership	<p><b>Communication for distributor firms</b> (Example Measure)</p> <p>Manufacturer X lets out firm know as soon as possible of any unexpected problems with things such as lead times, delivery schedules, or product quality</p> <p>(7-point scales anchored by 1: strongly disagree and 7: strongly agree)</p> <p><b>Communication for manufacturer firms</b> (Example Measure)</p> <p>Firm X lets our company know as soon as possible of any unexpected problems they are experiencing with such things as poor cash flow or other financial difficulties.</p> <p>(7-point scales anchored by 1: strongly disagree and 7: strongly agree)</p>

References	Construct	Definition	Measures
Morgan and Hunt (1994)	Communication	Defined broadly as the formal as well as informal sharing of meaningful and timely information between firms.	<p>1. In our relationship, my major supplier keeps us informed of new developments.</p> <p>2. In our relationship, my major supplier communicates well his expectations for our firm's performance.</p> <p>(7-point scales anchored by 1: strongly disagree and 7: strongly agree)</p> <p><b>(Sample items)</b></p>
Mohr et al. (1996)	Collaborative Communication	<p>It can be viewed in terms of a specific combination of intensive, relationship-building communication facets: these facets include frequency, bi-directionality, formality, and content of influence attempts. Frequency refers to the amount of contact between channel members, Bi-directionality refers to two way (as opposed to one-way, or unidirectional) vertical flows of communication in the channel. Formality of communication refers to the extent to which contacts between channel members are routinized, planned, or structured, as opposed to unplanned, or ad hoc in nature. Noncoercive content refers to the use of influence strategies based on information sharing, in which compliance is not mediated by the other party.</p>	<p><b>Frequency</b></p> <p>(very infrequently/very frequently)</p> <p>For each of the following modes, over a typical four-week period, please estimate the frequency with which communication is spent in:</p> <p>1. Your providing information to the manufacturer via face-to-face interaction with salespeople</p> <p>Telephone interaction with salespeople</p> <p>Technical support</p> <p>Written letters, correspondence</p> <p>Computer link</p> <p>Trade shows</p> <p>Dealer councils</p> <p>Seminars</p> <p>(Summed and divided by 8)</p> <p>2. The manufacturer providing information to you via Face-to-face interaction with salespeople</p> <p>Telephone interaction with salespeople</p>

References	Construct	Definition	Measures
			<p>Technical support</p> <p>Written letters, correspondence</p> <p>Computer link</p> <p>Trade shows</p> <p>Dealer councils</p> <p>Seminars</p> <p>Advertising</p> <p>Sales literature</p> <p>Newsletters</p> <p>(Summed and divided by 11)</p> <p><b>Bidirectionality</b></p> <p>(none/a lot):</p> <p>How much feedback:</p> <p>Do you provide to this manufacturer about their product, market condition, etc?</p> <p>Does this manufacturer provide to you?</p> <p>(negative feedback)</p> <p>(positive feedback)</p>

References	Construct	Definition	Measures
			<p><b>Formality</b></p> <p>(strongly disagree/strongly agree)</p> <p>In coordinating our activities with this manufacturer, formal communication channels are followed (i.e. channels are regularised, structured modes versus casual, informal, word-of-mouth modes).</p> <p>The terms of our relationship have been written down in detail.</p> <p>The manufacturer's expectations of us are communicated in detail</p> <p>The terms of our relationship have been explicitly verbalised and discussed.</p> <p><b>Noncoercive influence attempts</b></p> <p>In their interactions with you, manufacturers often try to influence your attitudes and behaviors. Estimate the frequency with which this manufacturer's sales representatives or district managers employ each of the following methods to influence you. How frequently did the representative (very infrequently/very frequently):</p> <p>Make a recommendation that by following these suggestions, your dealership would be more profitable?</p> <p>Request that you follow his or her wishes on an issue without mentioning or implying any consequence of compliance or noncompliance?</p> <p>Merely discuss the overall strategy of dealership operations (e.g., the effect of inventory levels on sales) without making specific statements about what he or she would like you to do?</p>
Palmatier et al. (2007)	Communication	Communication refers to the amount, frequency, and quality of information shared between exchange partners.	<p>Adapted from Greenbaum et al. (1983)</p> <ol style="list-style-type: none"> <li>1. Communications are prompt and timely.</li> <li>2. Communications are complete.</li> </ol>

References	Construct	Definition	Measures
			3. The channels of communication are well understood. 4. Communications are accurate.  (5-point scales anchored by 1: strongly disagree and 5: strongly agree)
Anderson and Weitz (1992)	Two-way Communication	The manufacturer's and distributor's perceptions of the degree to which the relationship are characterised by open communications and sharing of information.	<p><b>Two-way communication perceived by distributor</b></p> 1. We keep this supplier well informed about what is going on in this distributorship and with customers. 2. This distributorship and this supplier make it a point to keep each other well informed. 3. We hesitate to give this supplier too much information. (R) 4. We are quite involved in the marketing and planning efforts of this supplier. 5. This supplier seeks our advice and counsel concerning their marketing efforts. 6. This supplier is willing to let us see their weaknesses as well as their strengths.  (Cronbach's alpha: .84) <p><b>Two-way communication perceived by manufacturer</b></p> 1. We keep this distributor well informed about our products and what is going on in our company. 2. Our company and this distributor make it a point to keep each other well informed. 3. We hesitate to give this distributor too much information. (R) 4. We are quite involved in the marketing and planning efforts of this distributor. 5. This distributor seeks our advice and counsel concerning their marketing efforts. 6. This distributor is willing to let us see weaknesses as well as their strengths.  (Cronbach's alpha: .83)           (7-point scales anchored by 1: strongly disagree and 7: strongly agree)
Leonidou (2004)	Communication	The formal and informal exchange of information and meaning between the parties in a working relationship, concerning day-to-day, tactical, or strategic issues.	1. Relationship with these customers suffers from inadequate communication procedures. (R) 2. Existence of communication failures between company and these customers. (R) 3. These customers often do not inform early enough about critical problems. (R) 4. These customers keep company informed about tactical/strategic issues of the relationship. 5. These customers communicate their expectations of our company's performance.

References	Construct	Definition	Measures
			(7-point scales anchored by 1: strongly disagree and 7: strongly agree)

#### A.4 Table of financial performance definitions and operationalisation

References	Construct	Definition	Measures
Palmatier et al. (2007a)	Overall Financial Performance (Perceptual Format Reported by Customers)	N/A	Adapted from Lusch and Brown, 1996 [For this Seller's products], our performance is very high in terms of (sales growth, profit growth, and overall profitability) (Item loading: .85/ .95/ .88)
Palmatier et al. (2007a)	Sales Growth (Objective)	N/A	Sales growth measured over two years that the seller provided for each customer
Palmatier et al. (2007b)	Selling-Firm Financial Outcomes	<ol style="list-style-type: none"> <li><i>Customer willingness to pay a price premium.</i> A manifest variable that measures the average premium (as a percentage) that the buyer would pay to deal with this selling firm as opposed to another firm as opposed to another firm with similar products.</li> <li><i>Selling effectiveness.</i> The extent to which the customer has been persuaded to purchase more (Both quantity and variety) from the selling firm.</li> <li><i>Sales growth to the customer.</i> A manifest variable calculated as the natural log of relative sales performance.</li> </ol>	<ol style="list-style-type: none"> <li><i>Customer willingness to pay a price premium.</i> What price premium (average) would you pay to deal with this rep firm versus another rep firm with similar product? (%)</li> <li><i>Selling effectiveness.</i> The sales at this customer are growing faster than the overall sales of the rep firm. (Item loading: .81) The number of different part numbers this customer bought from my rep firm increased last year. (Item loading: .85)</li> <li><i>Sales growth to the customer</i> Natural log of relative sales performance (e.g. sales to customer increased by 20% (sales performance index = 120) and the customer's overall growth was 12% (customer growth index = 112) relative sales performance is 120/112, and sales growth is <math>\ln(120/112)</math>. [One-year (2001 to 2002) sales growth index was calculated as the natural log of the ratio of (1) the selling firm's sales growth rate to the customer (source: sales manager) and (2) that customer's overall base growth rate (source: buyer), each indexed to 0% growth = 100.]</li> </ol>

References	Construct	Definition	Measures
Jap (1999)	Profit Performance	Profit performance refers to the profits that result from the dyadic collaboration effort, as opposed to those profits earned by the efforts of one firm alone. It is not merely a summation of the two firms' individual profits by instead refers to the financial outcomes that result from the interdependence of effort and investments that reside within the dyad.	<ol style="list-style-type: none"> <li>1. They have achieved a high level of joint profit between them.</li> <li>2. They have generated a lot of profits together.</li> <li>3. They have increased joint profits shared between them. ("They" refer to the two firms)</li> </ol> (7-point scales anchored by 1: strongly disagree and 7: strongly agree) (Reliability for buyer: .85; for supplier: .83)
Mohr and Spekman (1994)	Sales Volume of the Referent Manufacturer's Product	They used dealer sales volume of the referent manufacturer's product as one indicator of partnership success.	Two objective measures of sales volume: <b>Direct measure</b> What is your approximate volume of sales of this manufacturer's product, on a monthly basis? (seven categories) <b>Indirect computed measure</b> What are the total monthly sales of your dealership? (seven categories); <i>Multiplied by:</i> Of the total sales of you dealership, what percent comes from this manufacturer's product? (0%/100% in 10% increments)
Siguaw et al. (1998)	Satisfaction with Financial Performance	A formative measure that calls for respondents to indicate their degree of satisfaction with seven items; the items constituting the scale were averaged to create the overall performance scale.	<ol style="list-style-type: none"> <li>1. Cash flow</li> <li>2. Return on shareholder equity</li> <li>3. Gross profit margin</li> <li>4. Net profit from operations</li> <li>5. Profit to sales ratio</li> <li>6. Return on investment</li> <li>7. Ability to fund business growth from profits</li> </ol> (the degree of the respondents' satisfaction with these items is asked)
Jap and Ganesan (2000)	Satisfaction with Financial Returns	Used as a factor for measuring relationship satisfaction	(Adapted from Ruekert and Churchill, 1984) How satisfied are you with... <ol style="list-style-type: none"> <li>1. The income received from the sale of X's products?</li> <li>2. The margins on X's products?</li> </ol> (7-point scales anchored by 1: very dissatisfied and 7: very satisfied) (Cronbach's alpha: .82)

References	Construct	Definition	Measures
Ivens and Pardo (2007)	Economic Satisfaction	Whenever an individual compares her/his perceptions of reality with her/his expectations, she/he answers the question whether or not she/he is satisfied with a given good or service. Hence, satisfaction judgements express how positively or negatively a past event is being interpreted. One of the scales to measure satisfaction focuses on a customer's economic satisfaction with a specific relationship.	How satisfied are you with... 1. The supplier's order handling? 2. The quality of the supplier's products? 3. The price-quality-ratio of the supplier's products? 4. The supplier's service orientation? (7-point scales anchored by 1: very dissatisfied and 7: very satisfied) (Cronbach's alpha: .87)
Del Bosque Rodriguez et al. (2006)	Economic Satisfaction	Economic satisfaction is the evaluation performed by a channel member of the economic results derived from his relationship with his partner, such as turnover, margins and discounts.	1. We obtain more sales than the ones that would be able to obtain with other suppliers of this product type. 2. We attract more clients than the ones that would be able to obtain with other suppliers of this product type. 3. We obtain better margins than the ones that would be able to obtain with other suppliers of this product type. 4. We arrange of complete one more assortment than with other suppliers of same products category. (7-point scales anchored by 1: strongly disagree and 7: strongly agree) (Reliability: .81)
Farrelly and Quester (2005)	Economic Satisfaction	Economic satisfaction is defined by the positive affective response to economic rewards that flow from the relationship.	1. The relationship with X has resulted in initiatives we can implement. 2. This relationship with X has produced results that enable us to increase the value of our brand. 3. This relationship with X has produced results that enable us to increase the value of their brand.
Leonidou (2004)	Financial Satisfaction	Financial satisfaction is the difference between the rewards and costs in a business association measured in terms of financial exchanges between the parties involved.	1. Satisfaction with the sales volume achieved from the relationship with these customers. 2. Satisfaction with the profits obtained from the relationship with these customers. 3. Satisfaction with market share gained from the working relationship with these customers. 4. Satisfaction with the return on the investment made in the relationship with these customers. 5. Satisfaction with growth of assets engaged in the working relationship with these customers. (7-point scales anchored by 1: strongly disagree and 7: strongly agree)

References	Construct	Definition	Measures
Fink and Kessler (2010)	Performance: Financial Perspective	NA – formative index	<ol style="list-style-type: none"> <li>1. Since the establishment of the cooperation relationship, I have boosted my cash flow.</li> <li>2. Since the establishment of the cooperation relationship, I have boosted my sales.</li> <li>3. Since the establishment of the cooperation relationship, I have boosted my investments.</li> <li>4. (4-point scales ‘completely agree’, ‘inclined to agree’, ‘inclined to disagree’ and ‘completely disagree’)</li> </ol>

### A.5 Table of non-financial performance definitions and operationalisation

References	Construct	Definition	Measures
Selnes and Sallis (2003) <i>JM</i>	Relationship Performance	The extent to which the partners consider their relationship worthwhile, equitable, productive, and satisfying	<ol style="list-style-type: none"> <li>1. The relationship with the other company has resulted in lower logistics costs.</li> <li>2. Flexibility to handle unforeseen fluctuations in demand has been improved because of the relationship.</li> <li>3. The relationship with the other company has resulted in better product quality.</li> <li>4. Synergies in joint sales and marketing efforts has been achieved because of the relationship.</li> <li>5. The relationship has a positive effect on our ability to develop successful new products.</li> <li>6. Investments of resources in the relationship, such as time and money, have paid off very well.</li> <li>7. The relationship helps us to detect changes in end-user needs and preferences before our competitor do.</li> </ol> <p>(7-point scales anchored by 1: strongly disagree and 7: strongly agree)</p>
Ruekert and Walker (1987) <i>JM</i>	Perceived Effectiveness of the Relationship	It is defined as the perception of personnel who interact with people in another functional area that their relation is worthwhile, equitable, productive, and satisfying.	<ol style="list-style-type: none"> <li>1. Prior to the past six months, to what extent have you had effective working relationships with this other unit?</li> <li>2. To what extent has this unit carried out its responsibilities and commitments in regard to you during the past six months?</li> <li>3. To what extent have you carried out your responsibilities and commitments in regard to this other unit during the past six months?</li> </ol>

References	Construct	Definition	Measures
			4. To what extent do you feel the relationship between you and this other unit is productive? 5. To what extent is the time and effort spent in developing and maintain the relationship with this other unit worthwhile? 6. Overall, to what extent were you satisfied with the relationship between your unit and this other unit during the past six months? (5-point scales anchored by 1: to no extent and 5: great extent)
Van de Ven (1976) <i>AMR</i>	Perceived effectiveness	It includes the belief that the relationship is worthwhile, equitable, productive, and satisfying.	N/A
Fink and Kessler (2010) <i>BJM</i>	Performance: Endogenous Perspective and Exogenous Perspective	N/A – formative index	<i>Endogenous perspective:</i> 1. Since the establishment of the cooperation relationship, the qualifications of my employees have improved. 2. Since the establishment of the cooperation relationships, fewer employees have left my company. <i>Exogenous perspective:</i> 1. My customers are always satisfied with my products and services. 2. Most of my customers are regular customers. 3. Since the establishment of the cooperation relationship, I have enlarged my market share. 4. Most of my suppliers are regular suppliers. (4-point scales ‘completely agree’, ‘inclined to agree’, ‘inclined to disagree’ and ‘completely disagree’)
Beugelsdijk et al. (2009) <i>IMM</i>	Relationship Performance	It is defined as the extent to which the relationship is perceived to be productive and rewarding	1. Our organisation learnt a lot from the cooperation with this partner. 2. By cooperating with this partner we considerably improved our competitiveness. 3. By cooperating with this partner our organisation gained valuable contacts. 4. The cooperation with this partner helps us in the achievement of innovations. 5. The cooperation with this partner yields new clients.

### A.6 Overview of included studies and coded moderators for main effect and moderator analysis

Article	$r_{xy}$	N	Outcomes construct label <sup>a, b</sup>	EH	ED
Moorman, Zaltman and Deshpande (1992)	0.16	331	Commitment (C)	Low	Low
Mohr and Spekman (1994)	0.32	124	Success of partnership (Satisfaction with profit) (DE)	Low	High
Morgan and Hunt (1994)	0.531	129	Relationship commitment (C)	Low	High
Aulakh, Kotabe and Sahay (1996)	0.08	181	Partnership performance (DE)	Low	High
Fryxell, Dooley and Vryza (2002)	0.1135	129	IJV performance (DE)	Low	High
Poppo and Zenger (2002)	0.256	152	Exchange performance (DE)	Low	Low
Dyer and Chu (2003)	0.66	344	ROA (DE)		High
	0.034	135	Information sharing (IS)	Low	High
	0.068	101	Information sharing (IS)	Low	High
	0.115	108	Information sharing (IS)	Low	High
Carson, Madhok, Varman and John (2003)	0.598	129	Performance for outsourced R&D arrangements (DE)	Low	High
Saparito, Chen and Sapienza (2004)	0.52	935	Likelihood of switching (C)*	Low	Low
Robson, Katsikeas and Bello (2008)	0.79	177	Alliance performance (DE)	Low	High
Levin and Cross (2004)	0.255	127	Knowledge transfer (IS)	High	High
Becerra, Lunnan and Huemer (2008)	0.36	155	Tacit knowledge transfer (IS)	Low	Low
Eser (2012)	0.422	87	Satisfaction (C)	High	Low
	-0.28	87	Transaction cost (DE)	High	Low
Geyskens, Steenkamp, Scheer and Kumar (1996)	0.132	417	commitment (C)	Low	High

Article	$r_{xy}$	N	Outcomes construct label <sup>a, b</sup>	EH	ED
	0.2695	289	commitment (C)	Low	High
Gaur, Mukherjee, Gaur and Schmid (2011)	0.547	565	Firm performance (DE)	Low	High
Jiang, Jiang, Cia and Liu (2015)	0.79	205	Alliance performance (DE)	High	High
	0.315	205	Intangible resource sharing (IS)	High	High
Nielsen and Nielsen (2009)	0.092	120	Learning (IS)	Low	High
Szulanski, Cappetta and Jensen (2004)	0.231	271	Knowledge transfer (IS)	Low	High
Ganesan and Hess (1997)	0.216	124	Commitment (C)	Low	Low
Ruyter, Moorman and Lemmink (2001)	0.059	491	commitment (C)	Low	High
Ryoo and Kim (2015)	0.395	70	Knowledge exchange (IS)	Low	High
Stanley and McDowell (2014)	0.31	157	Firm performance (DE)	Low	Low
Nie, Zhong, Zhou, Jiang and Wang (2011)	0.23	173	Sales growth (DE)	High	Low
Bien, Ben and Wang (2014)	0.6	104	Cooperative performance (DE)	Low	High
Lee, Cho and Park (2015)	0.581	344	Satisfaction with mini-cluster program (C)	Low	High
Liao (2010)	0.24	57	Performance (DE)	High	High
Singh and Teng (2016)	0.58	167	Performance (DE)	Low	Low
Ju, Zhao and Wang (2014)	0.19	184	Export performance (DE)	High	High
Murkhejee, Gaur, Gaur and Schmid (2013)	0.733	3694	Knowledge intensity (IS)	Low	Low
	0.05	3694	Sales (DE)	Low	Low
Zaheer, McEvily and Perrone (1998)	0.341	107	Performance (DE)	Low	High

Article	$r_{xy}$	N	Outcomes construct label <sup>a, b</sup>	EH	ED
Yu and Pysarchik (2002)	0.34	210	Long-term orientation (C)	Low	Low
Stuart, Verville and Taskin (2012)	0.31	107	Financial performance (DE)	Low	High
Doney, Barry and Abratt (2007)	0.24	202	Loyalty commitment (C)		High
Ren, Oh and Noh (2010)	0.558	224	Relationship performance (DE)	High	High
Cheng, Yeh and Tu (2008)	0.26	288	Knowledge sharing (IS)	Low	High
Caceres and Paparoidamis (2007)	0.57	234	Commitment (C)	Low	Low
Bennett and Gabriel (2001)	0.301	144	Commitment (C)	Low	Low
Zineldin and Jonsson (2000)	0.66	114	Commitment (C)	Low	Low

Note: <sup>a</sup> = Construct label in the table are those used to describe outcome constructs (performance, information sharing and commitment) in the primary studies; <sup>b</sup> = Codes in parentheses show how outcome constructs were coded into performance (DE); information sharing (IS), commitment (C); r = uncorrected, unweighted correlation coefficient; N = sample size; EH = environment hostility; ED = environment dynamism

## Appendix B Article II

### B.1 Sample of developing countries (according to region)

Africa	Asia	Latin America
1. Uganda	1. China	1. Argentina
2. South Africa	2. Hong Kong	2. Brazil
3. Morocco	3. India	3. Chile
4. Algeria*	4. Malaysia	4. Colombia
5. Burkina Faso*	5. Iran	5. Ecuador
6. Egypt*	6. Jordan	6. Guatemala
7. Ethiopia*	7. Philippines	7. Mexico
8. Ghana*	8. Singapore	8. Peru
9. Libya*	9. South Korea	9. Trinidad and Tobago
10. Mali*	10. Taiwan	10. Uruguay
11. Nigeria*	11. Thailand	11. Dominican Republic*
12. Rwanda*	12. Qatar	12. El Salvador*
13. Zambia*	13. Indonesia*	13. Venezuela*
14. Zimbabwe*	14. Iraq*	
15. Tunisia*	15. Kuwait*	
	16. Lebanon*	
	17. Pakistan*	
	18. Saudi Arabia*	
	19. Turkey*	
	20. Vietnam*	
	21. Yemen*	

*Note:* The countries with \* are missing with TEA data. GEM TEA rates for a sufficiently large sample of countries are not available for any earlier years than 2002.

### B.2 Summary of variable, conceptual definition and source

No.	Variable name	Conceptual definition	Sources
1.	Trust	The measure of trust is obtained by taking the percentage of respondents in the World Value Survey who choose the answer "Most people can be trusted" to the survey question "Generally speaking, would you say that most people can be trusted or that you need to be very careful when dealing with people?"	The World Value Survey – WVS (2015)

Appendix B

2.	GINI index	<p>Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.</p>	<p>World Development Indicator – The World Bank (2015)</p>
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## Appendix C Article III

### C.1 Cover letter (Main survey)

June 2018

Dear Sir/Madam,

#### SMALL MEDIUM BUSINESS GROWTH SURVEY

You are invited to participate in an academic research project being undertaken by Southampton Business School, one of UK's best business schools. This non-commercial project is focused on developing our understanding of the relationships that exist between companies. You will be contributing to an international research project by filling out this questionnaire. This research examines the role of business relationship between companies in contributing small and medium business growth. We would very much value your views regarding this issue, and we therefore invite you to participate in this survey. The completion of this survey will take about 20-30 minutes.

Should you have any queries, please do not hesitate to contact me on the contact details provided at the bottom of this letter or my doctoral supervisor, Prof Tapas Mishra (Email: [T.K.Mishra@soton.ac.uk](mailto:T.K.Mishra@soton.ac.uk)) and Prof Laura Costanzo (Email: [Laura.Costanzo@soton.ac.uk](mailto:Laura.Costanzo@soton.ac.uk)).

Thank you for your participation.

Yours sincerely,

Nur Nadirah binti Mohamad Ishak

PhD researcher, Southampton Business School,

University of Southampton, United Kingdom

Email: [nmi1n14@soton.ac.uk](mailto:nmi1n14@soton.ac.uk)

## C.2 Final questionnaire

### SURVEY ON SMALL MEDIUM BUSINESS GROWTH

#### RESEARCH TEAM

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The purpose of this study is to collect information on small and medium business growth. Please make each question a separate and independent judgement. There is **no right or wrong answer** to the questions asked. As we do not ask for your name, you are guaranteed complete confidentiality and anonymity. Only general findings from the study will be reported. You may respond in complete frankness as all your answer will remain **absolutely confidential**. Should you have any concerns about any aspect of questionnaire, kindly contact me on the contact details provided at the top of this questionnaire.

As a way of expressing our appreciation for assisting us in our study, we guarantee you a complimentary report containing a summary of this study. Please kindly include your business card or write your email/mobile number at the back of the questionnaire so that we can be sure that a summary report is sent to your preferred contact address. Again, there is no way this will be linked to your answers provided. Once again, thank you very much for your participation in this research.

**For the specific purpose of this survey, we are looking for respondents who are familiar with the relationships between their company and its suppliers or service providers.**

## SECTION I: REGARDING YOUR INTER-ORGANISATIONAL RELATIONSHIP (B2B)

## BAHAGIAN I: MENGENAI HUBUNGAN INTER-ORGANISASI (B2B)

Before answering the following questions, you need to think of a partner where:

*Sebelum menjawab soalan-soalan berikut, anda perlu memikirkan sorang rakan kongsi dimana:*

- They are a supplier of goods or services to your organization;  
*Mereka adalah pembekal barangan atau perkhidmatan kepada organisasi anda;*
- The relationship is still ongoing  
*Hubungan ini masih berterusan*
- Relationship must be of some importance to your business  
*Hubungan ini mestilah sesuatu yang penting kepada perniagaan anda*

	To what extend do you agree or disagree with the following statements? Please circle the number that best represents your opinion. <i>Sejauh mana anda bersetuju atau tidak bersetuju dengan kenyataan berikut? Sila bulatkan nombor yang sesuai dengan pendapat anda.</i>	Strongly Disagree <i>Sangat tidak bersetuju</i>	Strongly Agree <i>Sangat bersetuju</i>
1.	The supplier rep has been franked in dealing with us <i>Wakil pembekal jujur dalam berurusan dengan kami</i>	1	2 3 4 5 6 7
2.	The supplier rep does not make false claim <i>Wakil pembekal tidak membuat tuntutan palsu</i>	1	2 3 4 5 6 7
3.	Based on past experience, rely on supplier's rep to keep promises <i>Berdasarkan pengalaman lalu, bergantung kepada wakil pembekal untuk menunaikan janji</i>	1	2 3 4 5 6 7
4.	Promises made by this supplier rep are reliable <i>Janji yang dibuat oleh wakil pembekal boleh dipercayai</i>	1	2 3 4 5 6 7
5.	This supplier rep has made sacrifices for us in the past <i>Wakil pembekal ini telah berkorban untuk kami pada masa lalu</i>	1	2 3 4 5 6 7
6.	This supplier rep cares for us <i>Wakil pembekal ini mengambil berat tentang kami</i>	1	2 3 4 5 6 7
7.	In times of shortages, supplier has gone out on limb for us <i>Dalam masa kesulitan, pembekal kami mengambil risiko untuk kami</i>	1	2 3 4 5 6 7
8.	We feel like this supplier is our friend <i>Kami rasa seperti pembekal ini adalah kawan kami</i>	1	2 3 4 5 6 7
9.	I feel the supplier rep is very competent <i>Saya rasa wakil pembekal ini sangat cekap</i>	1	2 3 4 5 6 7
10.	I feel the supplier rep is very dependable <i>Saya rasa wakil pembekal ini sangat boleh dipercayai</i>	1	2 3 4 5 6 7
11.	This supplier rep is very knowledgeable about their product/services <i>Wakil pembekal ini sangat berpengetahuan tentang produk/perkhidmatan mereka</i>	1	2 3 4 5 6 7
12.	The supplier rep has problems answering our questions	1	2 3 4 5 6 7

	<i>Wakil pembekal ini mempunyai masalah dalam menjawab soalan kami</i>	
13.	We have a sharing relationship, we can freely share ideas, feelings and hopes <i>Kami mempunyai hubungan 'berkongsi', kami bebas berkongsi idea, perasaan dan harapan</i>	1 2 3 4 5 6 7
14.	I can talk about difficulties and they will freely listen <i>Saya boleh bercakap tentang kesukaran dan mereka akan mendengarnya</i>	1 2 3 4 5 6 7
15.	We would both feel a sense of loss if we could no longer work together <i>Kami berdua akan merasa kehilangan sekiranya kami tidak lagi dapat bekerja bersama</i>	1 2 3 4 5 6 7
16.	If I shared problems with them, they would respond constructively and caringly <i>Jika saya berkongsi masalah dengan mereka, mereka akan bertindak balas secara membina dan penuh perhatian</i>	1 2 3 4 5 6 7
17.	My instincts tell me I can trust them <i>Naluri saya mengatakan bahawa saya boleh mempercayai mereka</i>	1 2 3 4 5 6 7
18.	My intuition tells me that I can trust this person <i>Gerak hati saya memberitahu bahawa saya boleh mempercayai orang ini</i>	1 2 3 4 5 6 7
19.	I have a hunch I can trust this person <i>Saya mempunyai keberanian yang saya boleh mempercayai orang ini</i>	1 2 3 4 5 6 7
20.	I have a gut feeling I can trust this person <i>Saya mempunyai perasan yang saya boleh mempercayai orang ini</i>	1 2 3 4 5 6 7
21.	Our company defends this supplier when others criticise them <i>Syarikat kami membela pembekal ini apabila orang lain mengkritik mereka</i>	1 2 3 4 5 6 7
22.	Our company has a strong sense of loyalty to this supplier <i>Syarikat kami mempunyai rasa kesetiaan yang kuat terhadap pembekal ini</i>	1 2 3 4 5 6 7
23.	Our company is continually on the lookout to add to or replace this supplier <i>Syarikat kami sentiasa mencari untuk menambah atau menggantikan pembekal ini</i>	1 2 3 4 5 6 7
24.	Our company is not very committed to this supplier <i>Syarikat kami tidak begitu komited dengan pembekal ini</i>	1 2 3 4 5 6 7
25.	Our company is quite willing to make a long-term investments to keep this supplier <i>Syarikat kami agak bersedia untuk membuat pelaburan jangka panjang untuk mengekalkan pembekal ini</i>	1 2 3 4 5 6 7

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26.	Our company's relationship with this supplier is a long-term alliance <i>Hubungan syaikat kami dengan pembekal ini adalah pakatan jangka panjang</i>	1	2	3	4	5	6	7
27.	Our company is patient with this supplier when they make mistakes that cause us trouble <i>Syarikat kami bersabar dengan pembekal ini apabila mereka membuat kesilapan yang menyusahkan kami</i>	1	2	3	4	5	6	7
28.	Our company provides this supplier with any information that might help them <i>Syarikat kami menyediakan pembekal ini dengan sebarang maklumat yang mungkin dapat membantu mereka</i>	1	2	3	4	5	6	7
29.	Our company exchange information with this supplier frequently and informally, and not only according to a pre-specified agreement <i>Syarikat kami bertukar maklumat dengan pembekal ini secara kerap dan tidak rasmi, dan bukan hanya mengikut perjanjian yang telah ditetapkan sebelumnya</i>	1	2	3	4	5	6	7
30.	Our company provides this supplier with proprietary information (also known as trade secret) if it can help them <i>Syarikat kami menyediakan pembekal ini dengan maklumat proprietari (juga dikenali sbagai rahsia perdagangan) jika ianya dapat membantu mereka</i>	1	2	3	4	5	6	7
31.	Our company keeps this supplier informed about events or changes that may affect them <i>Syarikat kami memberitahu pembekal ini mengenai aktiviti atau perubahan yang mungkin memberi kesan kepada mereka</i>	1	2	3	4	5	6	7
32.	Our company rarely talks with this supplier about our business strategy <i>Syarikat kami jarang berbincang dengan pembekal ini mengenai strategi perniagaan kami</i>	1	2	3	4	5	6	7
33.	Our company openly shares confidential information with this supplier <i>Syarikat kami secara terbuka berkongsi maklumat sulit dengan pembekal ini</i>	1	2	3	4	5	6	7

SECTION II: ABOUT BUSINESS ENVIRONMENT

BAHAGIAN II: MENGENAI PERSEKITARAN PERNIAGAAN

	To what extend do you agree or disagree with the following statements? <i>Please circle the number that best represents your opinion</i> <i>Sejauh mana anda bersetuju atau tidak bersetuju dengan kenyataan berikut? Sila bulatkan nombor yang sesuai dengan pendapat anda.</i>	Strongly Disagree <i>Sangat tidak bersetuju</i>	Strongly Agree <i>Sangat bersetuju</i>
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1.	Growth opportunities in the environment have increased dramatically <i>Peluang pertumbuhan di persekitan perniagaan telah meningkat secara dramatik</i>	1	2	3	4	5	6	7
2.	Production/service technology in your principal industry has remained the same <i>Teknologi pengeluaran/perkhidmatan di industri utama anda tetap sama</i>	1	2	3	4	5	6	7
3.	Rate of innovation of new operating processes and new products or services in your principal industry rate has fallen dramatically <i>Kadar inovasi proses operasi baru dan produk/servis baru dalam kadar industri utama anda telah menurun secara dramatik</i>	1	2	3	4	5	6	7
4.	Research and development (R&D) activity in your principal industry has substantially increased <i>Aktiviti penyelidikan dan pembangunan (R&amp;D) di industri utama anda telah meningkat dengan ketara</i>	1	2	3	4	5	6	7

## SECTION III: REGARDING YOUR COMPANY'S PRACTICES

## BAHAGIAN III: MENGENAI PRAKTIS SYARIKAT ANDA

	To what extent do you agree or disagree with the following statements? <i>Please circle the number that best represents your opinion</i> <i>Sejauh mana anda bersetuju atau tidak bersetuju dengan kenyataan berikut? Sila bulatkan nombor yang sesuai dengan pendapat anda.</i>	Strongly Disagree <i>Sangat tidak bersetuju</i>	Strongly Agree <i>Sangat bersetuju</i>					
1.	The term "risk taker" is considered a positive attribute for people in our business. <i>Istilah 'pengambil risiko' dianggap sebagai suatu sifat positif bagi ahli dalam perniagaan kami.</i>	1	2	3	4	5	6	7
2.	People in our business are encouraged to take calculated risks with new ideas. <i>Ahli dalam perniagaan kami digalakkan untuk mengambil 'risiko yang dikira' dengan idea yang baru.</i>	1	2	3	4	5	6	7
3.	Our business emphasizes both exploration and experimentation for opportunities. <i>Perniagaan kami memberi penekanan kepada eksplorasi dan eksperimen untuk peluang.</i>	1	2	3	4	5	6	7
4.	We actively introduce improvements and innovations in our business. <i>Kami secara aktif memperkenalkan penambahbaikan dan inovasi dalam perniagaan kami.</i>	1	2	3	4	5	6	7
5.	Our business is creative in its methods of operation. <i>Perniagaan kami kreatif dalam kaedah pengedaliannya.</i>	1	2	3	4	5	6	7
6.	Our business seeks out new ways to do things.	1	2	3	4	5	6	7

## Appendix C

	<i>Perniagaan kami mencari cara baru untuk melakukan sesuatu.</i>	
7.	We always try to take the initiative in every situation (e.g., against competitors, in projects when working with others). <i>Kami sentiasa cuba mengambil inisiatif dalam setiap keadaan (cth:berbanding dengan pesaing, dalam projek ketika bekerja dengan orang lain).</i>	1 2 3 4 5 6 7
8.	We excel at identifying opportunities <i>Kami hebat dalam mengenalpasti peluang</i>	1 2 3 4 5 6 7
9.	We initiate actions to which other organisations respond. <i>Kami memulakan tindakan yang mana organisasi lain bertindak balas.</i>	1 2 3 4 5 6 7
10.	Our business is intensely competitive <i>Perniagaan kami sangat berdaya saing</i>	1 2 3 4 5 6 7
11.	In general, our business takes a bold or aggressive approach when competing. <i>Umumnya, perniagaan kami mengambil pendekata yang brani atau agresif ketika bersaing</i>	1 2 3 4 5 6 7
12.	We try to undo and out-maneuver the competition as best as we can. <i>Kami cuba untuk membatalkan dan kendali-keluar persaingan sebaik mungkin</i>	1 2 3 4 5 6 7
13.	Employees are permitted to act and think without interference. <i>Pekerja dibenarkan untuk bertindak dan berfikir tanpa gangguan</i>	1 2 3 4 5 6 7
14.	Employees perform jobs that allow them to make and instigate changes in the way they perform their work tasks. <i>Pekerja melaksanakan kerja yang membolehkan mereka untuk membuat perubahan dalam cara mereka melaksanakan tugas kerja mereka</i>	1 2 3 4 5 6 7
15.	Employees are given freedom and independence to decide on their own how to go about doing their work. <i>Pekerja diberikan kebebasan untuk menentukan sendiri bagaimana mereka ingin melakukan kerja mereka.</i>	1 2 3 4 5 6 7
16.	Employees are given freedom to communicate without interference <i>Pekerja diberikan kebebasan untuk berkomunikasi tanpa campur tangan</i>	1 2 3 4 5 6 7
17.	Employees are given authority and responsibility to act alone if they think it to be in the best interests of the business.	1 2 3 4 5 6 7

	<i>Pekerja diberi kuasa dan tanggungjawab untuk bertindak sendiri jika mereka menganggapnya demi kepentingan terbaik perniagaan</i>	
18.	Employees have access to all vital information <i>Pekerja mempunyai akses kepada semua maklumat penting</i>	1 2 3 4 5 6 7
19.	Our top managers are able to gather information about customers compared to most important competitors <i>Pengurus atasan kami dapat mengumpulkan maklumat tentang pelanggan berbanding dengan pesaing terpenting</i>	1 2 3 4 5 6 7
20.	We are able to use market research skills to develop effective marketing programmes <i>Kami dapat menggunakan kemahiran penyelidikan pasaran untuk membangunkan program pemasaran yang berkesan</i>	1 2 3 4 5 6 7
21.	Our top managers have the ability to track customer wants and needs compared to most important competitors <i>Pengurus terbaik kami mempunyai keupayaan untuk mengesan keperluan dan keinginan pelanggan berbanding dengan pesaing terpenting</i>	1 2 3 4 5 6 7
22.	We are able to make full use of marketing research information compared to most important competitors <i>Kami dapat menggunakan sepenuhnya maklumat penyelidikan pemasaran berbanding dengan pesaing terpenting</i>	1 2 3 4 5 6 7
23.	This company is able to analyse its market information compared to most important competitors <i>Syarikat ini dapat menganalisis maklumat pasaran berbanding dengan pesaing terpenting</i>	1 2 3 4 5 6 7

## SECTION IV: ABOUT YOUR COMPANY'S GROWTH AND PERFORMANCE

## BAHAGIAN IV: TENTANG PERTUMBUHAN DAN PRESTASI SYARIKAT

	Compare to your industry average, how would you grade your company's growth for the last three years on the following indicators? <i>Please circle the number that best represents your opinion</i> <i>Berbanding dengan purata industry anda, bagaimana anda menilai pertumbuhan syarikat anda selama tiga tahun terakhir pada petunjuk berikut? (Sila bulatkan nombor yang paling sesuai dengan pendapat anda)</i>	Very Low <i>Sangat rendah</i>	Very High <i>Sangat tinggi</i>
1.	Growth of sales <i>Pertumbuhan jualan</i>	1 2 3 4 5 6 7	
2.	Growth in number of full-time employee <i>Pertumbuhan bilangan pekerja sepenuh masa</i>	1 2 3 4 5 6 7	
3.	Growth in productivity	1 2 3 4 5 6 7	



Bachelors   
Sarjana muda

Postgraduate   
Pascasiswazah

4. How long has your company been in business?  
*Berapa lamakah syarikat anda telah beroperasi?*

Years Tahun	Months Bulan

5. Prior to starting this business, did you have any management experience with other businesses or organisations?  
*Sebelum memulakan perniagaan ini, adakah anda mempunyai pengalaman pengurusan dengan perniagaan atau organisasi yang lain?*

Yes Ya	No Tidak

6. Which one of the following legal forms best describe your business? *(Please circle only one)*  
*Yang manakah antara berikut menggambarkan jenis perniagaan anda? (Sila bulatkan satu jawapan sahaja)*

1.	Unregistered Sole Proprietorship <i>Pemilikan tunggal</i>	1
2.	Registered Sole Proprietorship <i>Syarikat Sendirian Berhad</i>	2
3.	Limited Liability Company <i>Perkongsian Liabiliti Terhad</i>	3
4.	Partnership <i>Rakan kongsi</i>	4
5.	Other (please specify) <i>Lain-lain (sila nyatakan)</i>	5

7. Is your business in an urban or rural location? *(Please tick one box)*  
*Adakah perniagaan anda terletak di kawasan bandar atau luar bandar? (Sila tandakan satu kotak)*

Please choose one box that matches the location of your business		(Tick one)
1.	Urban (cities and large towns) <i>Bandar (Bandar and pekan besar)</i>	
2.	Rural (small towns and villages) <i>Luar bandar (Pekan kecil dan kampung)</i>	

8. What sector does your business belong? *(Please circle appropriate number)*  
*Apakah sektor bagi perniagaan anda? (Sila bulatkan nombor yang sesuai)*

1.	Electricity, gas & water <i>Elektrik, gas &amp; air</i>	1
2.	Wholesale & retail trade, accommodation & restaurants <i>Perdagangan borong &amp; runcit, penginapan &amp; restoran</i>	2
3.	Transport, storage & communications <i>Pengangkutan, penyimpanan &amp; komunikasi</i>	3
4.	Finance, insurance, real estate & business services <i>Kewangan, insurans, harta tanah &amp; perkhidmatan perniagaan</i>	4
5.	Government services <i>Perkhidmatan kerajaan</i>	5

## Appendix C

6.	Other services <i>Lain-lain perkhidmatan</i>	6
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This ends the questionnaire. Thank you very much for your time and valuable contribution to this study. To receive a free copy of the final report from this study, please give your business card to the research assistant, or fill in the following details:

*Sekian soal selidik ini. Terima kasih banyak atas masa dan sumbangan berharga anda untuk kajian ini. Untuk menerima Salinan laporan akhir kajian ini, sila berikan kad perniagaan anda kepada pembantu penyelidikan, atau isikan butiran berikut:.*

Business Address <i>Alamat Perniagaan</i>	
Business Tel No <i>No Tel Perniagaan</i>	
Email <i>E-mel</i>	

### C.3 VIF Value

VARIABLES	VIF
MODEL 1	1.26
MODEL 2	1.41.
MODEL 3	1.56
MODEL 4	1.62
MODEL 5	1.62
MODEL 6	1.52
MODEL 7	1.58
MODEL 8	1.53

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