ROLE OF TRUST IN SMEs EXPORT PERFORMANCE

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Abstract — A large number of small and medium exporters have chosen partnership with local distributors/importers as a mean to expand overseas. This is mainly because of the positive impact of inter-organizational relationships on enhanced exporter’s ability to compete successfully in the marketplace. Extant literature has acknowledged the important of trust in developing and maintaining productive cross border business relationships. It is said that trust can be an effective tool in mitigating foreign partner opportunism and exporter’s competitiveness in foreign markets. Findings reveal that trust is directly related with export performance. In addition, trust also mediates the relationship between learning orientation and export performance. Furthermore, learning orientation is found to have direct effect on trust as well as export performance. Finally, implications and limitations are discussed and future study is proposed.

Keywords — Export Performance, Inter-organizational, SMEs, Trust.

I. INTRODUCTION

Many small and medium business exporters choose partnership with local distributors/importers to expand overseas. This is because inter-organizational relationship enhances exporter’s ability to compete successfully in the marketplace [1, 2]. However, cross border relationships are complex and both physically and psychically distance hence building and managing a strong and working inter-firms relationship is exporter’s priority.

Past studies have found that trust positively affects exporter’s competitiveness in foreign markets [3] through lower transaction cost, increase investment in relationship specific assets, and superior information sharing routines [4]. Study on performance outcomes of trust in cross border relationships reported mix results. For example, while some studies found that trust is positively related to performance [e.g. 3, 5] others reported no significant interaction between trust and performance [e.g. 6, 7]. Nevertheless, generalization of these findings is rather limited because to the researcher’s knowledge there are no study specifically investigated the small businesses. Small businesses are not the smaller version of large company and their international behavior is differ significantly from that of establish multinational [8]. Consistence with the call for more research on trust across border [e.g. see 9, 10, 11] this paper views that there is a need to investigate the concept of trust among small and medium enterprises (SMEs) in export markets.

This paper aims to achieve three objectives. First, this paper empirically investigates the impacts of trust on export performance. Second, this paper also examines the individual effects of organizational capabilities, namely market orientation and learning orientation on trust. Finally, this research aims to investigate the mediating effect of trust on the relationships between organizational capabilities, namely market orientation and learning orientation, and export performance.

II. LITERATURE REVIEW AND HYPOTHESES

Trust is the foundation of any business relationship [12], particularly in the development of long term co-operations [13]. Trust is the belief by one party in a working relationship that the behavior of the other is honest, sincere, and fair [14]. Literature has acknowledged the important of trust in developing and maintaining productive cross border business relationships [15]. Trust can be an effective tool in mitigating foreign partner opportunism [16] where partners will be less likely to engage in untrustworthy behavior [17]. A trustworthy partner is known to reliably make good efforts to behave in accordance with prior commitments, makes adjustments, for example as market conditions change, in ways perceived as fair by the exchange partner, and does not take excessive advantage of partner [4].

In the international context, trust “plays a crucial role in overcoming the challenges to successful international exchange” [10] such as, becoming a mediator to counterbalance the potential harmful effects of cultural differences [18]. Trust enhances an exporter’s competency to exploit local market opportunity and effectively curtail a distributor’s opportunism [19]. Hence, it is not surprising that trust has been found to enhance exchange performance [20]. In export studies, Styles, Patterson, and Ahmed [21] suggest that trust leads to the behavior that drives greater performance. Katsikeas et al [10] found that trust is directly and positively effect relationship performance. Therefore, trust is expected to enhance the ability of small firms to achieve high export performance.

H1. The effect of trust on export performance is positive

MacDuffie [9] proposes that one of the main issues for inter-organizational trust is the national vs organizational...
cultural influence on trust. Scholars [e.g. 11] assert that trust in inter-organizational relationship is shaped by national factor and empirical research has found evidence of trust differences across national country environment. MacDuffie, on the other hand, suggests the application of organizational lens in inter-firm trust and argues that firms should focus on the creation and development of organizational culture that can bridge the national differences. Following this notion, this paper advances with the theoretical concept that incorporated the organizational culture as the main element for the development of trust in small businesses. The explanation is in the next paragraph.

Cross border exchange is most productive when resources and capabilities of trading partners are coordinated and matched to the work requirement [22]. Based on the notion of the Resource-Based View, this study posits that SMEs gain competitive advantage and internationalize successfully by leveraging their unique resources and capabilities. Resources are defined as assets controlled by the firm that are used as inputs to organizational processes, and capabilities are defined as the firm’s ability to combine, develop, and use its resources in order to create competitive advantage [23]. Following Kaleka [23] and Lages, Silva, Styles, & Pereira [24], the researcher is specifically looking at the capability of SMEs to build close customer relationships useful to overcome the traditional liability of SMEs in the international business operations. This study suggests trust in small businesses relationship should be scrutinized in the context of ‘smallness’ that is a unique feature of small business that gives inherent advantage over their bigger counterparts. Being small enables SMEs to be flexible and less bureaucratic in dealing with the changing nature of customer needs. The flexibility of these firms augments the ability to transform organizational functions and resources into business activities that support greater understanding of the requirement of foreign customers. This capacity enhances the ability of SMEs to act quickly to the needs of the customers and, hence, establish and maintain close customer relationships.

Lages et al [24] relate relationship capabilities with a set of intangible assets. Knight and Cavusgil [25] emphasize the important of organizational culture attributes in cross border operation of small firms. This paper views two constructs that helps firms develop and maintain a trusting relationship with foreign partner. One is market orientation and the other is learning orientation. Market orientation is about the implementation of marketing philosophy. Central to the concept is information and the operational aspect of this information. Zhou, Chao, and Huang [26] advance this idea from the belief that in order to win in the market-place a firm should give satisfaction to the needs of its customers more effectively and efficiently than its competitors. Market orientation would provide the exporters with an improved ability to determine how to deal with overseas partners [27].

Learning orientation is the manifestation of an organization’s propensity to learn and adapt accordingly [28]. It is also conceptualized as an organizational capability to deploy resources to create customer value and achieve higher performance [29]. In inter-organizational relationships, the prospects of continuing a long-term relationship depend on what the partner has learned from past relationships and how the partner acts according to the norms that may potentially extend the term and quality of the relationship [30, 31]. Hence, market orientation and learning orientation are likely to enhance inter-organizational trust.

H2: The effect of market orientation on trust is positive
H3: The effect of learning orientation on trust is positive

Lack of knowledge is a major barrier to internationalization [32]. For SMEs it is the most critical resources for the internationalization process [33]. Accordingly, Julien and Ramangalahy [34] assert that the ability to master knowledge is critical for competitive advantage and performance. However, at the same time, to expand abroad SMEs are constraint by lack of information about foreign opportunities, foreign market expertise (this includes international experience), and financial support [35].

Trust facilitates knowledge exchange between partners. Knowledge shared with foreign partners contributed to the ability to exploit local market opportunities [19]. SMEs' information sources are significantly related to export competitive strategies, which lead to higher export performance, and the most frequent sources of information are related to market and distribution such as customers, representatives, agents, and distributors [34].

In a trusting atmosphere, companies are more prone to disclose information which they under other circumstances would conceal [36]. Siguaw, Simpson and Baker [37] argue that individuals trust organizations that allow open communication and the opportunity to participate. Access to valid information from the partner will therefore be greater when there is high trust.

H4. Trust mediates the effect of market orientation on export performance
H5. Trust mediates the effect of learning orientation on export performance

III. METHODS
A. Sample Characteristics and Data Collection

The sampling frame consisted of cross-industry Malaysian small and medium-sized manufacturers identified from the major database the Malaysian External Trade and Development Corporation (MATRADE) and the Federation of Malaysian Manufacturers (FMM). The adoption of multi-industry sampling which is in line with others [38] was meant to increase observed variance and to strengthen the generalizability of the findings [24].

Several criteria were set for the choice of firms, namely current exporters, independent and indigenous (i.e. not a subsidiary of a larger domestic or international company), and independent Malaysian wholly own small and medium-sized firms with numbers of employees between 20 and 250.
A combination of methods was applied for data collection to ensure a greater response rate. These methods are drop-off, mail survey, and local research company. Different methods of data collection were compared and no significant difference was found. To check for non-response bias, the researcher compared the early respondents and the late respondents and no significant differences were found, which suggested that response bias was not a problem in this study.

A total of 851 firms fulfilled the criteria for this research. Out of this number, 68 firms either refused to participate, were not reachable or had closed down. Finally, a total of 228 firms participated in the survey, where the effective response rate is 29.12 per cent (228/783).

B. Survey Instrument

The survey instrument came from existing scales identified through the literature review. The scales were modified to suit the research purpose and particular study context. The instrument was pre-tested in two stages. The first stage was personal interviews among 10 experts from academic, industrial associations and SMEs. The feedback has been used to revise the questionnaire. The second stage involved a pilot study on a sample of 10 SMEs. As a result of the pilot study an appropriate revision has been made, particularly of the interpretability of the measure, instructions, and response formats.

C. Measurement

The measure for market orientation was adapted from the work of Pelham and Wilson [39] which was based primarily on Naver and Slater [40]. Measure for learning orientation were mainly based on the work of Jerez-Gomez et al [41]. Some items were revised and adapted from the works of Sinkula et al [42] and Nasution and Mavondo [29]. The scales for trust were revised and adapted from the original version developed by Leonidou et al [14] and Skarmesas et al [2]. The scales for export performance were revised and adapted from Katsikeas, Leonidaou, and Morgan [43] and Shoham [44] for this study.

IV. Data analysis

The research model was estimated using a software package known as Analysis of Moment Structure (AMOS). The reliability and validity of the constructs were evaluated and the structural model was assessed.

A. Validity

Convergent validity is established when the scores obtained from two different instruments measuring the same concept are highly correlated. The models indicate all standardized factor loadings are ranges from 0.55 to 0.98 well above minimum level of 0.50 and the t-values were above 2 and significant at the 5% value. The analysis demonstrates that the models met the requirements of acceptable fit and thus confirmed the existence of convergence validity.

Discriminant validity involves demonstrating whether a construct can be differentiated from other constructs that may be somewhat similar [12]. Fornell and Larcker [45] suggest the use of average variance extracted (AVE). An AVE score higher than correlation between two constructs suggests existence of discriminant validity. As in Table 1, the scores for AVE are greater than the values for correlation, hence discriminant between the factors was assumed.

B. Reliability

The coefficient alpha was computed to assess the internal consistency of the scale. The coefficient of constructs (see Table 1) were ranged from 0.81 (customer orientation and trust) to 0.98 (export performance), which was well above 0.70 as proposed by Nunally [46].

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
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<th>3</th>
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<tbody>
<tr>
<td>Customer Orientation</td>
<td>.70</td>
<td>.46</td>
<td>.49</td>
<td>.52</td>
<td>.47</td>
<td>.32</td>
<td>.16</td>
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<tr>
<td>Competitor Orientation</td>
<td>.82</td>
<td>.80</td>
<td>.81</td>
<td>.81</td>
<td>.77</td>
<td>.44</td>
<td>.32</td>
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<tr>
<td>Managerial Commitment</td>
<td>.36</td>
<td>.46</td>
<td>.47</td>
<td>.72</td>
<td>.43</td>
<td>.45</td>
<td>.27</td>
</tr>
<tr>
<td>Systems Perspective</td>
<td>.46</td>
<td>.87</td>
<td>.82</td>
<td>.75</td>
<td>.83</td>
<td>.45</td>
<td>.76</td>
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<tr>
<td>Openness &amp; Experimentation</td>
<td>.86</td>
<td>.81</td>
<td>.87</td>
<td>.86</td>
<td>.90</td>
<td>.81</td>
<td>.98</td>
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<tr>
<td>Trust</td>
<td>.36</td>
<td>.27</td>
<td>.36</td>
<td>.72</td>
<td>.83</td>
<td>.90</td>
<td>.90</td>
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<tr>
<td>Export Performance</td>
<td>.16</td>
<td>.17</td>
<td>.26</td>
<td>.27</td>
<td>.35</td>
<td>.90</td>
<td>.73</td>
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<tr>
<td>Internal consistency</td>
<td>.85</td>
<td>.81</td>
<td>.87</td>
<td>.88</td>
<td>.92</td>
<td>.81</td>
<td>.98</td>
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<tr>
<td>Mean</td>
<td>5.61</td>
<td>5.06</td>
<td>5.36</td>
<td>5.26</td>
<td>5.29</td>
<td>5.23</td>
<td>4.73</td>
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<tr>
<td>Standard deviation</td>
<td>.77</td>
<td>1.14</td>
<td>.98</td>
<td>.97</td>
<td>1.01</td>
<td>.80</td>
<td>1.30</td>
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Note: Average Variance Extracted (AVE) value is shown in diagonal.

V. Results

The hypotheses were tested using structural equation modeling. The estimation results (R², standardized coefficient and t-values) for the significant structural path are presented in Fig. 1. The model fit indices indicate a good fitting model with χ² = 27.269, df = 22, NFI = .981, TLI = .994, CFI = .996, RMSEA = .032. The standardized estimates, t-values and significant level for each structural path are shown in Fig. 1.

Hypothesis 1 predicted a positive relationship between trust and export performance. The results indicate that trust has a positive impact on export performance (β = .620, p <.001), hence hypothesis 1 is supported. Hypotheses 2 expected a positive relationship between market orientation and trust. The results indicate that market orientation has no significant effect on trust, thus H2 is not supported. One explanation that seems to accord with this finding is market orientation is costly for small businesses in developing country where the internal resources, such as financial and human, and institutional supports are lacking.

Contrary to H2, learning orientation had significant positive effect on trust (β = .425, p <.001), providing support for H3. This finding further support the important role of organizational learning in the development and maintenance of international business relationship [47]. For small businesses the ability to be flexible enables them to learn and respond to the needs of their partner in predictable manner hence greater partners’ trust.
Further, to check for mediating indirect effect this study follows a test that Sobel [48] suggests. Hypothesis 4 predicted that trust mediates the relationship between market orientation and export performance. The results indicate that trust has no significant mediating effect of the relationship between market orientation and export performance, thus hypothesis 4 is not supported.

The results demonstrate that trust has significant and positive mediating effect on the relationship between learning orientation and export performance (t-value 3.004, p < 0.001), providing support for hypothesis 5. This finding suggests that the culture of learning is essential for small businesses operating in cross border markets. Through learning capacity firms are able to gain knowledge that lead to the stronger and trusting relationships, which in turn enhances knowledge transfer. Through knowledge, firms can improve their new product development technological distinctiveness, expand the sustainability of product performance, and enhance their competitive position across boundaries [49].

The results of this study have several implications for small and medium enterprises in emerging small countries in two ways, namely academic and practitioner.

For the academic, the investigations of the literature and the progression to a unique model have led to an original contribution to the understanding of how trust develops in SMEs and the effect of trust on the performance of SMEs in export markets. Unlike bigger companies, small businesses must rely on intangible resources to develop their competencies in foreign market ventures.

The results of this study have several implications for small and medium manufacturers in their quest to succeed in international business ventures. It provided insights to the role of trust in international business ventures. It also provided insights to the role of organizational resources and capabilities, namely learning orientation, in trust and export performance.

**VII. LIMITATION AND FUTURE STUDY**

In this research, there are several limitations that might potentially temper the findings. Hence, when interpreting the findings, these limitations should be kept in mind.

The first limitation in the research setting is related to the respondents. In this study, the response was obtained from the exporters; whereas a dyad relationship is about interactions between partners: exporters and importers. Hence, responses from both parties would provide a holistic and true state of the relationships.

The second limitation in the research setting which is concerned the context of the study is the manufacturing sector. The nature of the operations of business organizations in the manufacturing industries is different from those of the service industries. Hence, the findings of this study could not be generalized to apply to the service industries.

Finally, several suggestions should be addressed for further research. This study suggests that future research should include longitudinal survey [although time consuming and logistically difficult] to capture the dynamic relationships of export performance effects.

In addition, although the test for common method variance suggests that single key informants are not a problem in this study, the researchers could adopt different approaches to obtain responses in the future. One approach could be the use of multiple respondents to minimize the problem of single key informants.

**REFERENCES**


