

## Interpersonal Trust and Firm Performance: Empirical evidence from Small and Medium Rice mills in Ampara District in New Normal Perspectives

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### Abstract

Present worldwide pandemic is affecting in economic, educational, technological and business matters, many things that might have been relevant before the pandemic no longer seem important. The challenge that countless entrepreneurs have faced is how to sustain themselves and their businesses during these difficult times. Small and Medium Enterprises are the backbone of all economies and a key source of economic growth. The main aim of this study is to investigate the effect of interpersonal trust on firm performance by SMEs in Ampara District. The target population was 55 rice millers who categorized under SMEs were registered in the district. Interpersonal trust was measured with Integrity, Honest & openness, Competence and Reliable. Firm performance was measured in terms of Profit, Market performance, Internal processes, Learning and growth and Degree of innovation. Data were gathered using structured questionnaires. In order to test the hypothesis, descriptive, correlational and regression analysis tools were applied. From the study, it is revealed that all four dimensions are statistically significant with firm performance. These key finding provide valuable implications for owners of the SMEs, government, and future entrepreneurs in this sector.

**Keywords:** *Interpersonal Trust, Firm Performance, Small and Medium Enterprise*

### 1. Introduction

Interpersonal trust could lead to some important advances in understanding and improving how organizations direct complex, dynamic and often extremely stressful environments. AlShubiri, Al-abadallat, & Orabi, (2012) focuses on the performance of small and medium firms. Borum (2010) investigate that trust might easily transfer to organizations through work teams and leadership. Trust is recognized in several disciplines and continues to attract the interest of researchers in business-to-business marketing (Akrouf, Diallo, Akrouf, & Chandon, 2016). Work place trust is more important to all the members in the work place and this is a path create for success of the organizations as well. Trust has become an important topic in a variety of disciplines, including management, ethics, sociology, psychology, and economics and has focused on the individual level, group level, firm level and inter-firm level.

If there's one thing that cannot be denied, it is that the world has changed because of the Covid-19 pandemic. In economic, educational, technological and business matters, many things that might have been relevant before the pandemic no longer seem important. Meanwhile, other factors that were formerly considered optional have become indispensable. The challenge that countless entrepreneurs have faced is how to sustain themselves and their businesses during these difficult times. Teleworking has become just one key to maintaining operations and work processes. This transformation is still underway, and it is too early to determine the exact scope of the pandemic's impact worldwide. What is certain, though, is that our world will never return to exactly the way it was. Accordingly, both new ventures and existing businesses must

adjust to new consumer habits to survive. Although this is not a simple task, there are some fundamental factors that entrepreneurs should consider as they adjust to the new normal of business and marketing.

Small and Medium Scale Enterprises (SMEs) which have been recognized as a strategically important sector in the economy of Sri Lanka which contribute to generating high economic growth, employments and regional development (Gamge, 2014). Small and medium enterprises (SMEs) are very important for employment creation and that are important sources of economic growth (Tambunan, 2011). Small and Medium Enterprises act as the encouragement in the economy both developed and developing countries like Sri Lanka. Small and Medium Enterprises play a vital role in Sri Lanka and SMEs assist in regional development as they quicken industrialization in rural areas by linking them with urban areas, and it helps to achieve fair and equitable wealth distribution of economic performance.

The debate on firm's performance is unconcluded. A number of studies focus on financial while others focus on non-financial performance. Studies which used traditional performance measurements were based on traditional accounting systems which were criticized for lack of objectivity, consistency and open to internal manipulations (Pun, et.al, 2005). Indeed, in recent performance research, there has been a drift from exclusive use of financial performance measures to inclusion of non-financial performance measures. This approach is practically valuable and in line with the multidimensionality of performance construct. The need for organizations to align their performance measures with goals are well documented in literature. The complexities of managing the organizations today require that managers analyze different dimensions of performance because performance itself is multidimensional. Performance measurements are not ends in themselves, but are useful tools through which managerial purposes are achieved. Kaplan, (2001) outlined eight managerial purposes achieved through performance. He observed that performance is used in evaluation, control, motivation, promotion, celebration, learning and improvement of different processes. Therefore, no single performance measure is adequate in capturing all the eight performance uses hence the adoption multidimensional measures of performance defined by the balanced scorecard between adoption and multidimensional. The balanced score card gives a holistic view of the organization by simultaneously looking at the four important perspectives of financial, market, internal processes, learning and growth. It is based on the stakeholder theory where a firm is seen as having responsibility to wider sets of stakeholders. Behn, (2003) suggested that stakeholder theory assesses the organization performance against the expectations of variety of stakeholder groups with specific interests in the organization. Lines, (2004) argued that to ensure the long-term survival and growth of a business there has to be a balance between the four performance perspectives. Therefore, company survival depends on how well it can position itself based on the four perspectives and optimization of its efforts.

So, firm performance is predicated upon many factors among those, the interpersonal trust can be considered as one of the major factors. Most of small and medium enterprise collapse in from the year of startup, due to lack of trust between suppliers, buyers and employees. Consequently, the decisions in relation to the different component of the interpersonal trust & its impact on the business performance led to problem statement that should be analyzed. In view of these, there is a need for a study to establish the effect of interpersonal trust on firm performance with the context of SMEs in Ampara district of Sri Lanka.

## **2. Review of Literature**

### **Theoretical studies**

Interpersonal trust involves one's trust in others in the organization. Bruhn, (2001) recognize that the ways that trust (or distrust) develop between peers and between managers and subordinates have critical implications for the functioning of individual subordinates, managers, work teams and the organization itself. Interpersonal trust is influence by the formality of performance evaluation (Six, 2005). Interpersonal trust in an organization is built for the purpose of improving the performance of individuals. Interpersonal trust is defined as trust established among workers and between workers and supervisors. According to some experts, including Six (2005), interpersonal trust is a psychological state that consists of the intention to accept vulnerability of the actions of the other party on the basis of the expectation that the

other will perform a particular action, regardless of the ability to monitor or control the other party. According to Wang (2009), trust built by related parties is called as interpersonal trust.

Trust incurred because of the intention to have a relation is a multi-dimensional concept (Paine, 2008). The dimensions of the trust include competence, integrity, dependability/reliability, openness and honesty and satisfaction (Wang, 2009). Geller, (1999) observed two dimensions of interpersonal trust which are confidence in the intentions of others, and confidence in the ability of others. Geller (1999) states that interpersonal trust within work cultures "... should also refer to the extent people credit good intentions and abilities to their peers". Workers have two perspectives in terms of interpersonal trust; one of them is when a worker trusts a co-worker's ability but mistrust on his/her intentions the other is when a worker trusts on co-worker's intention but mistrusts in his/her capability on a particular job assignment (Geller, 1999).

Business performance of firm is determined by the response of the environment (i.e., market) to the actions of the entrepreneurs. Differently stated, the business will perform well if there is a demand for the products or services offered by the business. Therefore, business performance is depending on entrepreneurial performance and the action of both the internal (e.g., the personnel's reaction to different decisions) and external environment (e.g., changes in customer relations).

Trust has been positively related to organizational performance and job satisfaction (Matzler and Renzl, 2006). Wang, (2009) identified the dimensions of the trust include competence, integrity, reliability, openness and honesty and satisfaction. The qualities associated with integrity, such as reliability, promise fulfillment, and fairness, become even more important in cases in which organization dynamics are particularly salient (Colquitt, Scott, & LePine, 2007). Interpersonal trust, the key and powerful attributor of the Business Performance of a firm is defined in different ways in the literatures. Interpersonal trust is influence by the formality of performance evaluation (Six, 2005). Geller (1999) argues that in order to have successful feedback process and advanced behavior-based observation, the firm need high degree of interpersonal trust among co-workers.

Bone (2017) mentioned that higher financial performance will result in higher managerial performance if it is mediated by interpersonal trust that is also higher. It explained only mediator effect of the interpersonal trust. In addition, Priyanath & Premaratna, (2017) mentioned as interpersonal trust is relations to the conflict management, decision making, e-commerce, trust and business to business relationship, trust and governess and so forth. Interpersonal trust and buyer seller relationship is explained by the many scholars in their investigations (Akrouit, Diallo, Akrouit, & Chandon, 2016). Having those multiple support derived from the literatures, hypothesis for the study was developed as;

H<sub>0</sub>: Interpersonal trust is not significantly influence on firm performance

H<sub>1</sub>: Interpersonal trust is highly influence on firm performance

### **3. Methodology**

#### **Data**

Firm performance is measured with Profit, Market performance, Internal processes, Learning and growth and Level of innovation. Interpersonal trust is measured with Reliable, Integrity, Honesty and Competence adopting with 5-point Likert-Scale measures. The sample were selected based on the population in the Ampara district. There are 55 rice millers were selected those who registered under SMEs in the district, covering only 5 Pradeshashabas. It was restricted to five Predeshasabas, due to the prevailing situation of the country. The sample was selected by using stratified random sample method with respect to production capacity.

#### **Analytical tools**

Correlational and Multiple Regression analyses were employed to check the trend, relationship and influences of variables.

## 4. Results and Discussions

According to the results it described the Profit, market performance (average sales,) Internal processes, Learning and growth and Level of innovation were significantly affected to the firm performance. Cronbach's Alpha for firm performance is 0.874. and Cronbach's alpha of Interpersonal Trust is also 0.912. It is higher than the required value of 0.7. It gives the constructs are measured with reliable manner. According to the findings of the demographic analysis, most of the owners were within the 41 – 50 age group and most of them have 5- 10 years of service experience in SMEs. But in the case of educational level of them most of the owners had their education at G.C.E O/L and which is 61% as a percentage.

### Correlational Results

The Pearson's correlation is used to find a correlation between at least two continuous variables. Correlational analysis was done to find the relationship between Interpersonal trust and firm's performance of the study. The correlation coefficient for the relationship between firm Performance and Reliable is 0.912. It indicates that there was positive relationship between these two variables. The relationship was statistically significant with a significant value of 0.000. So, it can be concluded that there is a positive significant relationship between Firm's Performance and Reliable contents of interpersonal trust. Further, Correlation coefficient for the relationship between firm Performance and Honestly & Openness is 0.921. It indicates that there was positive relationship with a significant value of 0.000. It also showed that there is a strong positive relation between Business Performance and Honestly & Openness. Correlation coefficient for Firm's Performance and Competence is 0.642 with significant value of 0.000, which indicates that there was positive relationship between them. Firm's Performance and Integrity also is show with 0.610 correlation coefficient. And the relationship was statistically significant with a significant value of 0.000. So, it can be concluded that there is a positive significant relationship between Firm's Performance and Integrity as well.

### Regression Analysis

Multiple Regression Analysis

Table 1: Multiple Regression Analysis

| Adj.R2= 0.316                           |                             | F Value = 35.024 |                           | Sig F= .000 |      |                         |       |
|---|-----------------------------|------------------|---------------------------|-------------|------|-------------------------|-------|
| Model                                   | Unstandardized Coefficients |                  | Standardized Coefficients | T           | Sig. | Collinearity statistics |       |
|   | B                           | Std.Error        | Beta                      |             |      | Tolerance               | VIF   |
| 1.(Constant)                            | 14.320                      | 2.686            |                           | 5.452       | .000 |                         |       |
| Reliable                                | .549                        | .056             | .715                      | 10.109      | .000 | 0.542                   | 1.853 |
| Honestly & Openness                     | .169                        | .030             | .163                      | 5.599       | .000 | 0.462                   | 1.175 |
| Competence                              | .252                        | .067             | .563                      | 9.037       | .000 | 0.556                   | 1.794 |
| Integrity                               | 1.241                       | .111             | .695                      | 11.176      | .000 | 0.725                   | 1.382 |
| a. Dependent Variable: Firm Performance |                             |                  |                           |             |      |                         |       |

Source: Survey results

Multi Collinearity indicates through VIF and Tolerance. Variance Inflation Factor (VIF) which indicates how much of an indicator's variance is explained by the other indicators of the same construct, is used to evaluate multi collinearity. In

a formative measurement model the problem of collinearity may occur if the indicators are highly correlated to each other. VIF values are lower than 5, there is no collinearity problem. Further, according to the regression results, Adjusted R<sup>2</sup> value is 0.316, indicates that 31.6% of the variation dependent variable (Firm Performance) can be explained by Reliable, honestly, Competence, and Integrity). 68.4% of variations were depend by other factors which are not included in the model. The F value is 35.024, which is significant at 0.005 (P=0.000) indicates that there is a significant effect of Interpersonal Trust on firm's Performance at SMEs in Ampara district, Sri Lanka.

The regression coefficient of Reliable indicates that it has significant influence and positive impact on Firm Performance ( $\beta = 0.715$ ,  $P < 0.05$ ). The second most influential variable on the firm performance is reliable ( $t=10.109$ ,  $p= 0.000$ ). so, SMEs should focus on increasing the degree of reliable in the business. This implies that honest, trustworthy, not break promises, flexibility, fairly and knowing hurting helped to increase reliable of them.

The regression coefficient of  $\beta = 0.163$ , and  $P < 0.05$  of Honestly & Openness shows that there is a significant relationship between Honestly & Openness and firm's Performance. It represents when Honest increase 1 percent business performance increase 16.3 percent ( $\beta=0.163$ ) establishing the significance positive relationship between honestly and firm performance. This is the lowest influential variable compare to others in this study on the firm performance is honesty ( $t=5.599$ ,  $p= 0.000$ ).

The regression coefficient of competence indicates that positive impact on firm's Performance ( $\beta= 0.563$ ,  $P < 0.05$ ), having ( $t=9.037$ ) which is taking third influential factor in the model. Hence it is suggested that there is positive relationship between competence and firm performance regarding the small and medium enterprises. this result implies that competence is represent significance relationship with firm performance. That means knowledge of the market, transfer the information, business knowledge of the customer and supplier affected to the firm performance.

The regression coefficient of Integrity indicates that the variable has significant influence and positive impact on firm Performance ( $\beta = 0.695$ ,  $P < 0.05$ ). Beta value of integrity is 0.659, represents the integrity has impact on the firm performance by 69.5 percent and this is the first influential variable on the firm performance ( $t=11.176$ ,  $p= 0.000$ ). It is suggested that the significance positive relationship and effects between integrity and firm performance.

Correlation analysis of this study, proved that all the Interpersonal Trust dimensions are positively correlated with the firm Performance. Further the regression coefficient of all variables indicates that positive impact on the Performance of those firms. As per the results of the hypothesis testing, all the null hypothesis have been rejected and it implied that the higher the Interpersonal Trust dimensions of integrity, honest, competence and reliable, firm's Performance will be higher.

## **5. Conclusions**

This study investigates the effect of interpersonal trust on firm performance in case of small and medium enterprises. The results proved that all the Interpersonal Trust dimensions are positively correlated with the firm's Performance. The result revealed that Integrity, reliable, competence and honestly and openness revealed that more likely to have effect to the firm performance consequently. The result of this study further reveals that, honestly dimension have lowest positive impact on firm performance which explained the other to favorable reaction give to firm performance in the higher attention for assistance & support, sacrifice time, resource & energy, changes of market. And also, highly positive relationship of the Integrity and reliable effect to the performance of the firms. In that result derived the positive reaction on the honest, trustworthy, not break promises, flexibility, fairly and knowing do not hurt and also knowledge about the supplier & customer, ability of the business, connection of my competitors as the firm performance.

The result of this study makes valuable practical implication for small and medium enterprises owners' managers and the government to helped the performance of the firm's business. This study also provides implication for all type of the business and entities. There are many firms try to developed their performance in many ways. Therefor that firm's owners

and managers highly focus on the interpersonal trust and these dimensions for their development. Most of small and medium enterprises owners are not much educated; therefore their knowledge of the business is less. So, they need to trust and connection to conduct the business.

Due to pandemic situation new normal situations are highly affecting the businesses especially, in small and medium industries. The businesses must consider those factors for establishing the above variables by utilizing different strategies for the higher performances of the firms. A larger portion of the influences were demonstrated by other factors which are not referred in this study. Therefore, appropriate strategies such as the tools which could help to create efficiencies and be more productive in the business. And also, the firms can capitalize on new ideas. There are many examples of businesses pivoting during COVID-19 because they had to. Now is a good time to look to the future for long-term business opportunities in the “new normal.” Start by considering new problems do people face, new wants and needs do they have and the way the business solve these problems and meet these needs.

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