How Trust Works in SMEs' Export Relationships

Abstract

In this study, we examine the impact of trust on exporter's perception of foreign partner opportunism and the consequences on SMEs economic performance. We show that trust reduces the perceptions of opportunism and that opportunism mediates the effect of trust on performance. These findings shed a new light on trust-based relationships as they suggest that the attenuated perception of opportunism explains the entirety of the positive impact of trust on performance. Our hypotheses are tested using longitudinal data collected from mid-sized European exporters. Structural models show that the perception of opportunism fully mediates the relationship between interfirm trust and exporter economic performance. Finally, using a small but rare dyadic data set we complete our understanding of how interfirm trust works by showing its impact on importer's cooperative spirit. These results are especially important for exporting SMEs as they promote trust as an effective low-cost alternative to otherwise unaffordable transaction mechanisms.

Keywords*: trust, opportunism, SMEs, export performance*

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Introduction

One of the main challenges for exporters is to minimize possible opportunistic behaviors from their intermediaries (Sachdev & Bello, 2014). Indeed, as summarized by Gulati (1995:93), "perhaps the biggest concern of firms entering alliances is the predictability of their partners' behavior". However, while a basic assumption in contractual governance is that partners tend to act opportunistically, no contract can anticipate and specify all the possible events. Hence, there is room for opportunistic behaviors (Luo, 2002). Non-equity alliances (such as export distribution agreements) require lower investments and can be negotiated rapidly. Yet, partners are exposed to opportunistic behaviors. In this paper, our aim is to analyze the role of trust on opportunism and performance in SMEs export relationships, as smaller firms are particularly exposed to opportunistic behaviors.

Recent research highlighted the antecedents of inter-organizational relationships (Katsikeas, Skarmeas & Bello, 2009), and the substitutive nature or the complementary relation among two types of governance (see Cao & Lumineau, 2015 for a review). On the one hand, with the rational of transaction costs, contractual governance considers contracts and formal rules as the key mechanisms that protect against opportunism as a way to legally blind themselves in a conflict situation (Williamson, 1985). On the other hand, the social exchange approach (Blau, 1964) contends that relational governance relies on trust and relational norms to coordinate and achieve the same objective through self-enforcement from each party (Zajac & Olsen, 1993; Dyer & Singh, 1998; Ring & Van de Ven, 1992). How to make the right choice of governance mechanisms to control and coordinate activities has been subject of an active debate with diverging results.

Recent research seems to converge on the idea that the optimal combination of formal and relational mechanisms depends on the type and characteristics of the alliance (Mellewigt, Madhok & Weibel, 2007). Still, since the literature pointed at the promised advantages of relational approaches to cope with opportunism, no comprehensive work has examined its properties in one of the most vulnerable contexts in inter-organizational relationships, i.e., exporter-importer agreements, and particularly those involving smaller exporters. We therefore respond to recent calls (Shepker et al., 2014; Cao & Lumineau, 2015), by analyzing the understudied relational processes that allow exporting SMEs to cope with the threat of opportunism.

Our contributions to this field are several. First, we analyze the role of trust as the main driver of performance in cross-border partnerships. This issue is especially important for SMEs in the context of exporting, since they cannot afford the burden of formal cross-border governance mechanisms aimed at controlling foreign partners. This study contributes to the literature by conveying new insights on how trust and opportunism can be managed successfully as the main performance drivers for small exporters. Moreover, our longitudinal data provides a perspective on the influence of trust on performance over time. Hence, our focus is on the processes leading to ensure a profitable relationship for small exporters in an international context. This is important as achieving a stable and successful international activity is crucial for the survival of SMEs.

After providing a review on the main premises of the relational view, we examine the impact of trust on opportunistic behaviors in cross-border relationships. We then present our conceptual model and our research hypotheses. Finally, we provide results for our longitudinal study and discuss the main implications for both academics and managers.

THEORETICAL BACKGROUND AND HYPOTHESES

In the relational perspective trust is considered, along with relational norms, as the main tool to avoid conflicts and protect performance (McEvily & Zaheer, 2005). Trust is defined by Morgan & Hunt (1994:23) as "a willingness to rely on an exchange partner in whom one has confidence". While a number of definitions can be found in the literature, as a rule the concept of trust includes expectations about the ability of a partner to perform as stated in the agreement, i.e., competence trust, and their intention to do so, i.e., goodwill trust (Das & Teng, 2001). This places willingness as a key concept for trust, reflecting a deliberate behavioral intention to rely on a partner (Gulati, 1995). Trust can be used as an alternative governance mechanisms for two reasons: 1) it provides the alliance partner with the assurance that knowledge and information will be used in a proper way (Dyer and Singh, 1998), limiting the perception of opportunistic behaviors and therefore the need to use formal mechanisms to mitigate them; 2) by relying on trust, partners are more willing to informally share knowledge (Ring and Van de Ven, 1994).

In the exporter-importer context, trust translates into a more efficient relationship by reducing transaction costs, avoiding investments in monitoring partners' behaviors. An exporter relying in the importers' goodwill avoids incurring in cost of monitoring the arrangement of the transaction (for instance, the high cost of letters of credit to secure payments etc.). Trusting actors are therefore more open to share critical knowledge and confident in the accuracy of information received from the partner, enhancing the value of the transaction in the long-term (Katsikeas et al., 2009). Hence, trust can "expand the realm of feasible alliances and allow firms to enter partnerships that may otherwise have been impossible, even with detailed equity contracts (Gulati, 1995:107). This approach fits the needs and capabilities of exporting SMEs.

Firstly, SMEs often lack resources to elaborate and control the implementation of formal contracts. In an international setting, they are even less equipped to enforce them legally. The research on alliance governance in SMEs highlights the importance of relational mechanism (see for instance Delerue, 2005; Dickson, Weaver & Hoy, 2006; Finn & Kraus, 2007). Conflicts leading to failures in inter-organizational partnerships are expected to arise from weak social aspects such as lack of trust, poor information exchange, and dissimilar bargaining power positions (Das & Teng, 2000; Ariño & De la Torre, 1998; Kale, Singh & Perlmutter, 2000). In the case of cross-border relationships, potential issues are also due to cultural dissimilarity.

SMEs also face the so-called liability of smallness, i.e., scarcity of financial, human, technological resources, which results in a manifest disadvantage when doing international business (Lu & Beamish, 2006). Particularly, one of the main problems refers to the lack of experience and knowledge to manage foreign operations (i.e., low relational capabilities; Dyer and Singh, 1998). Small exporting firms look defenseless against opportunistic behaviors as their possibilities to replace their foreign partners is reduced. Moreover, SMEs have limited capabilities to gather and process information on international markets. Yet, SMEs tend to be embedded in social networks, which facilitate the development of informal business connections drawing on mutual trust (Uzzi, 1997; Gulati, 1995). In this type of firms, personal commitments and reputation on their goodwill are particularly important to generate relational rents (Uhlaner, Wright & Huse 2007). Indeed, firms can determine the levels of trust they place in their relationships, so creating mutually trusting relationships is a matter of strategy for SMEs (Molina-Morales, Martínez-Fernández & Torlò, 2011).

Still, relational governance mechanisms are not achieved forthright. It takes time and resources to develop trust, but it can be easily destroyed. Gulati (1995) found that familiarity between organizations breed trust. One advantage is that of efficiency, given that firms can

reduce their search for a new partner if they decide to ally with a firm they already trust. Katsikeas et al (2009) suggests that this interdependence creates and incentive structure deterring exploitation, that might interplay in the trust-performance relationship as it increases the transaction value by reducing transaction costs. Also, Parkhe (1993) found that prior cooperation between firms limited their perception of expected opportunistic behavior in new alliances, hence minimizing the use of contractual governance mechanisms. That is to say, trust connects the partners, leads to a high interdependence and creates value. This fact may encourage parties to ignore other short-term alternatives by perceiving a win-win opportunity in the long-term (Kumar, Sscheer & Steenkamp, 1995).

An assumption in the literature is that the perceived level of potential opportunistic behavior has a negative influence on the outcomes of the alliance (Judge & Dooley, 2006; Delerue, 2005). However, when parties share a high level of mutual trust they believe that the other party will not adopt opportunistic behaviors, this, in turn, minimizes their own self-interest seeking (Liu et al., 2009; Poppo & Zenger, 2002). Trusting exchange partners are willing to take "calculative risks" (Williamson, 1993). Enforcement of obligations occurs through social processes that promote flexibility, solidarity and information exchange. In the end, trust facilitates partners' interaction by dampening the suspicion of opportunistic behavior (Gulati, 1995; McEvily and Perrone, 1998). We believe that trust can mitigate the perception of importers' opportunism by SMEs, hence acting as a variable that helps tolerate these behaviors. This reduced perception of opportunism will, in turn influence performance. Hence, we expect that the perception of importer's opportunism determines the effect of trust on performance, so we hypothesize:

H1: For exporting SMEs, the impact of trust on performance is mediated by the exporter perception of importer opportunism.

When facing opportunistic behaviors from its partner, a firm needs to decide the type of response it will adopt. It can either 1) reciprocate with destructive behaviors such as the dissolution of the business relationship, or 2) have constructive reaction that may lead to a change in the normative beliefs needed to avoid future negative events. Termed as "accommodation" (Bello, Katsikeas & Robson, 2010), the latter behavior is a key mechanism to achieve long-term rents in inter-organizational exchanges.

As a relational response towards a selfish partner, accommodation triggers a shift from competitive to cooperative processes to enhance value creation through evaluation of the situation, adaptation and compromise. However, the accommodation response is not naïve. It is selectively used for partners when the firm is strongly committed to continue the relationship (Bello et al., 2010). Hence, in order to adopt accommodation there should be a perception of correspondence in compromise from both parties (Anderson & Weitz, 1992). A self-serving partner receiving an accommodation response is believed to realize the goodwill of the trusting partner, and hence should react constructively. In fact, higher accommodation is considered as a way to make an exchange partner switch behaviors from opportunism to cooperation. In the context of exporting SMEs, we posit that the tolerance for opportunism, i.e., accommodation, can motivate the shift towards a more constructive long-term partnership. Facing trusting partners, exchange parties reciprocate with acts of trust in order to communicate their own trustworthiness (Finn & Kraus, 2007). Exporter accommodation in such circumstances is based on a goodwill trust aiming at resolving problems for the sake of long-term benefits. In the end, both sides behave in a trustworthy manner, hence this trust dynamics act as a mechanism curtailing opportunism which, in turn, fosters performance. Hence, we posit the following hypothesis:

H2: For exporting SMEs, the total effect of exporter trust on performance is positive.

The following figure summarizes our conceptual model.

INSERT FIGURE 1

METHODOLOGY

Sampling

We extracted a random sample (1500 firms) using a systematic method from a database that compiles the 32,500 main exporters of a large EU country. This database was built by the association of local chambers of commerce and is updated twice a year. We selected 1036 industrial firms with more than 10 employees that exported at least 10% of their total revenue to more than three countries and used independent foreign distributors. Respondents were contacted by telephone and received an e-mail containing a link that redirected them to a website dedicated to the study. Managers in charge of exporting were asked to base their answers on a business relationship with one of their foreign distributors. To maximize variation in the responses, one-third answered by focusing on one of their two main foreign distributors in terms of sales, one-third answered by focusing on their third or fourth most significant distributors, and one-third answered by focusing on one of their smallest overseas representatives.

We checked respondents' competence in several ways. First, the database of exporters is built by the local chambers of commerce export specialists. Because they frequently provide services and advice to exporting firms in their area, they personally know the export staff of these companies. Second, we made a series of telephone calls to each potential respondent to confirm the information included in the database. Third, we included a respondent competency test that included four questions with scores ranging from 1 to 7. We eliminated from the survey respondents who scored less than 4 on any question or had an

average score under 5 to all four questions. We eliminated three questionnaires because of the low scores on the respondent competency test.

We included 283 questionnaires (five firms provided answers for two different business relationships) from 278 firms (sample size: 1036, for response rate of 26.8%) in the first data set. Two years later, we invited these respondents to participate in the follow-up survey. A total of 144 firms completed the second survey (for a response rate of 50.9%, or 13.9% of the original sample). Of these firms, 86.7% (125 firms) were SMEs with fewer than 250 employees (European Commission, 2005), and exports generated an average of 38.4% of their revenues. We retained responses from these 125 SMEs for analysis. They indicated that 105 export relationships were currently in operation and that 20 had been terminated.

We assessed nonresponse bias by contacting a random sample of 50 nonrespondents and asking them to answer questions corresponding to one item of each of the scales. The *t*-tests of group means revealed no differences between the nonrespondents and the respondents in our sample. Thus, nonresponse bias was not a problem in these studies.

In the final sample (the second survey), firms belonged to 16 of the 21 industrial categories recorded in this country. Of the respondents, 94% were top management in their respective firm (51% were export managers, 24% were general managers, and 19% were marketing managers), and 6% were export area managers. They had been personally responsible for the focal business relationship for an average of 8.5 years. Export ventures were 10.8 years old on average.

Unsurprisingly with longitudinal data, CMV bias tests showed nonsignificant.

Measurement

For this study, we used well known scales and checked their psychometric properties.

Exporter Trust was measure with Morgan and Hunt (1994) instrument ($\rho vc = 0.75$, $\rho f = 0.94$).

For Economic Performance, we used Bello and Gilliland (1997) scale (ρvc = .82, ρf = .95). Importer Cooperation was measured with Cannon & Perreault (1999). Finally, Importer Opportunism was measured with items Carson, Madhok & Wu (2006), John (1984), Rokkan et al. (2003), and Williamson (1975, 1985). The characteristics of the scale are summarized in the following table.

Importer Opportunism: ρvc = .71, ρf = .88 Carson, Madhok, and Wu (2006), John (1984), Rokkan et al. (2003), and Williamson (1975, 1985)	
Sometimes, this importer will not shy at anything to improve their profit.	.80
This importer's actions sometimes 'push the envelope' to gain advantage over us.	.85
This importer would lie, cheat or steal to get more from us.	.88

ANALYSIS AND RESULTS

The test for H1 is summarized in figure 2.

INSERT FIGURE 2

The direct link between Trust and Economic Performance is positive and significant (r = .27, t = .2.70). However, this link becomes nonsignificant (r = .01, t = 0.7) in the mediated model. This indicates that the relationship between Trust and Performance is fully mediated by exporter perception of importer opportunism (H1 supported).

The following equation helps us test H2:

Total effect of Trust on Economic Performance = Direct effect + Indirect Effect

We take the coefficients from the previous analysis (see table 2):

0.268 = 0.1 + (-0.50*-0.33)

The total effect of Trust on Economic Performance is 0.268 (t = 2.36) in support of H2.

Post Hoc Analysis

In order to better understand how trust works in a cross-border business relationship, we examined this impact with dyadic data relating exporters and importers attitudes. We asked respondents of the first survey to provide the address, telephone number, and e-mail of the importer they assessed in their answers. One hundred exporters agreed to provide this information. The importers were contacted by e-mail and telephone and were invited to respond to a short questionnaire on a dedicated website. A total of 38 respondents from 25 countries completed the questionnaire. They provided an assessment of their cooperative spirit in the business relationship with the French exporter. The analysis we performed shows that exporter trust has a positive influence on importer cooperation ($r = .29$, $t = 2.15$). Although based on a small sample, these results support our assumption that exporter trust promotes the foreign exchange party cooperative behaviors.

DISCUSSION AND CONCLUSIONS

Recently, it has been argued that responding to exploitive behaviors with a consistent social approach could improve the performance of a business relationship (Cao & Lumineau, 2015). Drawing on a longitudinal perspective, our study addresses the call for empirical works to test this assumption in the context of export relationships managed by SMEs (Bello et al., 2010).

Our results suggest that, for exporting SMEs, an attenuated perception of opportunism explains the whole positive impact of trust on performance. In other words, accepting the possibility of opportunism from the importer is how trust impacts positively the export performance of SMEs. When no contractual mechanisms are available, trust allows the small

exporter to foster a cooperative spirit in the partnership thanks to a vote of confidence. The importer reciprocates to the exporter trust and accommodation by shifting from opportunism to cooperation. This mechanism explains the positive influence of trust on performance.

These results denote that, in certain conditions, opportunistic behaviors need not always be responded by the termination of the business relationship. This is important for SMEs that struggle to find new foreign partners (Bello & Gilliland, 1997). Due to their limited resources, small firms are not in the position to always punish opportunism by terminating the contract with their distributors. In addition, our results indicate an alternative to expensive governance mechanisms for resource-constrained small exporters. Under the lens of relational view, partners are characterized by their positive expectations, relying on trust to manage issues in their international alliances, as well as the safeguarding of their interests. Rather than systematically destroying value, a relational response based on the tolerance to opportunistic behaviors helps exporting SMEs achieve performance.

Further research should determine in what conditions tolerance of opportunism works best. For example, it could be interesting to examine the impact of dependence on the tolerance-performance relationship. In the international context, the influence of psychic distance is obviously of great interest. An in-depth exploration of the multi-facet concept of opportunism could also be useful. Are all forms of opportunism tolerable? Should firms react in the same way to simple omissions and to blatant lies? Should information based opportunism be addressed in the same way as open opportunistic behaviors such as refusal to adapt or forced renegotiation? These are important issues for SMEs struggling for success in international markets.

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Figure 1. Conceptual model

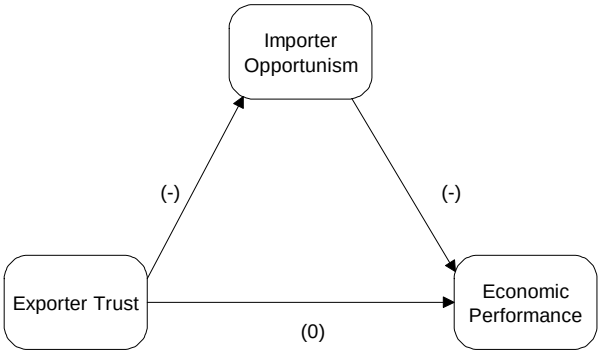
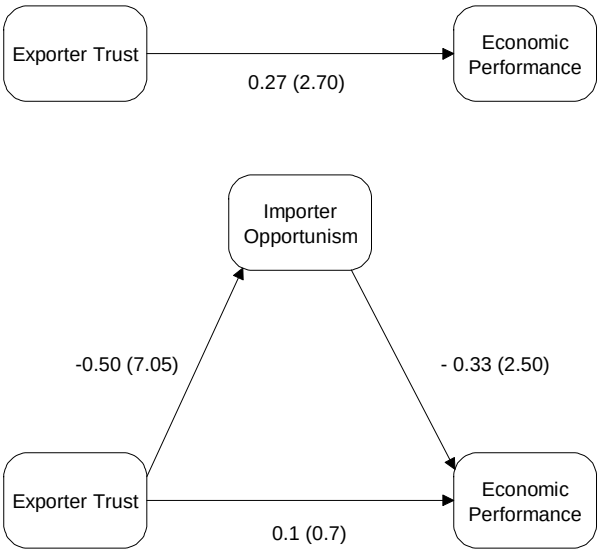


Figure 2. Structural model results



Notes: Economic Performance and Importer Opportunism measured two years after Exporter Trust
PLS coefficients, (t values calculated with a bootstrapping procedure)