

Moderator Role of Trust Ties and Environmental Dynamism in the Relationship of Entrepreneurial Orientation-Performance in a Developing Economy: A Study of B2B Relationships of SMEs in Malaysia

Nur Nadirah Mohamad Ishak^{a*} & Tapas Mishra^b

^a*School of Business, Malaysia University of Science and Technology, Malaysia*

^b*Southampton Business School, University of Southampton, United Kingdom*

*nadirah@must.edu.my

Abstract: Even though the relationship between entrepreneurial orientation and business performance is dependent on a variety of variables, previous academic research has revealed that there is a good association between EO and business performance. The RBV theory, the contingency theory, and the regulatory emphasis theory are used to explain how the various domains of inter-organizational trust relationships and external environmental dynamics interact to affect EO-business performance. These theories are utilised in conjunction with one another. A survey of 253 Malaysian small and medium-sized firms in the service sector finds that the positive moderating influence of inter-organizational cognitive- and affective-based trust marginally strengthens the EO-performance connection in dynamic market scenarios. This was discovered as a result of the findings of the study. The implications of the study are analysed, and so are potential avenues for further research.

Keywords: SMEs, entrepreneurial orientation, developing economy, trust ties, environmental dynamism

1. Introduction

Entrepreneurial orientation (EO) scholars have conducted empirical researches on the independent effect on performance and its limited effect based on several contingencies. Studies in the past have demonstrated that businesses may enjoy the benefits of EO via networking (Parida et al., 2009). Despite the acknowledgment of the value of networking for businesses, it is unclear on how different network configurations affect the business performance (Luke Pittaway et al., 2004).

No rigorous study has examined the trust-based tie within the EO-performance relationship using networking as a moderating variable in EO research, to the author's knowledge. EO and networking experts seem to have overlooked trust's importance as a lubricant and governance agent in interorganizational relationships. This study investigates EO-firm performance and trust-based ties. This study claims that trust in relationships helps EO improve performance by interacting with firms' trust-based ties.

Given the unexpected success of new goods and services and the difficulty of developing new enterprises with limited resources, trust connections may motivate entrepreneurship by acting as supplemental capital which enabling entrepreneurial initiative to improve organizational performance (Doh & Zolnik, 2011; Gedajlovic et al., 2013). This research's model of trust relationships includes cognitive and emotive elements to reflect trust's complexity (McAllister, 1995). Cognition-based trust is based on an individual's

cognitive appraisal of another's trustworthiness, integrity, and competency, whereas affect-based trust is based on emotional engagement and others' genuine care for their wellbeing (De Jong et al., 2016).

Thus, the current study adds to the body of information on how EO interacts with features of inter-firm trust connections to increase firm performance by arguing that trust links are essential to EO's performance-enhancing effects. An important conclusion is that while EO advises organisations in exploring new market chances, its effective implementation requires dedication and a strong team throughout the whole chain of operations. According to Shane et al. (2003), "the entrepreneurial process occurs because people act to pursue opportunities." Trust and opportunity are linked by Nooteboom (2002): "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 shows that the discipline of entrepreneurship, which is full of uncertainty and the value of being vulnerable and dependent on others, may be effective in performing entrepreneurial activities or otherwise.

This study examines how the company's environment influences EO and trust ties to have a better understanding of their relationship. Perrone et al. (2003) and Krishnan et al. (2006) demonstrate that environmental influences affect trust and this study proposes that in dynamic environments, leveraging each aspect of trust-based connections in the EO-performance relationship should be stronger (Krishnan et al., 2006). This shows that trust tie variables will moderate the connection between EO and firm performance more in situations with high activation than in contexts with low activation. Under these conditions, entrepreneurial firms need new knowledge and skills and a swift response to changing situations. Thus, EO's effect on performance is weaker in dynamic environments than in static ones.

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

RQ1: How does the inter-organisational trust moderate the link between EO and firm performance?

RQ2: How does perceived environmental dynamism moderate this relationship?

2. Literature Review

2.1 Research Model and Theoretical Rationale

This study uses RBV, contingency theory, and regulatory focus theory to analyse EO's effects. RBV is based on knowledge of how resources, external capabilities, and market environment can help businesses achieve sustained and superior performance (Barreto, 2010; ; Barney, 1991; Kraaijenbrink et al., 2010; Katkalo et al., 2010). Businesses are unequally distributed bundles of resources (Wernerfelt, 1984; 1995) that produce ongoing resource heterogeneity (Barney, 1991). The RBV believes that obtaining and managing important, rare, distinctive, and non-replaceable resources and abilities and properly utilising them in a dynamic market setting may give a firm a competitive edge (Teece et al., 1997). If it has more resources than its competitors, a corporation might get a competitive edge (Peteraf & Barney, 2003). Thus, firms' EO may be a strategic advantage that allows them to compete in target markets by offering customers goods and services with more and/or different value than rivals (Kim & Park, 2010; Schilke, 2014).

In particular, this analysis predicts that EO and business performance would be greater at high levels of trust between firms and that trust networks will have less of a moderating effect when the environment is changing. This research claims that SMEs in emerging markets lack all of Barney's VRIO (value, unusual, distinctive, and organising) traits (1991). When some but not all VRIO criteria are present, the RBV provides some insight into likely outcomes. SMEs with a cognitive resource advantage may be able to use strategic resources like EO to gain an edge. Thus, resource-rich, innovative companies should flourish. Thus, SMEs in emerging economies that achieve all VRIO standards are expected to have the strongest relationship between EO and performance.

This study suggests that EO is a resource that may improve company performance and that trust networks between enterprises are a cognitive process that might improve performance when paired with EO. Trust is vital, thus firms' trust-based linkages may boost strategy execution. Trust improves cooperation (Pillutla et al., 2003), transaction costs (Granovetter, 1985), and management and organisation performance (Kim et al., 2006; Dirks & Ferrin, 2001; Jones & George, 1998). Interfirm and intrafirm trust tend to be intricately intertwined in studies of small entrepreneurial enterprises (Howorth et al., 2004; Larson, 1992; Sapienza & Korsgaard, 1996; Zaheer & Harris, 2006). Under uncertainty, trust's efficacy fluctuates. This study uses regulatory focus theory (Higgins, 1997) and contingency theory to explain how EO and trust networks interact in the company's dynamic market situation.

The regulatory focus theory suggests that people may value potential harmful consequences more than potential positive ones (Brockner et al., 2004; De Carolis & Saporito, 2006; Higgins, 1997). Based on the idea that individual attributes like trust would erode and opportunistic conduct will increase, the current study proposes that trust networks should enable the EO-firm performance connection in stable markets. Thus, dynamic settings yield worse results (Baron & Tang, 2011). According to regulatory focus theory, individuals approach pleasure and pain differently (Brockner et al., 2004). Two basic self-regulatory systems, "promotion focus" and "prevention focus," convey this notion. "Promotion" emphasises profits, whereas "prevention" emphasises avoiding profits (Brockner et al., 2004). Entrepreneurial thinking places "promotion emphasis" and "prevention focus" at the confluence of the individual and the environment (Shane & Venkataraman, 2000).

Management choices are affected by external factors, according to contingency theory. According to previous research, a company's strategy is shaped by its surroundings (Covin & Slevin, 1991). The paper states that shifting conditions allow enterprises to be first and exploit new market niches and regional marketplaces ahead of competition. Trust networks help businesses adapt to external restrictions and embrace new market opportunities by improving operational efficiency and information exchange. We apply a contingency theory notion to show that EO's value to a corporation decreases when the environment changes. Figure 1 summarizes this reasoning. EO impacts firm performance, as seen in Figure 1. In stable conditions, strong trust-based connections increase EO's impact on business performance.

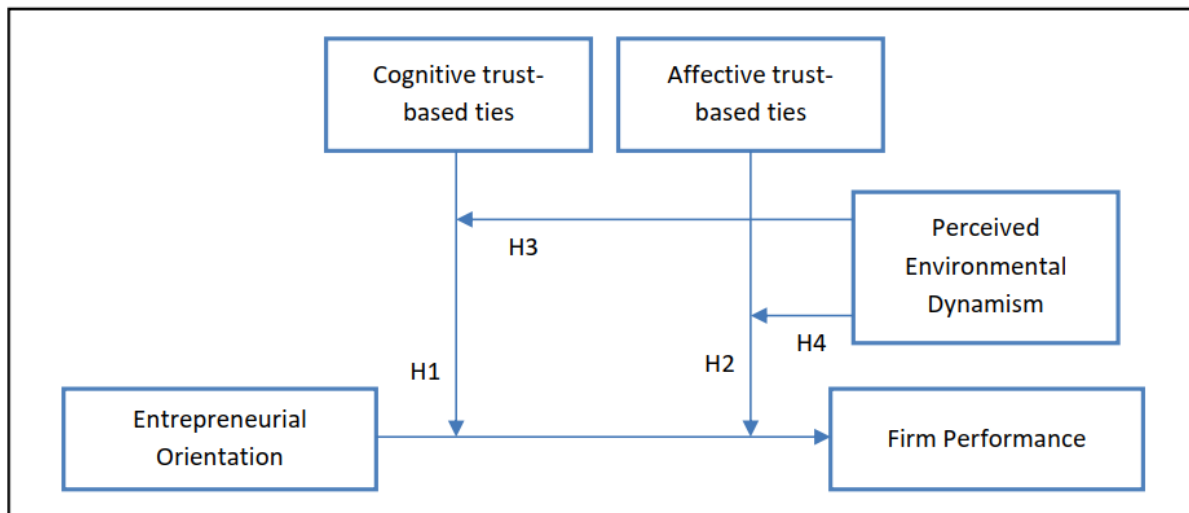


Figure 1. Conceptual Framework

2.2 Moderating Effects of Inter-Organisational Trust-Based Ties

This study used two trust criteria to match multi-layered trust. They are summarised in Table 1.

Table 1. *Elements of Trust* (Source: Dowell et al., 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 feeling towards another.

2.2.1 *Cognitive Trust*

The first is integrity trust, also known as contractual trust (Sako, 1992), commitment trust (Newell & Swan, 2000), and promise trust (Dasgupta, 1988). Trust's cognitive components should improve relationship performance as contract and sanctions can be reduced, resulting in cost saving and improved relationship performance (Sako, 1992).

The second component of cognitive trust is competency trust, also known as ability trust (Mayer et al., 1995) or expertise trust (Maathuis et al., 2004). When trust is present in this domain, oversight and negotiating can save money and improve relationships (Mayer et al., 1995).

The third cognitive facet of trust is goodwill or benevolent trust, which is the degree to which one partner trusts the other to look out for their interests without being asked (Roy et al., 2004). Trust and goodwill affect relationship performance, according to research. In some instances, when more kind and less self-centered partners are trusted, little control over the connection can be exerted, allowing for activities and efforts that may provide better outcomes (Ganesan, 1994). Therefore, if goodwill and trust exist, partners are more inclined to trust each other despite short-term imbalances due to the benefits of the other partner taking advantage of them, cutting monitoring costs, and improving performance (Ganesan, 1994).

2.2.2 *Affective Trust*

Affective trust is related with emotions and social abilities, including care and concern for the other person (Dayan & Di Benedetto, 2010; Massey & Dawes, 2007). This exhibits emotional understanding and relationship dependence. Thus, affective-based trust has relational and intuitive components. Relational trust is linked to affective trust's "leap of faith" and reciprocity criterion. Relational trust is based on a partner's reliability (Mollering, 2001). It means that people will treat you as you treat them (McAllister, 1995). The standard of reciprocity, not knowledge or prior behaviour, is used to determine trustworthiness (Mollering, 2001). In the early stages of a relationship, faith in the reciprocity standard will influence emotions. The second component of emotional trust is intuitive trust, which is based on mood and feeling

(Hansen et al., 2002; Newell & Swan, 2000). For instance, a consumer may trust or dislike a service without giving a reason.

Thus, this study hypothesises the following:

H1: Cognitive trust acts as a moderator between EO and firm performance

H2: Affective trust acts as a moderator between EO and firm performance

2.3 *The Combined Impacts of Trust-Based Ties and Perceived Environmental Dynamism*

This study examines how environmental dynamic influences the EO-firm performance connection to better understand the boundary condition and the function of inter-organizational trust. Dynamism refers to the degree to which corporate environments are unpredictable and fast changing, creating significant degrees of uncertainty (Dess & Beard, 1984; Miller, 2007). Trust is more important in dynamic markets because it helps managers deal with turbulence and uncertainty due to the high levels of activation in these environments (Baron & Tang, 2011; Baas et al., 2008). This study implies that changing settings may be linked to trust networks' moderating effect on the relationship between EO and company success.

Management literature defines entrepreneurship as resource allocation. Thus, this study suggests that entrepreneurial firms must have inter-organizational trust to properly utilise EO. The degree to which people feel secure while performing work-related activities motivates them to support entrepreneurial endeavours and direct their cognitive efforts towards exploiting knowledge resources to develop capabilities to manage environmental pressures (Cardon et al., 2009; Foo et al., 2009; Kogut & Zander, 1992). These feelings seem more relevant in fast-changing environments. This suggests that inter-organizational trust will moderate the relationship between EO and firm performance more in dynamic settings with high activation than in low-activation conditions. Managers are more activated in dynamic situations.

Highly dynamic circumstances are unexpected, full of rapid and dramatic change, and require vital decisions to be made with limited knowledge (Miller, 2007). Due to these reasons, EO vital roles are likely to be higher in dynamic markets than stable markets. Thus, inter-organizational trust may improve business performance by boosting EO's influence.

H3: 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.

H4: 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.

3. **Research Methodology**

3.1 *Sample and Data*

This research defines a SME as a company with 200 employees or RM50 million in revenues in manufacturing or 75 employees and RM20 million in services and other industries. SME Corporation Malaysia created these SME definitions. To test the assumptions, 274 SMEs who met the SME criteria were randomly selected from a SME company directory (Acquaah, 2007). Data was collected July–September 2018.

On-site questionnaires collected data. CEOs or another member of senior management will be contacted via letter or email to complete the questionnaire. Several steps will boost response rate. First, company executives must verbally consent to the research. Second, the topic will receive a research summary. 92.3% of 253 firms responded with valid responses. Non-response bias will be measured by comparing early and late respondents (Armstrong & Overton, 1977). Multivariate t-tests employing firm age, legal form, sector, and turnover growth showed no significant difference between early and late responders, showing no non-response bias.

The analysis excluded industrial and agricultural enterprises since it focused on the service sector. The Malaysian economy is primarily service-based (Malaysia, 2018). Number tables and figures consecutively, not section-wise.

3.2 *Questionnaire Development*

The questionnaire for this study was created in three stages. To discover candidate ideas and measures, the literature was rigorously reviewed. A questionnaire was generated. Each item was graded on a Likert scale of 5. Then, four Malaysian small and medium business owners were interviewed using the same questionnaire. The protocol describes structures and investigates non-measurable factors. In the third step, three researchers assessed the entire questionnaire, ranked each item's content validity, and suggested adjustments in language and structure. The build instrument utilised in this investigation will be shared upon request.

3.3 *Reliability and Validity Assessment*

To assess concept reliability and validity, the sample will undergo exploratory factor analysis (EFA). EFA determines the number of variables impacted by diverse factors and the variables that move together (DeCoster, 1998). EFA with an oblimin kaiser normalisation rotation was used to load a single item on several variables, showing its true influence across all factors (Hair et al., 2014; Samiee & Chabowski, 2012). Principal component analysis (eigenvalue > 1) was used to extract components. Sample restrictions required EFA on each concept. EFA was performed on business performance, entrepreneurial orientation, cognitive trust, emotional trust, and environmental dynamism to use this technique. EFA was performed on all constructs with factor loading larger than 0.40 to be thorough and demonstrate the items' robustness.

Confirmatory factor analysis (CFA) will refine the items. CFA results match data well. $2 (df) = 840.16 (482)$; $p < 0.00$; $RMSEA = 0.05$; $NNFI = 0.94$; $CFI = 0.92$. The sample factor loadings for each construct are 1%, showing convergent validity (Bagozzi & Yi, 1988).

CR and AVE were employed to assess dependability. We calculated the square roots of all multi-item AVEs to determine construct discriminant validity. Our metrics are discriminating since each construct correlation is smaller than the square root of its AVE (Fornell & Larcker, 1981). The study's measurable ideas are distinct (Bagozzi & Phillips, 1982). Composite reliability (CR) assessed the study's scales' convergent validity. CR estimates larger than 0.60 and statistically significant concept-to-domain coefficients ($t > 2.0$; $p < 0.05$) suggest convergent validity (Bagozzi & Yi, 1988). All values satisfied CR and were statistically significant.

4. **Analysis and Results**

Moderated hierarchical regressions with mean-centering for independent and moderating variables minimise multicollinearity (Cohen et al., 2003) are used to test hypotheses. Our data are not multi-collinear

since all variance inflation factors were smaller than 525 (Gareth et al., 2013; Neter et al., 1989). 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

$$\text{Firm Performance} = i + \beta_1EO + \beta_2CT + \beta_3EOCT + \beta_4ED + \beta_5EDEO + \beta_6EDCT + \beta_7EDEOCT + e$$

Equation 5-4

$$\text{Firm Performance} = i + \beta_1EO + \beta_2AT + \beta_3EOAT + \beta_4ED + \beta_5EDEO + \beta_6EDAT + \beta_7EDEOAT + e$$

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

Table 2. Ordinary Least Squares Estimation of Performance of Trust

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

F-value	9.31***	12.71***	13.69***	11.30***	10.51***	12.53***	10.61***	6.34***
R2	0.210	0.294	0.361	0.381	0.382	0.341	0.366	0.349
Adjusted R2		0.271*	0.335***	0.347***	0.349***	0.314***	0.329**	0.331***

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.

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.

In Table 2 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 affect 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.

5. Conclusion

The RBV, contingency theory, and regulatory focus theory are used to explain how inter-organisational trust in the supply chain helps the EO-firm performance link. It also introduces the notion of environmental dynamic to establish the boundary requirements for inter-organizational trust in the EO-firm performance

link. This study emphasises theoretical and practical repercussions of closing this gap. Inter-organizational trust appears to promote the link between EO and company performance in a static setting but has the opposite effect in a dynamic setting. These findings aid microeconomic studies on economic optimisation and interorganizational trust.

In conclusion, this study sought to better understand how EO, inter-organizational trust, and environmental dynamism effect corporate performance. This study found that inter-organisational cognitive trust moderates the influence of EO on firm performance. Thus, the current study conceptually stresses the crucial importance of inter-organisational trust in company success and provides supporting empirical data, enhancing our knowledge of EO and its effects on firm performance. Environmental dynamism moderates the combined effect of EO and inter-organizational trust on corporate performance, the study found. These findings illuminate how organisations might balance EO and trust-based interactions in shifting markets.

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