

**THE IMPACT OF INTERPERSONAL TRUST ON
TRANSACTION COSTS AND BUSINESS
PERFORMANCE AMONG RETAIL TRADERS IN
GAMPAHA DISTRICT OF SRI LANKA**

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Abstract

Scholars revealed that interpersonal trust among exchange partners mitigates transaction costs and thereby enhances the greatest level of business performance. However, the lack of empirical evidence specifically in the Sri Lankan context highlights a major gap in the existing literature. In this study, 225 retail traders in the Gampaha district of Sri Lanka are specifically investigated to examine how interpersonal trust affects transaction costs and business success. Retail traders were interviewed personally using a pre-tested structured questionnaire for gathering primary data. The Partial Least Square Structural Equation Model (PLS-SEM) was used to analyze data. The findings revealed a negative relationship between transaction cost and interpersonal trust, while a significant positive relationship between company performance and interpersonal trust. Additionally, the results found that transaction costs have a negative correlation with business performance and mediate the relationship between business performance and interpersonal trust. Thus, this study provides insight on how interpersonal trust enhances business performance and minimizes transaction costs. By quantitatively evaluating this interdisciplinary framework, it blends sociological concept of inter-personal trust with economics and marketing management, making a significant contribution to the theoretical and empirical literature. The study emphasizes how crucial it is for retail traders to build trusting relationships with exchange partners because doing so would effectively reduce transaction costs and improve business performance.

keywords: Business Performance, Interpersonal Trust, Relational Contract, Retail Traders, Transaction Cost

INTRODUCTION

Retail trading is one of the most significant service activities that attempts to sell goods and services to customers developing close relationships with customers by satisfying their utility (Rudrabasavaraj, 2010). Retail traders deliberately work to develop sustainable exchange relationships with customers using different strategies since they understand that these relationships increase customer loyalty and thereby generate steady sales revenue (Rokkan, Heide & Wathne, 2003). According to McNeil (1983), the informal transaction relationship between retail traders and customers is governed by relational contacts based on relational norms and interpersonal trust. The relational contracts embodied with inter-personal and inter-organizational relational networks facilitate the mutual benefits to exchange partners (Putnam, 1995). The majority of retailers in the market depend entirely on relational contracts with the exchange partners, to keep the performance of the business activities at a highly satisfactory level (Smith & Doe, 2023). The current context in the market recognizes interpersonal trust as a widely acknowledged aspect (Zanini & Migueles, 2018) to reach a relational contract and upgrade the Business Performance (BP) keeping long-term orientations (Martin & Sohi, 1993) between exchange partners while mitigating opportunistic behaviors (Morgan & Hunt, 1994) and mitigate transaction cost as well (Williamson, 1981). Interpersonal trust can improve business performance by fostering collaboration and problem resolution, improving understanding, planning, and communication (Priyanath & Premaratne, 2017). Moreover, interpersonal trust helps diminish transaction costs by avoiding the need for legal action or agreements to protect businesses from opportunism (Macneil, 1983).

In the global context, studies have shown that relational contracts can positively affect BP. For example, a study by Wang et al. (2018) in China found that relational contracts can improve the performance of buyer-supplier relationships by reducing Transaction Costs (TC) and promoting cooperation. Similarly, a study by Jafari et al. (2020) in Iran found that relational contracts can enhance the performance of the construction industry by improving communication, reducing opportunistic behavior, and promoting collaboration. However, previous studies have explored the use of relational contracts in the Sri Lankan context. For instance, Priyanath and Premaratne (2017) investigated the impact of relational contracts on BP in Sri Lankan small enterprises. Their study found that relational contracts significantly influence BP by promoting trust, collaboration, and communication among partners. Further Jayathilaka and Priyanath (2021) observed the relational contract on asset specificity and BP considering small enterprises. Moreover, Priyanath et al. (2016a) studied the effect of relational norms on mitigating TC focusing on smallholder vegetable farmers. Another research done by Gamage and Priyanath (2018) observed the interpersonal trust on opportunism and BP regarding gem dealers in Sri Lanka. Although previous studies have explored the impact of relational contracts on supply chain performance and BP in various contexts, the specific direct and indirect effects of inter-persona trust on TC and BP of retail traders in Sri Lanka have not been extensively investigated. Further, Large-scale companies invest in technology and embrace the technological transformation to the business successes. However, as

small-scale businesses, retailers do not have the capacity for the investment. In this context, interpersonal trust is beneficial for the retailers to enhance the success of the business and minimize the cost of transactions. The current study aims to address this contextual literature gap by exploring the effect of interpersonal trust on TC and BP of retail traders in Sri Lanka. Further, the study assesses how TC is mediated in the relationship between interpersonal trust and BP.

THEORETICAL BACKGROUND

This study establishes a strong foundation for examining the designated research problem by critically assessing the use of relational contract theory in comprehending interpersonal trust, utilizing TC theory to clarify transaction prices, and evaluating corporate performance indicators.

Inter-personal trust: There are many different ways in which academic literature describes interpersonal trust, which is a crucial component of relational contact. It is defined as "one party's confidence in the reliability of their exchange partner" by Morgan and Hunt (1994). On the other hand, Zaheer et al. (1998) expound on this idea, characterizing it as the expectation that an actor will consistently perform their duties, display consistent behavior, and uphold equity, particularly in circumstances where opportunism is likely to occur. Mayer et al. (1995) defined interpersonal trust as a party's readiness to be open to the acts of another in the hopes that the latter would carry out a certain task that is significant to the trustor. According to Ganesan (1994), trust is a three-dimensional construct that consists of ability, benevolence (the behavioral component), and credibility. The concept of interpersonal trust pertains to an entrepreneur's belief that an exchange member is reputable (reliable, adaptable, equitable, and unlikely to intentionally harm a connection) and consistently demonstrates this by their actions (charity). Thus, kindness is evaluated using creditability which is assessed using three components: predictability, reliability, and fairness. These components have all been confirmed by Manolova et al. (2007); Zaheer et al. (1998).

Ability is a crucial component of interpersonal trust, emphasizing the need for competence in developing trust. According to Mayer et al. (1995), ability is the collection of aptitudes, proficiencies, and traits that provide a person the capacity to exert influence in a certain field. The idea stresses that a party's capabilities are essential for the establishment and maintenance of trust, stating that trust is based in part on one's belief in one's talents and abilities in a relevant field. Aligning their interests with the objective of having a good impact on other organizations is how benevolent organizations set themselves apart (Johnson & Smith, 2022). Known as benevolent, these organizations aim to expand their goals beyond personal gain to encompass the well-being of others (Adams, 2021). It's interesting to note that opportunism is a key component of an indirect theory of organizational benevolence. A high degree of opportunism has the opposite effect on compassion in situations where it is important, which lowers trust levels (Brown, 2020). Credibility is observed in the confidence and trustworthiness among their exchange partners. Credibility represents to what extent, exchange partners are keeping their promises honestly towards each other when they are doing transactions (Poon, Albaum, & Yin, 2017).

Further, Rempel, Holmes, and Zanna (1985) stated that credibility protects the solid connection among business partners dealing with specific characteristics.

Transaction Cost: Coase (1937) established the notion of TC, which he defined as the expenses incurred in applying the price mechanism. Coase's theory (1937) which holds that businesses form to reduce these transaction costs is fundamental to our understanding of why they exist and how they are organized. Williamson (1981) describes TC as the out-of-pocket charges associated with conducting a business transaction. This covers the price of obtaining data, negotiating and upholding contracts, and handling transaction-related concerns. Coase (1937) explained the importance of the market accomplishing specific activities for both consumers and producers. Therefore, transaction costs are the combination of searching and information costs, bargaining costs, and monitoring enforcement costs of performing a transaction. Different economists variously divided this TC on their identification. 'Ex-ante and Ex-post' are the most common way to separate it (Williamson, 1985). Ex ante cost includes both, negotiation cost and the cost of forming a contract which means this cost happens before coming to fulfillment of the actual transaction (Hobbs., 1996). Meanwhile, monitoring and cost of enforcing an agreement include ex-post cost (Hobbs., 1996). According to Williamson (1985) enforcing cost furnishes safeguards on agreements made by producers and consumers. Williamson, (1985) introduced major four types of TC, 1) search costs, 2) negotiation costs, 3) monitoring costs, and 4) enforcement costs. Searching cost helps to identify the best trading partner among potential trading partners gathering details related to the transaction (Williamson., 1985). As trading partners, consumers and producers come to a written agreement by creating a document after finishing the negotiation on the transaction and this is called the cost of contracting (Dyer, 1997). Monitoring costs raised by every party associated with the transaction to certify the agreement is in line with a set of rules and regulations determined by them previously (Dyer, 1997). If some partner violates rules and regulations another partner has an opportunity to take action against it through bargaining called enforcement cost (Hennart & Verbeke, 2022).

Business Performance: According to Kaplan and Norton (1992), BP is a multidimensional concept that is judged by customer satisfaction, internal processes, learning and growth perspectives, and financial outcomes. According to Richard et al. (2009), an organization's capacity to accomplish its goals successfully and economically is referred to as its BP. They put forth a thorough analysis that takes into account market performance, shareholder return, and financial performance. They emphasize the significance of taking into account a wide range of indicators, including both short and long-term results, to effectively evaluate a BP. Performance is defined as a collection of multidimensional constructs that is comprised of the functions of contract formation, planning, supervision, and assistance (Kramer et al., 1986). Better-performing companies derive profits, gain surplus internally, and contribute to the growth rate surviving in the market externally (Rizal, Kholid & Suhadak, 2017). For different decades, BP was described by scholars from different viewpoints. However, Anderson, Oliver & Keltner (2012) pointed out the significance of the usage of financial and non-financial criteria as indicators to

measure this concept. The short-period progress of the entire business is estimated through financial criteria while non-monetary long-period growth is calculated using financial criteria (Moers, 2000). Financial performance. However, financial performance directly implies what we gain in terms of money and assets (Carton & Hofer, 2006). Non-financial performance reacts to mutual understanding, trust, and satisfaction in the contract (Boniface, Gyau, & Stringer, 2012) many studies such as (Kraus et al., 2012; Runyan, Droge & Swinney, 2008) have used indexes of perceived performance to estimate performances in the organizations. Organizational performance grows with the increase in the amount of the output of a company under certain inputs. While relationship satisfaction, the number of buyers and sellers, and the firm's goodwill are used to measure non-financial performance in the retail sectors, this study aims to utilize increasing the firm's profit and retailers' assets as indicators to evaluate financial performance.

2.1 Hypotheses

Inter-personal Trust and Business Performance: Strong contact from person to person enables an opportunity for sharing information (Nielsen, 1998) and ultimately decreases the perceived risk while improving the consistency and reliability of the business environment (Almenti, 2013). Business parties make valid decisions regarding whom to trust based on the evidence and other information (Offe, 1999). According to Svensson (2004), trust is an emotional feeling that develops interpersonal faith and is built with strengths and influence on business relations. Moreover, trust creates a link among exchange parties to a proper business relationship while leading to solid communication between people (Morgan & Hunt, 1994). More reliable information is available for decision-making activities when parties share information through a great level of trust (Johnston et al., 2004) and may help enhance to business environment of retail traders. Johnston et al. (2004) identified the worth of trustworthiness as a crucial cooperative aspect of the expanded business activities and their performances with their empirical study. Therefore, the study assumes that;

H1: Interpersonal trust has a positive impact on the business performance of retail traders in Sri Lanka.

Inter-personal Trust and Transaction Cost: In many organizational and entrepreneurial literature, the term trust has been identified as a significant component of reducing TC occurring between exchange parties. Hence the risk of uncertainty, conflict, and opportunistic behavior that resulting more efficient long-term governance (Morgan, Anokhin, & Wincent, 2016). Interdependency among business partners depends on mainly both trust and the cost of a transaction which leads to expanded organizational performance (Lado et al., 2008). Trust among the exchange partners enables them to maintain cooperative relationships. In this scenario, high trust among partners generates productive and fertile agreement by mitigating contract costs (Zaheer et al., 1998). Interpersonal trust has the desirable ability to continue smooth agreement among exchange parties avoiding violation (Gulati, 1995) a solving unexpected circumstance (Priyanath & Premarathne, 2017; Zaheer et al., 1998), and mitigate opportunism (Gulati, 1995). Interpersonal trust exchanges

more reliable information with business partners to make proper business decisions at low cost (Bromiley & Cummings, 1995) and less time-consuming (Dyer, 1997). Business parties are less motivated to rely on elaborate protections for monitoring and enforcing agreements under low-trust situations (Dyer, 1997). Therefore, the study assumes that;

H2: Interpersonal trust has a negative impact on the transaction cost of retail traders in Sri Lanka.

Transaction Cost and Business Performance: Coase (1937) stated the TC theory suggests that people begin the production of a particular firm when external parties share incomplete information while within the firms it is rich with information that parties rich with information can cheat on the party that has less information and make profits. In addition to that Coase (1937) expressed that, firms or institutions can avoid some of the TC through a price mechanism system. Performances of the business extensively depend on the main characteristics of the TC. Mostly, small firms incur high search costs to find support from skilled staff, buyers sellers, and other partners to find reliable transactions, reducing the risk of exchanges (Carmel, 2005) to enhance the performance of the organization. Accordingly, Carmel (2005) identified the negative relationship between search costs and the performance of the business. Dyer and Chu (1997) stated the importance of the lowest searching cost for an effective performance of business. Parties engage in transaction activities with each other with a lack of confidence, and performance in any organization is get to down (Dyer, 1997). However, the success of the organization retains the extent of the exchange parties' confidence (Kaufmann & Stern, 1992). Organizations incur costs to monitor their exchange partners to diminish unethical practices which can bring negative results towards business to keep their wellness (Nooteboom, 1993). Therefore, the study predicts that;

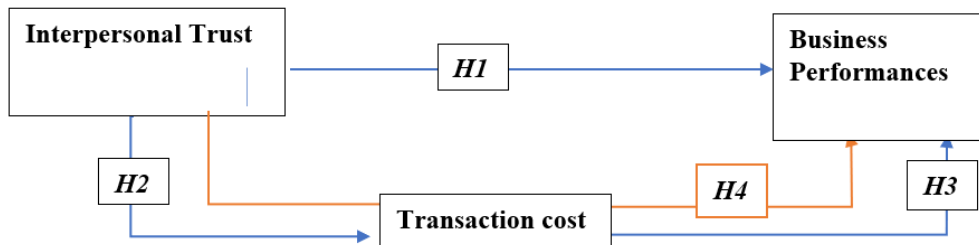
H3; Transaction cost has a negative impact on the business performance of retail traders.

The mediating role of Inter-personal trust: Higher levels of interpersonal trust between business partners create strong commitment and cooperation in sustaining a long-term relationship (Dant & Schul, 1992), which leads to the development of relational norms that improve the mindset between exchange partners (Rokkan et al., 2003). This creates a positive atmosphere that can help mitigate the effects of opportunistic behaviors and uncertainty among actors that arise due to information asymmetry (Heide & Jhon, 1992), reducing TC (Heide & John, 1992). Reducing TC through higher levels of interpersonal trust can result in better business performance. Lower monitoring costs and enforcement costs, as a result of having fewer disputes and disagreements, encourage partners to rely on informal, honest agreements rather than costly legal procedures (Kaufmann & Stern, 1988). This enables exchange partners to make specific adjustments to their agreements in uncertain situations, which ultimately reduces the enforcement costs as a dimension of transaction costs (Heide & John, 1992). Therefore, the study hypothesizes that;

H4: Transaction cost has a mediating role in the relationship between interpersonal trust and the business performance of retail traders.

Figure.1 illustrates the direct and indirect relationships between variables. Relational contract grows under the continuation of interaction between buyers and sellers to upgrade self-enforcing protection among each other (Heide & John, 1992). Interpersonal trust is a significant phenomenon to promotes an informal interaction between buyers and sellers (Baker, Gibbons & Murphy, 2002). An important market accomplishment with bilateral exchanges incorporates the transaction cost and transaction cost threatens to the market exchange in the various systems (Bolino et al., 2002). A robust network within exchange parties principally buyers and sellers may help markets as well as economies to achieve a better performance. Accordingly, the mutual relationship among buyers and sellers diminishes the cost of transactions and further strengthens the performance of business (Das & Teng, 1998). Thus, these effects have been prominent in enhancing the performance of business entities while leading entire economies to success.

Figure 1: Conceptual Framework of the study



Source: Developed by author, 2023.

METHODOLOGY

The research approach of this study is deductive and explanatory, and the philosophy is positivism, because, all variables; interpersonal trust, BP, and TC are developed based on existing theories including relational contact, TC, and the concept of BP. Therefore, the methodology selected for the study was quantitative. The survey strategy was selected to collect primary data from retail traders in Sri Lanka. The study uses a multistage cluster sampling technique to select the sample. Gampaha district out of 25 districts was selected using simple random sampling. All retailers of the one selected town of all secretariat divisions in the Gampaha district were selected for the sample. Thus, retailers were selected from thirteen towns of all secretariat divisions of the Gampaha district. The sample size was determined using the 'Inverse Square Root Method' method (Kock & Hadaya, 2018). The formula gives a 225-sample size that is sufficient for the analyzing technique of the study which is Partial Least Square Structural Equation Modelling (PLS-SEM). Since there was no systematic sample frame, the study selected a convenient sample to conduct the survey. While convenience sampling was used, efforts were made to ensure proportional representation from each divisional secretariat to better approximate the population. 225 retail traders were selected covering all divisional secretariats'

divisions in the Gampaha district and data were collected using a structured questionnaire having face-to-face interviews with respondents.

Interpersonal trust is measured using three dimensions such as credibility, benevolence, and ability. The credibility was measured using seven items adopted by Dyer (1997); Gulati (1995); and Zaheer et al. (1998). Ability was measured with the support of four items developed by Mayer, Davis, and Schoorman (1995). The TC was measured using four dimensions; searching costs, negotiation costs, monitoring costs, and enforcement costs adopted by Kim & Choi (1994); Moers (2000), and Sako (1992). BP was assessed using six items adopted by Clemons and Row (1992); Gulati (1995); and Lado et al., (2008). All the items used to measure each variable are given in Table 1. The PLS-SEM was employed to examine the hypothetical relationships. The validity and reliability of each variable were evaluated first and then the structural model was evaluated using multi-collinearity problems, path coefficient and their significance, R-square, effect size (f^2), and predictive relevance. The SmartPLS (version 4) was employed to analyze the data.

RESULT AND DISCUSSION

Based on the 255 retailers in the Gampaha district, the majority of the retailers belong to the age 30-49 category. In addition, 85% of the total sample were male retailers and 166 respondents were married. Further, this study found that there were a lot of retailers with adequate quality educational qualifications as 98 of the respondents had completed the advanced level and other 102 respondents had the ordinary level qualification with technical/vocational education. Out of the sample, the highest number of respondents (78) were retailers selling food and beverage products with grocery items. The next largest group was retailers selling motor vehicles and parts, which indicates 39 respondents. There were also 34 respondents each of whom retailers were selling books, cosmetics, personal care, clothing and accessories, and those selling electronics and appliances. 21 respondents were retailers selling building materials and garden equipment, and 18 were retailers selling pharmaceuticals and health products. Moreover, respondents, 15% (39) of retailers have experience of 0-5 years. 35% (89) of the respondents have experience between 5-10 years and 27% (68) of the respondents have experience between 10-15 years. 23% (59) of the respondents have more than 15 years of experience. The highest number of respondents (117) were independent retailers. This was followed by 72 respondents who reported being part of a family business, 54 respondents who reported running a home-based business, and 12 respondents who reported being subcontractors.

4.1 Reliability and validity of constructs

Reliability and validity of indicators of questionnaire items tested by the first order analysis. According to Table 1, the third two columns represent indicator reliability and the fourth two columns represent internal consistency reliability. If the value of outer loading is 0.7 or higher, it is suggested that all constructs of the questionnaire of the independent variables and mediator variables have established indicator reliability. Table 1 shows, that outer loading for all measuring items is above 0.7

pointing out that overall constructs under first-order analysis have indicator reliability and none of the items were omitted from the model. On the other hand, T-Statistics values of the constructs show very high values (all are above 1.96) which means constructs are completely significant at a 95% significance level. Since, both the tests conclude that the model has higher reliability in constructs.

Table 1: Reliability and validity of constructs of first-order analysis

		Loading	t- statistics	Composite reliability	Cronbach's alpha	AVE
1. Inter-personal trust						
1.1	Credibility			0.991	0.989	0.939
	I feel that exchange partners are honest	0.963	187.89			
	I am confident that the promises that my beloved business partner will give	0.974	269.66			
	Exchange partners act fairly in all transaction	0.974	247.91			
	That businessman deliberately will not hurt me	0.965	191.79			
	There is very little risk that I will not be able to provide arrears to me from that partner.	0.976	300.50			
	I feel that exchange partners are trustworthy	0.965	207.56			
	Exchange partners do not break promises	0.966	197.33			
1.2	Benevolence			0.986	0.982	0.948
	My exchange partners will always make decisions, concerning my well-being too.	0.974	331.53			
	My beloved business partner always helps me in any trouble	0.973	325.57			
	Exchange partners always help me on every possible occasion he can.	0.979	402.12			
	Exchange partners would like to continue the business relationship with me	0.968	266.25			
1.3	Ability			0.980	0.973	0.926

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	My exchange partners are very smart at any business matters	0.960	192.03			
	Exchange partners can verify my needs from action	0.956	142.97			
	I have confidence in his talents/abilities.	0.970	270.75			
	Exchange partners would like to give me the best of their knowledge for my good.	0.963	204.30			
2. Transaction cost						
2.1	Searching cost			0.971	0.956	0.919
	We have to pay to look for new suppliers and customers.	0.941	92.917			
	The cost of labor is involved in managing advertising efforts.	0.976	344.88			
	Travel expenses are incurred to manage advertising operations.	0.958	154.87			
2.2	Negotiation cost			0.982	0.973	0.948
	Labor costs are associated with managing legal issues and bargaining with the exchange.	0.968	187.26			
	Travel expenses are incurred when handling legal concerns.	0.978	380.55			
	Dealing with legal issues and conducting exchange negotiations have a communication cost.	0.975	260.95			
2.3	Monitoring cost			0.986	0.981	0.946
	Monitoring transaction operations, regardless of whether they are carried out in accordance with the agreements, comes at a cost.	0.968	193.42			
	Whether transaction actions are carried out in accordance with the agreements or not, there is	0.983	435.52			

	a personnel cost associated with monitoring them.				
	To keep an eye on transaction operations and make sure they are carried out in accordance with the agreements, there is a traveling expense.	0.976	420.71		
	Monitoring transaction operations to ensure they are carried out in accordance with agreements incurs communication costs.	0.962	183.19		
2.4	Enforcement cost			0.984	0.979 0.940
	Resolving transaction complaints is not free.	0.957	154.18		
	Resolving disputes pertaining to transactions incurs personnel costs.	0.976	290.00		
	In order to settle transaction issues, there is a traveling expense.	0.974	276.28		
	Resolving transaction disputes involves communication costs.	0.971	220.88		

Source: Survey data, 2023.

The results indicate that the constructs of all questionnaire items establish reliability because the Composite Reliability (CR) and Cronbach's alpha (CA) values are higher than 0.7 for every item. Table 1 further represents that AVE measures of the indicators represent values greater than 0.7, confirming the first-order model's convergent validity. Table 2 represents the discriminant validity of the constructs of first-order analysis. The diagonal value represents the square root of AVE for each first-order construct. Non-bold figures represent the other correlation values of the constructs. The square root of AVE is higher than the correlational values and the results confirmed the discriminant validity of all constructs of independent variables under the first-order model.

Table 2: Discriminant validity of constructs of first-order analysis

Variable	AVE	1	2	3	4	5	6	7
1. Enforcement cost	0.948	0.974						
2. Monitoring Cost	0.946	0.960	0.973					
3. Negotiation Cost	0.948	0.900	0.914	0.973				
4. Searching Cost	0.919	0.816	0.834	0.851	0.959			

5. Ability	0.926	-0.802	-0.804	-0.783	-0.788	0.962
6. Benevolence	0.948	-0.781	-0.782	-0.774	-0.746	0.936 0.974
7. Credibility	0.939	-0.798	-0.791	-0.790	-0.767	0.937 0.946 0.969

Source: Survey data, 2023.

Second-order analysis also underlies the same tests completed under the first-order analysis. According to Table 3, the outer loading values of each indicator are above 0.7. This represents that, all generated outer loading values confirmed the indicator reliability in second-order analysis. Further, this table shows that values of the t-stat of all constructs are higher than 1.96. These t-stat values reflect relatively larger values and complete significance at a 95% significance level. Therefore, this study confirmed the indicator reliability of constructs of the questionnaire under second-order analysis. All values of CA and CR of this study were greater than 0.9 showing a greater internal consistency in the final model representing a higher association between indicators with their variables of the model.

Table 3: Reliability and validity of constructs of second-order analysis

	Loadings	t-statistic	Composite reliability	Cronbach's alpha	AVE
1 Inter-personal trust			0.986	0.979	0.960
Credibility	0.981	291.74			
Benevolence	0.980	309.18			
Ability	0.978	260.97			
2. Transaction cost			0.976	0.967	0.910
Searching costs	0.957	72.68			
Negotiating costs	0.976	160.29			
Monitoring costs	0.974	236.66			
Enforcement costs	0.971	177.26			
3. Business Performance			0.981	0.977	0.879
I can earn an income that is enough for my better living and success from this business.	0.899	39.13			
I have the ability to buy high price commodity	0.903	68.99			
made it possible to earn more profits/profits.	0.946	116.15			
There are some important buyers and sellers around me.	0.956	165.62			
Due to business activities, my land/buildings/vehicle ownership has increased.	0.937	96.71			
My reputation has increased with this business.	0.963	175.21			
From this point onwards, I am pleased with the position in my business.	0.959	105.18			

Source: Survey data, 2023.

Table 4 represents the discriminant validity of the constructs of second-order analysis and it represents higher AVE values for the variables which are greater than 0.7 representing the convergent validity of all constructs of the second-order analysis.

Table 4: Discriminant validity of constructs of second-order analysis

	BP	IPT	TC
BP	0.938		
IPT	0.937	0.980	
TC	-0.834	-0.839	0.954

Source: Survey data, 2023.

Table 5 shows that there is no multicollinearity in a model since the tolerance value of the model is greater than 0.2 and the VIF value is lower than 5.

Table 5: Multicollinearity test of the inner model

	BP		TC	
	Tolerance	VIF	Tolerance	VIF
Inter-personal trust	0.4541	2.202	0.2643	3.783
Transaction cost	0.2729	3.664		

Source: Survey data, 2023

The current study is concerned with four (4) hypotheses. Among them, the first three (3) hypotheses investigate the direct significance of the hypothesized relationship between independent, dependent, and mediating variables. Table 6 represents the hypothesized relationship.

Table 6: Path coefficient and t-statistic among constructs (Direct relationship)

Hypothesis	Relationship	Path coefficient	t-statistic	P values	Decision
<i>H1</i>	Interpersonal Trust and Business Performance	0.708	10.691	0.000	Accepted
<i>H2</i>	Interpersonal Trust and Transaction Costs	-0.338	2.901	0.004	Accepted
<i>H3</i>	Transaction Costs and Business Performance	-0.109	2.723	0.006	Accepted

Source: Survey data, 2023.

Moreover, the adjusted R^2 value for the BP of this study is 70.3%. This value concludes that a 70.3% variation of the BP is clearly explained by the independent variable of relational contract. Further, the study represents 62.5% of the adjusted R^2 value for transaction costs. That means a 62.5% variation in transaction cost is clearly explained by the independent variables of the study. Accordingly, this study concludes that the model is substantial. Further, this study discovered a large effect size (f^2) with BP over the value of 0.427. In addition, a small effect size is indicated between interpersonal trust and transaction cost with a value of 0.036.

The fourth hypothesis of this study represents the indirect relationship between independent, mediate, and dependent variables showing the mediate role of transaction cost. Table 7 represents the indirect effect of TC .

Table 7: Path coefficient and t-statistic among constructs (Indirect relationship)

Hypothesis	Relationship	Path coefficient	t-statistic	P value	Decision
H4	IPT -> TC -> BP	0.137	2.081	0.038	Partial Mediation

Source: Survey data, (2023)

DISCUSSION

Table 6 shows that there is a strong positive relationship between interpersonal trust and BP of the retail traders. This indicates path coefficient value (β) +0.708. This is realized that retail traders are vastly dependent on the business trust with their exchange partners and business transactions are based on the word of confidence. Moreover, this hypothesis stated that the BP of retail traders increases by 0.708 when increasing the level of trust among retail partners by one unit. Almenti (2013) and Choi, Souiden, & Skandrani (2012) confirmed the positive impact of interpersonal trust on profitability and productivity in business companies. Further, Sako (1992) emphasized that a higher level of trust between exchange partners promotes organizational competition and thus promotes achieving profits. Thus, the result of this study accepts the *H1* hypothesis.

Table 6 further represents the negative relationship between interpersonal trust and TC of retail traders showing -0.338 value of path coefficient (β). Accordingly, this β value elaborates, that the cost of transaction decreases when the interpersonal trust among business partners increases. Accordingly, inter-personal trust developed among the retail business partners can decrease the searching cost of new parties, and the monitoring and enforcement cost of transaction activities together. This hypothesis is supported by Priyanath & Premarathne (2017), who justified how transaction costs decrease with an increase in interpersonal trust. Furthermore, this relationship is verified by Ozkan-Tektas (2014). Trust is increasing the freedom of association, enhancing contract enforcement, facilitating inter-personal understanding, and strengthening the flexible rules of the exchange partners, which automatically decreases the TC. The interpersonal belief among exchange partners avoids opportunistic behaviors among partners, minimizing TC (Gamage & Priyanath, 2019).

Moreover, Table 6 further explains that the path coefficient value (β value) between TC and BP is -0.109. This denotes a negative impact between TC and BP. This further explains when the BP decreases as TC increases. Various scholars recognize transaction cost as a factor that provides bigger negative impacts on BP. Financial and non-financial performance of the business collapse on the other side whenever TC increases. Exchange parties can reduce the cost of the exchange with fair rules and standards they follow towards exchange partners over honest understanding,

flexibility in decision-making, and sensitive attention towards other partners when partners fall into business trouble, which improves the effectiveness of the market (Chou & Ramser, 2021; Paulin et al., 1997). Corruption in transactions and transparency in exchange promote bad experiences for the organization (Ofori & Sackey, 2010). Irrelevant and excessive transaction costs negatively promote a systematic organizational culture and generate bad business decisions (Masten, 1993).

Table 7 represents the mediating effect of TC in the relationship between interpersonal trust and BP of retail traders. This can be further explained as when interpersonal trust increases, BP increases by 0.137 units due to the mediating role of TC. However, strong relationships among the parties are important to minimize this TC for businesses (Rus & Iglic, 2005). On the other hand, Rus and Iglic (2005) explained the possibility of a strong relationship to achieve a higher rate of profit. The interpersonal trust provides a safeguard against the extensive range of opportunism and opportunistic behavior among exchange partners, and thus, the loose cost of negotiating, monitoring contracts, and providing precise safeguards decreases the cost associated with complex bonding in an economical manner with greater effectiveness towards the organization (Chiles & McMackin, 1996). Accordingly, the empirical literature supports the *H4* hypothesis in this study.

CONCLUSION

The study investigated how interpersonal trust affects the TC, and BP of retail traders in the Gampaha districts, Sri Lanka. Four hypotheses were tested to understand the impact of interpersonal trust on TC and BP. Hypothesis 1 observed the positive relationship between interpersonal trust and BP, and the second hypothesis observed a negative impact of interpersonal trust and TC. The current study confirmed those relationships. Moreover, hypothesis 3 demonstrated the negative influence of TC on the BP of retail traders, and the results confirmed this hypothesis as well. Hypothesis four was formulated to test the mediate effect of TC on the relationship between interpersonal trust and the BP of retail traders. The results proved the mediating effect of TC on the relationship between interpersonal trust and BP.

The study developed a conceptual framework that combined the theories of relational contract theory and TC theory, and it was empirically evaluated in the context of Sri Lanka. Accordingly, this study supports the theoretical literature by testing a new theoretical framework developed using an interdisciplinary method. Additionally, the study evaluated how transaction cost mediated the association between BP and interpersonal trust. Finally, study contributes empirical evidence of retail traders to the literature by addressing a research gap in Sri Lanka.

This study suggests that retail traders should concentrate more on gaining interpersonal trust with their trading partners while applying a variety of strategies to achieve so. Through informal commercial alliances, retailers can interact with one another. Further, it is suggested that the importance of organizing and participating in the relevant exhibition and awareness campaign is to promote relationships and form informal technological partnerships to promote relationships established on

trust. Thus, policymakers can leverage the study's findings, which indicate that enhancing interpersonal trust can elevate retail traders' BP by minimizing transaction costs. This finding further indicates that the advantages of interpersonal trust are significantly affected by ability, compassion, and credibility. Therefore, the study recommends retail traders to give more attention and use different strategies to improve interpersonal trust with their exchange partners and finally recommends retail traders to use IT to build up sustained relationships with exchange partners for regular transactions expecting to minimize TC.

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