The SMEs' Perspective of Trust in a B2B Relationship

Abstract

Trust's role in underpinning long-term business relationships is well established, albeit with a range of associated definitions and structures. This paper presents an instrument to assess the structure of SMEs' trust-perspective towards their banks in Nigeria, which represents an area with limited research to date. Various scale sets from existing studies are combined to assess the credibility and benevolence aspects of trust. Data were collected from 221 SMEs via **the self-administered questionnaire by** owners or senior managers. Analysis involved Exploratory Factor Analysis (EFA) to determine the underlying data structure, with subsequent deployment of Cronbach's alpha to assess the internal reliability of the retained factors. For the context of this study, SME's trust towards their banks primarily encompasses credibility attributes, with only a marginal presence of benevolence aspect of trust. Interestingly, despite the financial crises that have plagued the banking industry in Nigeria, SMEs still have a considerable positive trust-perspective towards their banks. The originality of this work lies in the investigation of the **SMEs and bank** B2B relationship within an under researched business setting, specifically in the Nigeria banking environment.

Keywords SMEs, banks, trust, credibility and benevolence, Nigeria.

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Introduction

Various academics concur about the critical role of trust in building long-term relationships (Wilson, 1995; Cater and Cater, 2010), especially where the service provision is either ill-defined or multi-faceted (McKechnie, 1992; Ennew *et al.,* 2011; Viitaharju and Lähdesmäki, 2012; Järvinen, 2014). In Business-to-Business (B2B) relationships, trust has been recognised to support various relational outcomes, in particular commitment (Morgan and Hunt, 1994; Gounaris, 2005) and long-term orientation (Doney and Canon, 1997; Nicholson *et al*., 2001). Despite its relevance and role in enhancing B2B relationship longevity, academics are divided on its definition (Nicholson *et al*., 2001; Brashear *et al.,* 2003; Mouzas *et al*., 2007; Poon *et al.,* 2012; Järvinen, 2014). For such applications, *Akrout (2015, p. 18) noted that "for the past 30 years, trust has been the subject of a vast body of literature that is rich, constantly developing and sometimes mixed".* Evidence from the literature reveals that the definitions of trust appear to fall into three camps, credibility, benevolence and a combination of these two dimensions (Ganesan, 1994; Singh and Sirdeshmukh, 2000; Doney, *et al*., 2007).

In addition to the diversity in the dimensions of trust and the acknowledgement of the importance of the trust concept in the B2B literature, there is the lack of understanding on the actual driving factor of SMEs' trust toward their banks in a B2B relationship setting (Akrout, 2015). Further aggravated, within developing nations such as Nigeria, where very little academic research has been considered in the Nigerian banking context. Such consideration could be particularly invaluable given the widely documented poor management witnessed in this particular sector (Agbonkpolor, 2010; Uche and Ehikwe, 2001). Since the early period of independent banking operations in the late-1960s, the Nigerian banks have experienced cyclical boom and crisis, with relatively short-lived prosperity. This modest record of performance can be accounted for by an absence of financial regulation, poor banking skills, fraudulent practice, over reliance on the state sector and weak capitalisation (Uche and Ehikwe, 2001; Beck *et al*., 2005; Agbonkpolor, 2010). Beyond the boundaries of Nigeria, numerous developed and developing economies have also experienced financial crises, thereby calling into question the extent of any trust placed on any individual service provider, especially in the light of a number of high profile casualties (Aurier and N'Goala, 2010).

In consideration of the diversity in definition afforded to trust and a relatively mediocre performance of the service provider within the context of the study presented, this paper seeks to determine trust dimensions in the context of the relationship between Nigerian SMEs and banks with regard to their day-to-day business relationships.

Literature Review

The theoretical approaches to the study of Trust in a Business to Business relationship (B2B) has to a large extent been influenced the transaction cost economics and socio-psychology framework (Seppanen, Blomqvist and Sundqvist, 2007). In the perspective of transaction cost economies approach, trust is only undermined by high degree of calculation, risk reduction and based on the confidence that the trustee is reliable, dependable and able to fulfil all its obligations, without these attributes, the trustee would not enter a business relationship with the other party (Blomqvist, 1997; Seppanen, Blomqvist and Sundqvist, 2007). This is based on a "logical and rational calculation of likely behaviour and outcomes of future collaboration" (Huang and Wilkinson, 2013, p. 456). Alternatively, the socio-psychologist theoretical approach underpins trust from the perspective of trusting behaviour of one party (trustor) towards the other party (trustee) that is based on the trustor's goodwill which is considered by the trustor to be reliable, allowing the trustor to take vulnerable positon in the relationship (Seppanen, Blomqvist and Sundqvist, 2007). Such concept of goodwill trust emerged from the early definition of trust provided by Rotter (1967, p. 651), as the “expectancy held by an individual or a group that the word, promise, verbal or written statement of another individual or group can be relied upon”.

The literature suggests that most authors considers trust to be a multi-dimensional concept and combines different theoretical perspectives to its definition, this is known as an integrative approach (Doney and Cannon, 1997). That is, there is the inclusion of cognitive and benevolence based trust (Doney and Cannon, 1997). The rest part of this literature review examines the various definitions of trust based on the theoretical approaches identified above.

Various definitions exist for the construct trust in both the Business to Business (B2B) and Business to Consumer (B2C) literature (Sirdeshmukh, Singh, & Sabol, 2002; Coote *et al.,* 2003; Viitaharju and Lähdesmäki, 2012; Järvinen, 2014), which arguably can be categorised as credibility, benevolence or a combination of both of these concepts (Doney *et al*., 2007; Ganesan, 1994; Singh and Sirdeshmukh, 2000). In terms of credibility, trust is considered here to *“exist when one party has confidence in the honesty, reliability, and integrity of their partner”* (Coote *et al.,* 2003, p. 597). Similarly, Morgan and Hunt (1994, p.23), define trust as the *“confidence in an exchange partner’s reliability and integrity”*, ideas subsequently supported by Nicholson *et al.* (2001, p.4) who defined trust as the *“confidence in the other party’s reliability and integrity”*. Morgan and Hunt (1994) in a dyadic B2B relationship further emphasised willingness as an essential dimension of trust, where if confidence and belief in a service provider exists, then willingness to subsequently rely on business partner will follow, particularly in situations defined by uncertainty and where there is a perception of potential risk. The existence of “*confidence*” is further evident in various formulations of trust (Ndubisi, 2011), with parallels between this concept and the cognitive underpinning of trust supported by Johnson and Grayson (2005). The latter suggest that this dimension of trust is driven through knowledge attained about the service provider which can be used to limit risk and thereby enhance confidence around the delivery of promises and service expectations.

In contrast to credibility and confidence, there are definitions of trust that are primarily focused on the idea of benevolence (Ganesan 1994; Doney and Cannon, 1997). One such definition is the "*partner's benevolence is a channel member's belief that its partner is genuinely interested in one's interests or welfare and is motivated to seek joint gains"* (Geyskens *et al.,* 1998, p.225). Central to this trust definition is the assumption that the service provider acts in the client's best interest with the resultant actions being made to avoid any negative impact for the client (Doney *et al.,* 2007). For benevolence to play a central part in underpinning trust, the service provider has to take genuine interest in the client's welfare (Geyskens *et al.,* 1998), which typically involves putting the client and their welfare ahead of the business interests of the service provider, a position supported by Sirdeshmukh *et al.* (2002, p.18) who noted that benevolence-centred trust *"reflects an underlying motivation to place the consumer's interest ahead of self-interest"*. Similar terms used to capture benevolence trust in the literature are business characteristics of "*good will*", "*caring*" and "*responsiveness*" (McKnight and Chervany, 2002).

In addition to a single credibility-based definition of trust or its benevolence-centred equivalent, other research presents trust as a composite construct comprising both of these dimensions. Doney and Cannon (1997, p.36) define trust as the *"perceived credibility and benevolence of a target of trust".* Similarly, Moorman *et al.* (1993, p. 82) suggested that trust will be exhibited by *"a person who believes that a partner is trustworthy and yet is unwilling to rely on that partner has only limited trust. Further, reliance on a partner without a concomitant belief about that partner's trustworthiness may indicate power and control more than it does with trust"*. The definition presented by Moorman *et al*. (1993) is subsequently endorsed in a number of studies (Ganesan, 1994; Doney and Cannon, 1997; Blois, 1999), with acknowledgement given to the role of benevolence diminishing vulnerability in situations characterised by uncertainty and risk especially within the banking environment (Ennew *et al.,* 2011; Järvinen, 2014).

In emphasising benevolence, Blois (1999) and Mouzas *et al.* (2007) suggest customer reliance alone on their service provider will not suffice in generating trust. The former further suggest that if there is confidence of service conditions being fulfilled, this alone will not necessarily lead to trust, with this condition only being realised if the service provider recognisably protects the client in the face of potential business problems, thereby diminishing vulnerability. With this definition and perspective of trust, the concept is therefore extended beyond relatively straightforward business confidence and credibility.

In concluding the assessment of the literature, the authors of this paper propose a composite definition for trust integrating both its credibility and benevolence dimensions. This may be particularly pertinent for the financial services sector which exhibits both uncertainty and relatively high risk, some of which is driven by lack of customer understanding and an inability to assess the service provision (Sharma and Patterson, 2000; Tyler and Stanley, 2007; Ennew *et al.,* 2011) and where the provided services are often ill-defined and wide ranging (McKechnie, 1992; Ennew *et al.,* 2011). This can leave the customers with a level of vulnerability for which trust represents an essential safety net (Ball *et al.*, 2004).

Study Design and Data Analysis

The scale set put together in this study consider a range of academic sources that seek to capture the two trust domains of confidence and benevolence. Implicit to confidence, items 1 (Coote *et al*., 2003) and 2 (McKnight *et al*., 2002) measure credibility and are represented by *"my company has great confidence in my retail bank services"* and "*my retail bank is capable in providing banking services to my company*" respectively. Item 3 (Coote *et al*., 2003) and 4 (Ball *et al*., 2004) measure integrity within the concept of trust, reflecting *"promises made by my retail bank are reliable"* and *"my retail bank treats my company in an honest way in every transaction".* Items 5 and 6 (Cater and Cater, 2010) measure the degree of benevolence within trust and are represented by *"in times of uncertainty and vulnerability my retail bank has my company best interest in mind"* and *"my retail bank is genuinely concerned that my company succeeds".*

The scales were subject to some adaptation to fit to the context of this study. The individual items were amended to reflect SME's trust-perspective of their banking relationships within the chosen Nigerian setting. The two major changes to each item was adoption of the terms "*company*" and "*retail bank*". All items scaled were measured using a 7-point Likert scale ranging from very strongly disagree (1) via neutral (4) to very strongly agree (7).

Prior to survey administration, the instrument was subject to a pilot assessment. This was undertaken to ensure clarity and understanding by the respondents of the presented measurement items. Item 2 for example, initially presented as *"overall, my retail bank is capable and skilful in banking services to my company"* was simplified**.** Instead of the two elements of "*capable and skilful*", the scale was rephrased to reflect only the competence component. Prior to distribution, the survey questionnaire was pre-tested by Nigerian SMEs. The respondents in each case, senior managers, were asked to complete the questionnaire with the objective of identifying any technical words that may be perceived to be difficult to understand. Senior managers were targeted in the business because they were the key person responsible for the banking relationship with their banks. The outcome indicated sufficient level of understanding and clarity, with a reasonable time of completion of between 10 to 15 minutes for each of the participants.

The sampling frame of this research was derived from the National Bureau of Statistics (NBS) and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) official statistics published in 2010. The SMEs' population in Nigeria comprises almost 23,000 organisations, adhering to between 10 to 199 employees and having total assets between 5-500m Naira (£20K - £2m UK Sterling). Those participating were targeted using business-district based cluster sampling. 310 questionnaires were distributed across to SMEs in four states in Nigeria. The states chosen were Lagos, Edo, Delta and Ebonyi state covering three geographical regions in Nigeria. These states were chosen because they have a relatively high numbers of SMEs in their zones and are located in different regions in Nigeria to ensure a level of regional representation of SMEs across Nigeria. Self-administered questionnaire underpinned data survey completion process, utilising research assistants directed by this study's authors. The presence of the research assistants was to enhance participation and ensuring with success across the study, a full completion of the presented questionnaire. The process involved the identification of clustered locations of SMEs in the chosen states (Edo, Lagos, Delta and Ebonyi). These were specifically businesses located at Akpakpava district representing the Edo State, Ikeja business district representing the Lagos State and Abakaliki arena representing the Ebonyi State.

Next, a simple random approach was used which involved selecting businesses within the clustered business areas in each of the identified districts. The researcher and his team approached businesses on a random basis to make enquiry about the number of employees in the organisation. At this point only businesses who stated that they had employees within the definitional framework of SMEs (10 – 199 employees) and had a bank account were asked to participate in this research survey. The particular person that participated in the survey where in most cases the business owners who functioned also as the Managing Director of the business, these people were targeted in the business because they were the key person responsible for the banking relationship with their banks.

In total, 221 questionnaires were returned after the final collection process, representing a response rate of 71%. The high level of response rate can somewhat be attributed to the collectivist culture of the Nigerian society (Ogba, 2008), with the willingness for most companies contacted to participate in this study. From the 221 collected data, 22 participants were not useable due to uncompleted survey; further reducing the useable data set to 199.

Ethical research practice was maintained in regards to obtaining organisational consent form for the company's representative and letter of introduction covering the purpose of the research, researcher's profile and the reason for contact was explicitly stated in the letter of introduction to the research participants. Also, all information from the data collection process was processed anonymously.

A key aim of this study is to determine the explicit dimensions of SMEs' trust perspective towards the Nigerian banks within the context of Nigeria. This study employed two stages of analysis. Firstly, Exploratory Factor Analysis (EFA) was employed to determine the implicit structure of the trust data in terms of its dimensions, with post-hoc analysis being provided by means of Cronbach's alpha to assess the reliability of the factor(s) extracted, suggested by Hair et al. 2010 and Field 2013. The second part of the analysis involved identifying the absolute level of trust being afforded by the SME sector towards their banks by means of presentation using basic summary statistics for the retained measurement items.

Study Findings

The six items implemented yielded as part of their EFA assessment an initial Kaiser-Meyer-Olkin value of 0.85, thereby verifying the adequacy of the data for a factor analysis, with an associated Bartlett's Test being significant at the 5% level. However, Item 6 "*my retail bank is genuinely concerned that my company succeeds"* proved problematic with a relatively low correlation value of 0.26, being below the accepted threshold point of 0.30 (Field, 2013). Item 6 also demonstrated a communality extraction value of 0.347 (the rest being in the range 0.642 to 0.744); therefore not realising the threshold value of 0.50 advocated by Hair *et al*. (2010) and thereby leading to its removal from the scale set. Further reassessment was undertaken with the five retained items measuring trust, with the subsequent results indicating a single scale comprising of the five measurement items, with the adequacy test measures again being at an appropriate level. Subsequent communality and factor extraction assessment suggest a satisfactory level in accordance with Hair *et al*. (2010). The outcome of this analysis is indicated on Table 1, the factor loadings emerged within an acceptable range of 0.72 to 0.86.

Table 1

The Cronbach's alpha post-hoc reliability assessment of the five retained items that represent trust as a single factor was satisfactory with reliability score of 0.88 being clearly in excess of the 0.70 threshold value suggested by Hair *et al.* (2010). Further assessment of the Cronbach's alpha measures achieved through item deletion suggests that no further deletion of any item with the scale set can improve the overall reliability of the trust scale identified. The results are documented in Table 2.

Table 2

Discussion and Implications for practice and further study

The aim of this study was to determine within the context of a B2B relationship involving Nigerian SMEs and their banks an appropriate content and structure of trust from the SME's perspective given the well-documented mediocre levels of support afforded to this sector by its banking industry. The trust construct derived empirically as part of this research points to it being defined primarily around credibility with only limited recognition of the role of benevolence in its definition. This suggests for the SME-banking context being examined, the trust placed by the SMEs on their banks as a service provider is focussed around confidence of provision, rather than generosity or kindness, perhaps therefore bringing into question the potential for these banks to exhibit goodwill in times of difficulty on the part of these businesses in their customer roles.

The level of trust within the likert scale suggests a general agreement to the existence of cognitive attributes associated with the concept of trust ranging from 5.18 to 5.35 as documented in Table 1 above. These attributes reflects the SMEs recognition of their banks capability, honesty and ability to deliver competent banking services and fulfil bank promises. The dominance of confidence or credibility in underpinning the concept of trust accords with numerous studies (Morgan and Hunt, 1994; Nicholson *et al.,* 2001; Coote *et al.,* 2003). From the specific business scenario being examined, the Nigerian banks have experienced financial volatility, have been subject to failures, have been guilty of mismanagement in their handling of funds and for their pursuit of quick profit trading, whilst declining support in the financial sense to their SME customers (Agbonkpolor, 2010; Uche and Ehikwe, 2001). As a consequence, the absence of tangible benevolence in the SME trust-perspective is perhaps unsurprising. However, there is potential that the goodwill of the banking sector may be improving given the mean value of the only retained item of 4.84 on the 7-point Likert scales employed in the study, as presented in Table 1.This mean value indicate somewhat that the

Nigerian banks might be relied upon in the presence of financial crises. That is, the SMEs are slightly prepared to maintain existing business relationship with the banks, trusting that their banks would perhaps be trustworthy enough to stand for the best interest, such as best investment advice, quality loans and best savings options. Other expectation includes the Nigerian banks anticipated preparation to safeguard the SMEs monetary valuable deposits in situations of banks insolvency.

Although this paper emphasis was on the structure and levels of the SMEs' trust towards their banks within the Nigeria context, the perspective of these trusting levels provides indications on the ways through which banks can revamp and sustain the poor trust levels especially within the benevolence domain. The literature underpinned benevolence trust as the goodwill disposition of one party toward the other reducing a sense of vulnerability, characterised by uncertainty and risk (Geyskens et al. 1998; Sirdeshmukh et al. 2002). From the bank's perspective, building trust with their SME customers can be maintained by providing of financial support to aid the SME's business activities, considering that finance is regarded as the "life blood" (Colgate and Lang, 2005, p.197) of the SME's commercial survival. This particular approach would perhaps create the necessary reassurance and favourable disposition of the SME's towards their banks especially within the Nigeria banking environment where there is the evidence of historical decline of bank lending to the SMEs.

By doing this, SMEs' attachment to their banks will be potentially increased. The significance from the banks' perspective is that it has the potential to increase the SMEs future intention to a continuing banking relationship with the same bank and recommend the specific bank to other SMEs. Therefore, the building of a successful long-term relationship via the variable of trust has the relevance of increasing the SME customer base through such business referral activities to similar organisations, as well as retaining existing SMEs for future banking patronage. This serves as a platform to further sell other bank related products to this segment of customers and strengthen their position in the banking sector.

Furthermore, the Nigerian banks can enhance the SME's trust through close interpersonal relationship building. In this perspective, bank should assign key account manager with expertise on small business management to help provide technical advice in respect to the SMEs needs, especially in terms of the appropriate credit facility required for business development and essential technical market analysis based on the current trend within the particular industry of the SMEs. In other words, all things been equal, flourishing SMEs is somewhat an indication of a strong positive relationship with their banks.

This study contributes to the B2B relationship literature by extending and assessing the investigation of trust within a new research arena. The novel arena of this investigation is particularly important given the nature of financial crisis that has plagued the Nigerian banking sector. This study identifies that within Nigeria, the SMEs have recognisable level of trust in the capability domain and less of goodwill of their banks in dealing with them. The evidence was well supported with the mean value estimated.

From a practical perspective, trust is acknowledged as key to enhancing the building of B2B relationships (Cater and Cater, 2010). This should act to encourage the Nigerian banks in sustaining their business relationships with SME customers. These customers have indicated that these service suppliers have a "*capability in providing banking services*" and as a consequence, have "*great confidence in the retail bank services*". There are certain ongoing challenges, particularly in the absence of a perception of benevolence, with the SMEs reporting that "*in times of uncertainty and vulnerability my retail bank has my company best interest in mind*" to only a relatively modest level. The development of trust more generally is important given its key role as an antecedent to customer commitment (Morgan and Hunt, 1994; Coote *et al.,* 2003; Bansal *et al*., 2004), with this trust-commitment relationship in the context of the Nigerian SME-banking B2B relationship being of particular interest to the authors, who have further identified the prevailing importance of affective and calculative commitment, with a negligible role played by its normative counterpart. Their future work will seek to explore and assess this particular relationship.

In addition, considering this paper examined trust from a one-sided standpoint, focusing solely on the SMEs' perspective of their trust relationship with bank, future research can take a more dyadic approach examining a two-sided relationship within the different contexts across Africa where B2B trust relations are under-studied. Furthermore, new research is welcome to assess the perspective of Trust in this case between growing SMEs in Nigeria and other developing nations in Africa.

Demographical analysis can be considered in future studies. For instance, based on relationship length, would the number of years an SME has an account with a particular bank influence trust to the bank? Other demographic areas of interest for future studies includes various working capital sizes of the SMEs, and separating small firms from medium firms to investigate the effects this would have on their trust levels.

Considering the business environments is dynamic and complex especially within the financial sector, this paper calls for future research to revisit past studies (Viitaharju and Lähdesmäki, 2012; Järvinen, 2014; Ennew et al., 2011; Johnson and Grayson, 2005) to re-examine if past levels of B2B trust remains unchanged and to ascertain the underlying driver of trust within fast changing business environment. For instance, would trust still be underpinned by cognitive factor, benevolence or a combination of the two factors? Findings from future research will hopefully add to the body of knowledge of the dimension of trust based on the effects of fast emerging environment factors in the global economy.

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Table 1: Summary Statistics for the Extracted Trust Factor

		Factor Loadings/ Components		
No	**Trust Items**	**Extraction**	**Mean**	**Standard Deviation**
1	My company has great confidence in my retail bank services	0.72	5.23	1.02
2	My retail bank is capable in providing banking services to my company	0.76	5.35	1.04
3	Promises made by my retail bank are reliable	0.83	5.04	1.05
4	My retail bank treats my company in an honest way in every transaction	0.84	5.18	1.08
5	In times of uncertainty and vulnerability my retail bank has my company best interest in mind.	0.86	4.84	1.16

Table 2: Reliability Assessment

Research Items	**Cronbach's alpha Score**	**Cronbach's alpha Score if Item is deleted**
Trust	0.88	0.86 0.86 0.85 0.86 0.88