RELATIONAL NORMS, OPPORTUNISM AND BUSINESS PERFORMANCE: AN EMPIRICAL EVIDENCE OF GEM DEALERS IN SRI LANKA

Sri Lanka Journal of
Economic Research
Volume 6(2) June 2019
SLJER.06.02.04:
pp.39-67.
Sri Lanka Forum of
University Economists

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Abstract

This paper attempts to explore the effect of relational norms on business performance of gem dealers in Sri Lanka. A quantitative approach was undertaken to study the research problem and the data were collected from 100 gem dealers in Ratnapura District, conducting face-to-face interviews. The data were analyzed using Partial Least Square Structural Equation Modeling (PLS-SEM) employing SmartPLS version 3.0. The study revealed that relational norms between gem buyers and sellers have a significant positive impact on business performance ($\beta = 0.669$ and $t \text{ stat}=8.1$) highlighting it as a very powerful relational quality effect on business performance. It further exposed that relational norms have a significant negative impact on business opportunism ($\beta = -0.888$ and $t \text{ stat}=41.9$). Whereas, opportunism denote a significant negative impact on business performance ($\beta = -0.303$ and $t \text{ stat}=3.5$). Thus, results confirmed all the hypothetical relationships of the study that relational norms enhance the business performance by mitigating business opportunism performing a complementary mediation effect.

Keywords: Business performance, gem dealers, opportunism, relational norms.

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INTRODUCTION

Buyer-supplier exchange relationship and strong networking has been identified as an increasingly important aspect in business enterprises since effectiveness of relationally governed business strategies enhance overall performance (Lu, Feng, Trienekens & Omta, 2012; Priyanath, 2017; Venugopalan, Sisodia & Rajeevkumar, 2018). Relational behaviors are not controlled through any incentives or finance, but it is an internal and ethical control of relational values based on continuous and durable relationships (Doucette, 1996; Dwyer, Schurr, & Oh, 1987; Ting, Chen, & Bartholomew, 2007). Higher level of relational capital increases the efficiency of information, knowledge sharing process and leads parties for a better understanding, planning, communication and problem solving (Dant & Schul, 1992; MacNeil, 1980; Paswan & Young, 1999; Poppo & Zenger, 2002). Although there are different appearances in buyer-supplier interactions, relational norms have been accepted as one of the most important tools guiding durable relationships (Artz & Brush, 2000; MacNeil, 1983; Poppo & Zenger, 2002; Rokkan, Heide & Wathne, 2003). Scholars have exhibited that relational norms develop as businessmen engage in transactions over time through a process where individuals conform dominant group behaviors by enhancing cooperation (Doucette, 1996; Dwyer, et al., 1987). Relational norms affect the render of business opportunism and thereby better performance (Boyle, Dwyer, Robicheaux & Simpson, 1992; Priyanath, Premaratna, & Jayasinghe, 2016; Siguaw, Simpson, & Baker, 1998). Among several literature opportunism has been identified as a critical antecedent which can directly affect the increase of organizational transaction cost that discourages performance (Dyer & Singh, 1998; Gulati, 1995; Zaheer, McEvily & Perrone, 1998). When exchange parties are strongly connected and trustworthy four major costs involved in transaction cost i.e. searching cost, monitoring cost, enforcement cost, and bargaining cost can be minimized as they need not engage in any legal movement or agreement to safeguard their transaction against opportunism which will increase their profit margins and performance (Arrighetti, Bachmann & Deakin, 1997; Dyer & Singh, 1998; Heide & John, 1992; Zaheer et al., 1998).

Sri Lankan gem industry has a long tradition of myths, legends, beliefs, and the occult that have enriched the island's economy, culture, and reputation since about the year 543 BC. This traditionally developed business is not some kind of a mere business, it is a process of exchanging very valuable gemstones worth in millions without any legal involvement, just only depending on a verbal statement (Wijebandara, 2008). Most commonly this business happens in lending basis, but paying recruitments on the exact date as agreed is an eminent relational norm among gem dealers (Wijebandara, 2008). The value of a gemstone is purely an opinion of the individual valuer, given in good faith which then expressed in monetary numerical terms, considering the prevailing market price per carat at the time of valuation (Ariyaratna, 1993). Naturally, this industry lacks

accurate information, knowledge, and skills. As a consequence, they always tend to accept common norms such as sharing knowledge, information and better mutual understanding to enhance cooperation, problem solving and safeguard their transactions from opportunism. Some scholars (Achrol & Gundlach, 1999; Gundlach, Achrol, & Mentzer, 1995; Heide & John, 1992; Rokkan, et al., 2003; Ting et al., 2007) noted the importance of relational norms on business performance. Although the volume of conceptual and empirical researches on relational norms are impressive, very few attempts have been made to explain this scenario with reference to business channel relationships (Dwyer et al., 1987; Stewart & Barrick, 2000). Dearth of empirical evidence to explain how relational norms affect opportunism and business performance particularly among gem dealers in Sri Lanka, represents a significant gap in academic literature. Therefore, the present study aims to explore how relational norms effect the opportunism and business performance of gem dealers in Sri Lanka. To achieve this objective, the paper adopts the following outline. Therefore, the next section incorporates with the literature review and synthesizing the research model. After that, the material and methods are described and then the empirical results are presented. In the end, the paper will discuss the main findings, theoretical and practical implications, along with some research limitations and possible directions for future research.

THEORETICAL BACKGROUND

This section reviews the theoretical background of the keywords; relational norms, opportunism, and business performance.

Relational Norms

The concept of relational norms, originally developed by MacNeil (1980) mainly to have a better awareness of contracts. According to MacNeil, individuals should have a knowledge of the existing set of relational norms to have a clear understanding of an economic exchange between two parties. He explains contracts as;

“no more and no less than the relation among parties to the process of projecting exchange into the future”.

A working definition of norms can be express as expectations about behaviors that at least partially shared by a group of decision makers (Gibbs, 1981; Heidi & John, 1992; Thibaut & Kelley, 1959). It implies that the parties engage in exchange should be capable of rendering themselves effectively with acceptance of norms (Cannon et al., 2000). Moreover, beyond this general definition, researchers exhibit on how norms should be viewed and thought in various respects. Mainly, norms may apply to individual firms or group of individuals in different levels or to entire societies (Gouldner, 1960; Dornbusch

& Scott, 1975; Bettenhausen & Murnighan, 1985). However, norms can differ in their content or general orientation from one context to another (Thibaut & Kelley, 1959). For instance, in MacNeil (1980) spectrum of discrete versus relational norms point out that norms have been found to differ significantly in governing behavioural patterns.

Basically, discrete norms represent expectations of an individualistic or competitive interaction between exchange parties. Individual parties are thought to remain autonomous in exchange structure, pursuing independent strategies and individual goals. In contrast, relational exchange norms are based on an exchange which enhances the well-being of the relationship considering mutual interests, bilateral long-term strategies and goals prescribing behavioral stewardship (Gundlach, et al., 1995; Heide & John, 1992). Notice that these two types of norms appropriately viewed in the sense of behavioral aspect, though the expectations of behaviors are fundamentally different (Heide & John, 1992).

Similarity and interaction or time spent with others have a relevancy on groups within an organization defined by their work status (Griffin, 2015). Therefore, Ehrhart and Naumann (2004) hypothesized that the degree of norms particularly develops and increase when individuals are more likely to spend time and share a common interest with those in the norm group and perceive themselves to have similar views based on demographic characteristics, which include role and status within the organization. Accordingly, individuals with lower interaction are less likely to be guided by norms, but who are with higher interaction will be directed by norms and will closely observe their behaviors (Abrams, Viki, Masser, & Bohner, 1990; Ehrhart & Naumann, 2004).

Relational norms broadly studied under several disciplines, commonly it has been successful in supply chain management as well in business to business relationships. According to MacNeil (1980) importance of norms predominant in the governance mechanism of buyer-supplier relationships and it develops an extensive set of common norms for control of the exchange process (MacNeil, 1980). In his norm's theory, he developed nine norms of principles of right action to guide the members of a group through proper and acceptable behavior (MacNeil, 1980). He later (1983) expands this set of nine norms by introducing these ten norms which are role integrity, reciprocity, implementation of planning, effectuation of consent, flexibility, contractual solidarity, restraint of power, propriety of means, the linking norms restitution, reliance, and expectation interest) and harmonization with the social matrix which contain a summary of distinctive norms that may occur in a range of various exchanges within the modern society (MacNeil, 1983).

Later these norms were reviewed and developed by many scholars, however, they were unable to provide clear measures for operationalizing the term relational norms (Ivens & Blois, 2004; Kaufman & Dant, 1992; Noodeweir, John, & Nevin, 1990). However,

different researchers have viewed relational norms in diverse aspects (e.g. Cialdini, 2006; Ehrhart & Naumann, 2004; Heide & John, 1992; Kaufman & Dant, 1992; Kaufman & Stern, 1988; MacNeil, 1980; Noodweir et al., 1990) and finally, there is an evidence that buyer-supplier relational norms are multidimensional in nature that they relate to particular kinds of behaviours of individuals or societies.

Opportunism

According to many empirical studies, the term opportunism born through the Transaction Cost Approach (TCA) of Williamson (1985). In TC theory, he explained transaction cost generates with the combination of four different cost categories, which incur in different stages of a transaction. The costs that are required to determine the best available in the market, i.e. the lowest price which call as *information costs*; *searching cost*; *bargaining cost*, (Hobbs, 1996) i.e. the cost necessary for a transaction to come on an acceptable agreement with the other party, a proper contract preparation etc. and the cost acquires to make sure that the other party sticks to the terms of the contract, and if they do not, then to take appropriate action which is *enforcement and monitoring costs* (Hobbs, 1996; Williamson, 1985). Theoretically, all these costs fall under two main assumptions; in a typical economy with competitive markets, economic actors always face the problem of asymmetric information (Dyer, 1996; Hobbs, 1996; Williamson, 1985) as a result, although they trying to make a rational decision, this nature of the market always constrained them to do so because they have incomplete information. Thus, they are only capable to process in a limited capacity with less knowledge which bound their rationality i.e. *bounded rationality* (Zhang, 2006). Similarly, when there are imperfect information business partners likely to take this advantage of incompleteness for their own interests to gain more profits i.e. *opportunism*. Opportunism is considered as '*self-interested seeking with guile*', and counting efforts have been included to mislead, tamper, distort or confuse counterparties (Williamson, 1981; 1985). Opportunism is one of the most critical predecessors in buyer-seller relationships (Kwon & Suh, 2005; Morgan & Hunt, 1994; Moschandreas, 1997; Skarmeas, Katsikeas, & Schlegelmilch, 2002), for example, violation of promises, changing contracts for self-interest, incomplete exchanges etc. (Zhang & Li, 2015). Objectives like maximizing sales, profit levels, assets, and investments are the driving forces of opportunism in business exchanges. However, it makes a high level of instability and uncertainty in business relationships and decision-making process. Thus, the opportunistic behavior is crucial in long-term partner-relationships, that it will erode the benefits accrue to both sides and can lead to business relationships termination (Morgan, Anokhin, & Wincent, 2016).

Business Performance

In simple terms, performance provides information about how well an organization, business, employers, or employees etc. achieved a given/pre-determined task at a specific time period (Jauch & Glueck, 1988). As a concept, it can take various outlooks referring to different areas and the nature of the entity we consider (e.g. organization performance, business performance, management performance, employee performance etc.). However, according to Neely (2002), the business performance is more extensive that it is a multi-disciplinary concept which embodies a convergence of economics, marketing, sociology, operation management, psychology, accounting, and human resource management. Thus, it is one of the major indicators in recognizing the economic status of a business and it offers an opportunity to compare its affordability in a particular economy. Hence, effective performance measures should be adopted in order to associate with business strategies (Frigo, 2002), which can lead the business successfully to accept the changes and improve its competitive advantages (Morrison & Teixeira, 2004). In most of the methodologies and conceptual models, only financial determinants have been used to measure this concept, like profitability, turnover, sales, break-even point, market share growth etc. (Appiah-Adu & Singh, 1998; Pelham & Wilson, 1996; Storey, 1994) which has been an issue that attracts debate. Since among business assets, human resources are more important and do a major task in accomplishing business goals. They are at the highest level in a business hierarchy and all other resources of a business are controlled under their decisions. Though a business is rich with a robust capital stock, yet a highly efficient human resources essential to governing them (Kerssens-Van, Drongelen & Fisscher, 2003). Therefore, the latest results show a supportive evidence of this tendency: as the managers recognize intellectual property components as a necessary element of the business success (Steenkamp & Kashyap, 2010). Recently many scholars have started to value the importance of social and relational capital inclined with human resources and use it to increase the business performance. They have highlighted relational attributes like trust, collaboration, information sharing, loyalty, employee positive perceptions, customer satisfaction etc. and prove how well these qualities help the growth of the business by providing empirical indications. Therefore, we still have a problem about whether the correct performance level can be verified solely by financial measures, which we commonly used to quantify the performance. Thus, it is not only financial measures matters on business performance but also non-financial measurements. Social theories posit that stronger relational capital has greater impacts on business performance (e.g. Priyanath & Premaratne, 2016; 2017; Heide & John, 1992; MacNeil, 1980). Relationship quality is a central characteristic of a long-term performance (Ivens, 2004). It enhances cooperative decision making, knowledge and information sharing, strong business networks and the productivity.

CONCEPTUAL FRAMEWORK AND HYPOTHESES

Much of the introductory economics assumes that all people behave rationally when they make economic decisions (Campitelli & Gobet, 2010), thus it is just an assumption. Typically, in economics, it assumes that economic actors continuously seek to maximize their own welfare (Vriend, 1996), where producers always try to maximize their profits and sales while minimizing cost and consumers about to maximize their individual utility curves (Feldman, Lai, & Zhang, 2005). Nevertheless, in common economy operates based on price mechanism, and when economic actors act on behalf of their personal interests, they are deliberately alienating the other party (Tomer, 2008). Thus, in this situation, the party strong with more information and knowledge try to mislead the party with scares accurate information and knowledge to maximize their own welfare (Saari & Simon, 1978) and leads exchange parties towards opportunistic behaviors when dealing with their exchange partners (Williamson, 1981). Therefore, people with asymmetric information always fail by taking prudent and logical decisions regarding their satisfaction, wich means when people are anxious, they fail to make rational decisions (Williamson, 1981; 1985). Lack of accurate information bound the rationality of exchange parties and individuals which may occur market failures and economic failures (Simon 1955; 1956; 1990).

A strong relational link among exchange parties may help markets as well as economies to get rid of these risks and achieve a greater performance. Thus, a network highly aligned with relational attributes such as relational norms can attain long-term development and effective business outcomes. If common norms embedded it exchange relation at a high level, involve informal restrictions, guards, records, and other rules would not be necessary (Ostrom, 1990), thus it largely decreases the transaction cost on a business. Relational Norms exist when a group of individuals shares a common understanding and expectation of what is considered to be an appropriate behavior. It is simply a belief that the other party will behave precisely in exchanges. Therefore, their mutual needs, cooperation, and coordination will be further strengthening and it would reduce competition and curb opportunistic behaviors among parties (Das & Teng, 1998). These effects have been prominent in enhancing the performance of business entities in many scholarly investigations. Coleman (1988) highlighted the positive association between norms and performance since it reduces business risk and opportunism when parties to share common goals. Moreover, Mysen Svensson and Payan (2011) emphasize that norms increase the quality of continuous business relationships. According to Samouel (2007), relational norms allow business partners for long-term improved business relationships confirming positive impacts between norms and performance. By proposing three classes of norms, MacNeil (1980) defined that norms are necessary components of an ongoing stronger relationship. Heide and John (1992) provide evidence for the positive correlation between relational norms and business performance. Furthermore, Priyanath

and Premaratne (2016) have empirically verified that relational norms have the power to govern opportunism in exchange relationships which improves the performance.

Similarly, Sri-Lankan gem dealers largely share common norms in business exchanges, and they also they do not involve any legal contracts regarding their transactions. These standards are major factors in the success of their business venture. Thus, the current study identifies relational norms as a key feature in curbing opportunistic behaviors among business partners and improve the performance. Accordingly, based on this phenomenon of hypothetical relationships and the conceptual research model of the study constructed as follows (Figure 1).

Figure 1: Conceptual Framework

Relational Norms and Business Performance

Relational norms are endogenous procedures or behaviors of control. When different definitions of norms, get together, we can say that these norms refer to an expectation of a one party on the behaviors related to other parties engage in exchanges. Hence, a systematically and well-developed norms framework will analyze the actual interaction between buyers and sellers, while being helpful in solving governance issues (Kim, 2000) and enhancing performance. Relational norms may decrease organizational costs in many ways. When parties share norms to a greater extent, it generates bilateral expectations that group members will share quality information proactively, that important for both parties. Therefore, parties do not need to have any doubt about that opposite party will provide faulty information. If so, the probability of occurrence conflicts in the decision-making and problem-solving process will decrease (Kaufman & Dant, 1992, MacNeil, 1980). Struggles will not present through the time of relationship as such, sophisticated procedures, actions and expenses and lead to less formal governance mechanisms (Ostrom, 1990). Relational norms directly improve the reliability, flexibly, information sharing and solidarity within channel relationships. Moreover, develop mutual interest and understanding to gain mutual needs. When parties share quality information efficiently it will reduce the cost of searching and monitoring information. Thereby, reduced overall transaction costs will enhance the profit levels, break-even, turnovers and the state of the business. Therefore, highly satisfied partners will encourage to continue

their relationships for a longer period of time. Many empirical results revealed that relational norms among exchange partners have a significant impact on improving performance mitigating uncertainty (Priyanath & Premaratne, 2016). As these scholars have highlighted norms such as solidarity results in lower transaction cost and boost performance when conducting an exchange. Jap and Ganesan (2000) found that solidarity leads network partners to believe that their exchange partner is committed to the relationship. Hence, those norms reduce negotiation costs to a greater extent. Cannon et al., (2000) found evidence that a positive relationship exists between solidarity and channel partners' performance in terms of delivery, product quality, service, sales, and value. Relational norms lower monitoring costs and enforcement costs including the costs incurred on resolving conflicts (Priyanath, & Premaratne, 2016) that in overall it takes business entities for its success with better partnerships behaviors and enhance the alliance performance together with financial performance (Siguaw et al., 1998).

H₁: Relational norms associate positively with business performance of gem dealers in Sri Lanka.

Relational Norms and Opportunism

When people work for pursuing their goals under different transaction scenarios, in some cases, they lean towards opportunistic activities with an intention to gain more profit incomes. Thus, there is always a cost inclined with these opportunistic behaviors, which brings critical negative impacts on exchange parties (Heide & John, 1992). Presence of opportunism can directly affect to a quick and unexpected increase of transaction cost and curtail the business performance because parties must engage in legal contacts as a safeguard against opportunism. According to TCE theorist's opportunism lead exchange partners for several risks (Priyanath & Premaratne, 2016). In a particular scenario, if relational norms are well developed within parties, it creates a protection on their investments and profits they gain, against partners opportunistic actions (Vazquez, Iglesias, & Bosque, 2007). Therefore, governance structures share strong relational norms would minimize partners opportunities to encompasses opportunistic actions (Vazquez, et al., 2007). Nevertheless, if parties share confidential information willingly, it would lead to a reduction of opportunism and increase the ability of better decision making that the risk of opportunism will be avoided (Anderson & Weitz, 1992; Heide & John, 1992). Relational norms lead parties to maintain long-term partnerships and constrain opportunistic behaviors (Pawsan & Young, 1999). Similarly, parties share norms continue their exchange with a willing of a mutual dependence (Vazquez et al., 2007) as outcomes of a one-party really matters for both parties. A study by Priyanath and Premarathne (2016) has provided valued understandings to minimize business uncertainly developing relational norms and strengthening business partnerships. Vazquez et al. (2007) have

pointed out that relational norms, as a safeguarding mechanism against opportunism by examining the role of norms in partnership investment. Few scholars (e.g. Achrol & Gundlach, 1999, Heide & John, 1992; Rokkan et al., 2003; Ting et al., 2007) have empirically tested the effect of relational norms on opportunism and emphasized the implications of relational norms, in mitigating opportunism amongst business activities.

H₂: Relational norms negatively correlates with the opportunistic behavior of gem dealers in Sri Lanka.

Opportunism and Business Performance

As a consequence of opportunism, business entities may face two types of risks in managing inter-firm affairs: relational risk and performance risk (Yang, Qian, & Zheng, 2017). Thus, opportunism mainly denotes an imperfect or distorted expose of information, that it would generate uncertainty, asset specificity in exchanges (Ting, et al., 2007) and interrupts the outcomes of exchange relationships. Presence of opportunism directly increases transaction cost and it primarily advocates transaction cost of economics (Lado, Dant, & Takleab, 2008). This can happen in two ways; ex-ante and ex-post. Ex ante, denotes the cost of initiating and writing extensive liable claims and contracts planned to control guileful behaviour of an exchange party besides ex post imposes additional transaction costs are incurred in the form of monitoring, modifying and enforcing the terms of the exchange contract (Williamson, 1985) that profit shares and performances of businesses may decline due to increased transaction cost by opportunism. If opportunism exists in the partnership, the transactions cannot be organized efficiently (Hobbs, 1996) and one partner can take advantage of the other, so that victim's partner needs high costs to find and evaluate the information they gain (Priyanath & Buthsala, 2017). Therefore, to mitigate opportunism business firms need to search for real prices, information and get enough knowledge, thus it would increase the searching cost. If people have doubt that the other party will behave opportunistically in the future at the beginning of an exchange, they subject to legal contracts that it would increase the negotiation costs (Hobbs, 1996; Williamson, 1985). Hence, the existence of opportunism leads to increase in TC and thereby decreases BP. As a result, overall channel efficiencies will be destroyed. Opportunism can severely harm the product quality, brand and personal reputation, customer relationship management and bonding structure occur conflicts (Hu, Chan, Chang, & Yang, 2016; Mysen et al., 2011) occur conflicts and can generate multiple negative results (Hu, et al., 2016) on the performance. Das (2004) clearly pointed out that opportunistic behavioral selections depress performance and flourish in positive outcomes. Priyanath and Premaratne (2016) highlighted opportunism as a key behavior assumption that leads to increasing transaction costs investigating smallholder vegetable farming sector in Sri Lanka. Similarly, Yang et

al. (2017) observed an inverse connection between opportunism and business performance.

H₃: Opportunism negatively affects the business performance of gem dealers in Sri Lanka.

METHODOLOGY

To test the conceptual model, this study undertook a quantitative approach, employing a structured questionnaire in collecting primary data. Target respondent group of the study was gem dealers in Sri Lanka, hence the population includes gem dealers across the entire country. Though 891 registered gem dealers in Ratanapura District recorded in the registration list provided by Sri Lankan Gem and Jewelry Authority, many businessmen do not provide an active participation in this business and some are completely inactive as this business face several risks and ambiguities. After interviewing with the officers of Gem and Jewelry Authority, and the Chairman of the Association of Gem Businessmen in Ratnapura, the study realized that only 137 businessmen are actively involving in this business in Ratanapura District. These active businessmen were considered as the sampling frame (137 of businessmen). Then, the sample size was determined employing the sample size determination formula developed by Krejcie and Morgan (1970). The sample frame to be covered in the present study ($n=137$) is not given in Krejcie and Morgan's (1970) table, therefore, the average for the two nearest population sizes given by Krejcie and Morgan is calculated in order to know the exact sample size as follows: According to Krejcie and Morgan (1970), if the given population (N) = 130 then sample (S) is required to be = 97, and, if N = 140 then S = 103. Therefore, for the present study N = 137, S is $[(97+103)/2] = 100$. Accordingly, the sample size was 100 of gem dealers. Rendering to some specific conditions of the survey questionnaire that need to be satisfied, gem dealers that are well known by the researchers had to be identified from the sampling frame. Accordingly, using snowball sampling method 100 registered gem businessmen around Ratnapura city area was selected as the sample and data were gathered by conducting face-to-face interviews with each participant.

Reporting all 100 respondents as males (100%), it verified that this is a male-dominated occupation. In the sample 71% respondents were Sinhalese, and regarding other ethnicities, Muslim and Tamil respondents were reported as 27% and 2% respectively. In the majority of these businessmen were fall under the age category of 55-74 which was 45% of the total sample of 100. Moreover, it was clear that the willingness of the younger generation to involve in this business is relatively low (12%) compared to age levels above 34. This can be due to the fact that, this business is very uncertain with the changing weather conditions in this area. For the reason performance of a gem dealer highly relied upon their good knowledge and eyesight, recognizing best gems, respondents age above

65 was reported only 2. However, the maximum age of respondents was recorded as 71, while minimum and mean ages were reported as 25, 49.8 respectively. A greater proportion of these businessmen are engaging in small-scale exchanges (71%), while medium-scale and large-scale businesses activities represented relatively low results as 24% and 5% correspondingly. Characteristics of the sample further clarified that gem dealers continue their business relationships with whom they have steady interactions and can be most trusted. Moreover, this group of individuals shares a high level of friendship with their regular exchange partners. Furthermore, it was evident that this business totally proceeds with informal contracts without any legal or written treaties.

The operationalization and questionnaire items of the higher order constructs described follows concerning relational behaviors and relationship quality among gem dealers captured on existing scales documented in the relational exchange and business performance literature. With the help of gathered questionnaire items, a pilot survey was conducted with 10 selected gem dealers to identify the most suitable questions to be included in the final questionnaire and to clarify any inconsistencies. The final questionnaire consists of 74 structured questions in total, out of 74 questions first 5 questions were about to gather the respondent's biographical data. Other questions were based on a percentage scale which ranges from 0-100% where '0' embodied 'low degree' and '100' a 'high degree'.

Business performance can be defined as, how successfully a business owner achieved his/her pre-defined financial and non-financial objectives in a specific period of time (Jauch & Glueck, 1988; Lumpkin & Dess, 1996; O'Toole & Donaldson, 2000; Stam, Souren, & Elfring, 2013). When distinguishing these two-dimensions, financial performance captures financial improvements in terms of cost, profits, income, assets own (Cousins, Lawson & Squire, 2008; Moers, 2000; Sanders, 2008), whereas non-financial performance focuses on longer-term outcomes such as goodwill (Adler & Kwon, 2002) number of exchange partners (buyers and sellers), satisfaction (Lumpkin & Dess, 1996; Yeung & Berman, 1997). The level of business performance was measured using seven questionnaire items in this study, and of these four items were to gather information on financial performance and the other three were on non-financial performance.

Four indicators reflecting relational norms were recognized and adopted from relational norms literature as most researchers put emphasis on these dimensions in their studies. They are Integrity (Kaufmann & Dant, 1992) Solidarity (Antia & Frazier, 2001; Heide & John, 1992; Jap & Ganesan, 2000; Kaufmann & Stern, 1988; Lusch & Brown, 1996), Flexibility (Kaufmann & Stern, 1988; Noordewier, John, & Nevin, 1990) and Information sharing (Kaufmann & Dant, 1992). Considering various norms these norms were the most reflected and abundant in gem business relationships.

Based on the theoretical explanation, opportunism has been identified as a factor that strongly influences on gem buyer-seller relationships (Chung & Jin, 2011; Hu et al., 2016; Morgan, Anokhin & Wincen, 2016; Morgan et al., 2016; Mysen et al., 2011; Rokkan et al., 2003). Level of opportunism evaluated using eight items: exaggeration of needs, sincerity in dealings, truthfulness in dealings, good faith bargaining, dishonesty in dealings, unfair in dealing, cheat in dealing and breach of agreement engaged in by the exchange partner. Those items were adopted by previous studies (Dahlstrom & Nygaard 1999; Gundlach et al., 1995; Lui, Wong & Liu, 2009; Mysen et al., 2011; Rokkan et al., 2003; Vazquez et al., 2007).

Partial Least Square - Structural Equation Modeling (PLS-SEM) using SmartPLS version 3.0 was employed for hypothesis testing. Two steps were followed to ensure the reliability and validity of the measurement model. In the first step validity and reliability scores between questionnaire items and lower constructs were calculated (First-order analysis). In this study, two reliability tests and two validity tests were adopted. They were indicator reliability, internal consistency reliability Convergent validity (AVE) and Discriminant validity respectively.

Table 1: Analysis of the First Order Constructs

		Loadings	t-statistic	CR	CA	AVE
1.	Relational Norms					
1.1	Integrity			0.970	0.962	0.868
	1) There is a possibility of solving any problem with my business partners at any time	0.922	54.85			
	2) This person has a strong sense of justice	0.917	56.57			
	3) My business partners do not try to get more out of money in transactions	0.909	45.29			
	4) I believed that they were honest	0.959	133.28			
	5) I have never had to wonder whether this person will stick to his/her word	0.949	117.55			
1.2	Flexibility			0.950		0.826
	1) The parties expect to be able to adjust in the ongoing relationship to cope with changing circumstances	0.912	61.97		0.930	
	2) When some unexpected situation arises, the parties would rather work out a new deal than hold each other to the original terms	0.904	54.34			

Table 1(Continued..)

		Loadings	t-statistic	CR	CA	AVE
	3) My partners take proper account of the suggestions I offer when making a transactional decision	0.890	26.39			
	4) Flexibility in response to requests for changes in a characteristic of this relationship	0.928	71.15			
1.3	Information Sharing			0.952	0.924	0.868
	1) In this relationship, it is expected that any information that might help the other party will be provided to them	0.936	66.08			
	2) Our selling and buying groups keep each other well informed	0.914	54.24			
	3) It is expected that the parties will provide proprietary information if it can help the other party	0.945	79.23			
1.4	Solidarity			0.963	0.953	0.842
	1) The parties in this relationship do not mind owing each other favors	0.849	27.81			
	2) Problems that arise during the relationship are treated by the parties as joint rather than individual responsibilities	0.889	27.79			
	3) They consider it their duty to fulfill the obligations as we agreed	0.899	43.21			
	4) Expectations of behavior reflect the strong spirit of fairness which exists in our relationship	0.847	24.41			
	5) The parties are committed to improvements in long-term that may benefit the	0.847	24.81			

N = 100

Source: Survey Data, 2018.

Table 2: Discriminant Validity of First Order Constructs (Fornell-Larcker Criterion)

	Flexibility	Integrity	Solidarity	Information Sharing
Flexibility	0.999			
Integrity	0.815	0.932		
Solidarity	0.855	0.816	0.918	
Information Sharing	0.866	0.899	0.884	0.932

Source: Survey Data, 2018

The second procedure carried out to promote reliability and validity tests between lower and higher constructs (second-order analysis). Same as the previous analysis, above mentioned reliability tests and validity tests, were again carried out in this step.

Table 3: Analysis of the Second Order Constructs

	Loadings	t-statistic	CR	CA	AVE
1. Relational Norms			0.977	0.973	0.862
1) Flexibility	0.946	89.911			
2) Information Sharing	0.962	143.98			
3) Integrity	0.994	836.28			
4) Solidarity	0.954	79.142			
2. Opportunism			0.958	0.945	0.824
1) I think that generally my exchange partners are dishonest in transaction*	0.919	45.076			
2) I think that they do not fair in transaction*	0.944	85.512			
3) A complete good faith deals will not be expected from them*	0.917	67.597			
4) They exaggerate needs *	0.944	102.58			
5) They do not provide a clear picture in transaction *	0.806	12.58			
3. Business performance			0.977	0.973	0.862
1) Improvement of revenue	0.948	94.48			
2) Improvement of profit rates	0.912	61.28			
3) Improvement of the business activities	0.958	118.27			
4) Improvement of the number of buyers and sellers	0.947	98.54			
5) Improvement of assets own	0.918	58.03			
6) Development of the goodwill	0.934	62.22			
7) Improvement of the satisfaction	0.880	37.13			

Source: Survey Data, 2018.

*Reverse code, N = 100.

Table 4: Discriminant Validity of Second Order Constructs (Fornell-Larcker Criterion)

	Business Performance	Norms	Trust
Business Performance	0.929		
Norms	0.939	0.965	
Trust	0-0.898	-0.889	0.908

Source: Survey Data, 2018.

According to Table 1 and 3, results confirm that the study model establishes both indicator and internal-consistency reliability of first and second order analysis reporting all outer loading values greater than 0.7 (approves indicator reliability), and significance t-statistic values at 0.01 confidence level. Besides, both CA and CR reported values were greater than 0.7 (approves internal-consistency reliability) (Chin, 1998; Henseler, Ringle & Sinkovics, 2009). Regarding validity tests, AVE values of higher and lower order constructs reported scores greater than 0.5 confirming the convergent validity of the constructs (Chin, 1998). That the entire model has a higher convergent validity. Concerning the discriminant validity, table 2 and 4 shows that all non-bold values (horizontal values) lying under the value are lower compared to the square root of AVE; therefore, discriminant validity of the constructs can be established ($>$ Correlation of other variables) in both first and second order analysis (Fornell & Larcker, 1981).

The second stage of the model testing which is the structural model assessment, steps suggested by Hair, Hult, Ringle, and Sarstedt (2014) was followed. Structural model primarily assesses the hypothesized causal relationship between exogenous and endogenous latent variables. In assessing the structural model, as the first step study evaluated VIF values to test multi-collinearity issues in the final model. Since the dimensions of the study are strongly linked to each other generated outputs reflected moderate multi-collinearity issues in the model. The significance of hypothesized relationships was considered as the next step in assessing the structural model. For this, all path coefficients (β) and their significance of t-values were measured. In the context of path coefficients and t-values, all fictional relations were statistically significant and correctly proved the theorized relationships. The final model of the study was evaluated for both direct and mediate effect separately, thus the efficiency of two R² values has been calculated. Therefore, based on the results we can conclude that 90.06% variation of the business performance and 79.01% variation of opportunism clearly explained by the independent variables of the study sustaining a better model fit. As the third step evaluation of the effect size is highly substantial when mediating variables have a larger effect on the direct path. In this model results of the effect size reported a medium effect size between opportunism and business performance and a larger effect size between

relational norms, business performance, and norms and opportunism. Finally, considering predictive relevance (Q2) business performance and opportunism exhibits substantial higher explanatory power showing values < 0.35 .

RESULTS AND DISCUSSION

As social theories suggest, the first hypothesis of the study results in a significant positive association between relational norms and business performance of gem dealers in Sri Lanka. Thus, results have answered the hypothesis H1 showing path coefficient ($\beta = 0.669$ or 66.9 percent), with a path coefficient significant at 99% level of significance ($t\text{-value} = 8.07$). Similar results have been explored by many researchers in different empirical studies. Paulin, Perrien, and Ferguson (1997) have empirically verified how relational norms affect commercial performance with supported and rewarded maintenance of effective relationships. Rennesund and Saksvik (2010) have empirically proved that norms enhance work performance by strengthening self-efficacy and reducing work-related stress. Arranz and de Arroyabe (2011) suggest that relational norms act as a complementary mechanism and it is more powerful in improving performance. Priyanath and Premaratne (2016), further support this positive link between relational norms and business performance suggesting that relational norms improve performance by minimizing business uncertainties. A study of Griffith and Myers (2005) indicate that firm performance enhances when the relational norms such as information exchange, flexibility, and solidarity fit across diverse relationships simultaneously.

Table 5: Path Coefficients and Significance

Hypothesis	Relationship	Path Coefficient	T-Statistics	Results
<i>H1</i>	Relational Norms -> Business Performance	0.669	8.07***	Supported
<i>H2</i>	Relational Norms -> Opportunism	-0.888	41.93***	Supported
<i>H3</i>	Opportunism -> Business Performance	-0.303	3.52***	Supported

Source: Survey Data, 2018.

*** $P > 0.01$

The second hypothesis (H2) supported by the study results reflecting a negative significant affiliation between relational norms and opportunism ($\beta = -0.888$ or 88.8 percent and $t\text{-value} = 41.93$). Similar findings resulted in a qualitative study conducted by Tangpong, Hung, and Ro (2010) on the effect of relational norms and agent cooperative on opportunism in buyer-supplier relationships. Empirical findings of Zhou, Zhang, Zhuang and Zhou (2015) suggest that a high level of relational norms prompt joint

problem solving and curbs opportunism. Moreover, supporting the negative association between relational norms and opportunism. Priyanath and Premaratne (2017) have empirically proved that relational norms can reduce truncation cost in exchanges by mitigating opportunism. Furthermore, Lai, Tian, and Huo (2012) found out that relational norms as an effective safeguard in reducing the opportunistic behaviors in logistics outsourcing relationships and empirically justified employing data collected from manufacturing and service firms in China. Therefore, this study helps to explore this statement providing strong evidence that relational norms have a powerful negative effect and largely control opportunism considering business relationships among gem dealers in Sri Lanka.

The results further show a significant negative association between opportunism and business performance. Thus, results support the hypothesis H3 showing path coefficient ($\beta = -0.303$ or 30.3 percent), significant at 0.01 confidence level ($t\text{-value} = 3.51$). Similar results have been reviewed by many researchers in their different empirical works. Das (2004) emphasized that opportunism creates alliance risks, weaken long-term partnerships, and creates performance risks. Priyanath and Buttsala (2017) have empirically justified how opportunism negatively affects commercial performance by reviewing a case of women entrepreneurs. Furthermore, empirical insights of Moeller (2010) have exhibited that better partner selection, behaviors, and strong networks may highly effect on mitigating opportunism and help to guide successful business networks. Moreover, Priyanath and Premaratne (2017) showed that opportunism leads business entities for higher transaction costs and hinder better outcomes. Thus, results of the current study also confirm opportunism has a negative impact on business performance of gem dealers in Sri Lanka as well.

Lastly, the model tested for the mediated effect of opportunism on the relationship between relational norms and business performance. Results implied that relational norms have a significant impact on enhancing business performance by mitigating opportunism. The direct and indirect effect between both pathways (relational norms $\rightarrow$ opportunism and opportunism $\rightarrow$ business performance) are statistically significant. Hence, regarding the mediating effect, results obtained in table 6 indicate that opportunism has a complementary mediating effect on the relationship between relational norms and business performance referring to the mediation effect decision hierarchy proposed by Zhao, Lynch, & Chen, (2010). Thus, many scholars (e.g. Yang et al., 2017, Priyanath & Premaratne, 2016; 2017; Paulin et al., 1997; Tuusjarvi & Moller, 2009; Faisol, 2010) have explained the same scenario in their explorations.

The VAF value shows 94.0% of the total effect relational norms on business performance is explained by the indirect effect through opportunism. Relational norms impact on business performance directly and indirectly via opportunism supporting complementary mediation whereby a large combined effect is yielded ($\beta=0.941$).

Table 6: Mediation Effect of Opportunism

Effect	Test	(a) Trust -> BP	(b) Trust->OPPO	(c) OPPO-> BP
Direct Effect	β	0.668	-0.881	-0.309
	t-stat	9.05***	34.7***	4.08***
Indirect Effect	(axb)	-0.588		
	Standard Error (S_e)	0.074		
	t-stat ($((axb)/ S_e)$	7.89***		
Total Effect	$(axb) + c$	0.941		
	VAF	94.0%		
Type	Complementary Mediation			

CONCLUSION

This study was mainly carried out to discuss the effect of relational norms on opportunism and the business performance, as well the mediate effect of opportunism on the link between norms and performance of gem dealers in Sri Lanka. This business heavily relied on different norms, and well-being of the business parties largely relied on these qualities they share in their exchanges. The empirical findings of this study support this statement and developed conceptual model providing three major insights. The results indicate that relational norms among gem dealers have a positive significant impact on their business performance. The study further revealed that relational norm mitigates business opportunism among gem dealers and opportunism negatively correlate with business performance. Besides, a complementary mediation effect of opportunism in the relationship between relational norms and business performance was reported in the mediate analysis. Thus, as most social theories state the study results confirm the determined hypotheses or the relation between relational norms opportunism and business performance.

This study offers several implications to our knowledge of norms governing relational exchange in the context of gem dealers in Sri Lanka. First, this paper extends the familiarity with the importance of relational aspects of business performance and contribute to fills the gap in existing literature through empirical evidence. Many scholars explore the effect of relational norms as an important tool which affects business performance minimizing opportunism and transaction cost. However, in the Sri Lankan context, lack of indications reflects about the effect of relational norms between exchange partners on business performance, particularly in gem business. The study fills this gap by disclosing empirical evidence providing substantial contributions to empirical knowledge in the field of gem business.

This study undergoes several limitations that should be addressed by future researchers. First, the study only identifies four dimensions to reflect relational norms. Thus, several dimensions of relational have been addressed and identified by various scholars in the literature. Another limitation refers to the fact that the respondents in this survey came from a single business sector which largely relies on relational perspectives, which makes it inappropriate to generalize these conclusions to other sectors of activity at once. On the other hand, the foremost limitation is the number of participants in our sample ($n= 100$), that it examines a very small subset of the total population ($N= 891$). Though Ratnapura is the major city involved in gem business, there are many other areas such as Monaragala, Mathale, Badulla, Elahera, Okkanpitiya, Hambanthota, Polonnaruwa, Nuwara Eliya etc. that gem business can be widely seen. Therefore, further study is needed, possibly using a longitudinal case study and qualitative approach in a number of different sectors, to reveal patterns and the effect of different relational norms on business cooperation over time. There is a need to find a better blend and balance of what we might call as relational norms, and knowledge on the technical aspects of leading and managing business entities with relational aspects in different interactions. A well-developed systematic methodology is in need to be addressed in imminent researches to measure theories like Transaction Cost and Social Capital in a broader viewpoint.

This business community faces many ambiguities that they do not have enough capacity to establish a direct relationship with large-scale and foreign exchange partners (producers/suppliers/buyers). Therefore, the study strongly recommends that policymakers should develop mechanism to create better relationship between gem dealers and new exchange partners (organizing network formation activities such as seminars, providing sufficient technical knowledge, providing information about reliable or guaranteed exchange partners through a webpage of responsible agency, trade fairs etc.) in order to increase the owners "ability" to establish more reliable connections with different exchange partners in quick and easy ways. Still, the movements in this business as well the industry is based on the conservative methods followed by earliest time, but these have to be modernized with sufficient machinery and technical knowledge and support. The gem industry makes a lot of foreign exchange and currency for our country, but the government's emphasis on the well-being of this industry is still very low. Therefore, launching incentive arrangements for such industries should be encouraged and the government needs to focus more on the importance of such concepts for the development of these particular industries centering more on the welfare of the economy.

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