

Cross-Border Relational Exchange in SMEs: The Impact of Flexibility-Based Trust on Export Performance*

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In light of the scant empirical evidence on cross-border exchanges in the context of small and medium-sized enterprises (SMEs), the purpose of this study is to examine the relationship between the flexibility-trust mechanism, psychic distance, satisfaction with export venture, and export economic performance of 175 exporting SMEs. Data from firms operating in various industries were analysed via structural equation modelling. The results indicate that flexibility both directly and indirectly enhances trust in cross-border relationships by mitigating the negative impact of psychic distance on trust. Flexibility-based trust is positively related to satisfaction with export venture, which in turn positively affects export economic performance.

Key words: flexibility, trust, satisfaction, export economic performance, psychic distance, SME

1 Introduction

Developing and maintaining sustainable cross-border relationships is pivotal in strengthening the competitiveness and business performance of both exchange partners (Leonidou et al. 2002; Leonidou et al. 2014). Past empirical studies reveal that companies engaging in harmonious relationships with their foreign buyers or intermediaries sell to a greater number of export markets, serve more foreign customers, and obtain a higher number of orders (Leonidou et al. 2002). Yet, building sustainable exporter-importer relationships is not easy because trading partners are not only geographically separated, but may also differ considerably in culture, business practices, and other environmental characteristics. In contrast to domestic business, international operations are characterized by higher levels of risk. Exporters feel uncertainty about whether the foreign distributors will act appropriately and if they are able to secure exporters' interests. Scholars have long emphasized the importance of interpersonal trust in business relationships, and have maintained it is a particularly vital dimension of successful international relationships (Morgan/Hunt 1994; Ambler/Styles 2000).

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Although trust has been widely examined in the past decades, there is a dearth of research on how to build trust in international relationships (Katsikeas et al. 2009). Considering that this field of study remains fragmented and offers mixed empirical findings, further research is needed to improve our understanding of trust development (Zhong et al. 2014) and its impact on performance (Katsikeas et al. 2009). In our study, we focus on relational norms (i.e. bilateral governance mechanism) and posit that the flexibility of both partners in the relational exchange can be an effective tool for trust development. Business relationships are contingent on changing environmental conditions, therefore partners need to adapt to new circumstances. Although current literature recognizes the importance of flexibility, the insights into this relational norm are limited (Ivens 2005; Leonidou et al. 2011), particularly in the context of resource constrained small- and medium-sized enterprises (SMEs) (Lu/Beamish 2006; Child et al. 2009).

Indeed, developing and maintaining sound cross-border relationships is particularly challenging for SMEs. While SMEs may enjoy some vital advantages relative to their larger counterparts such as flexibility in reacting to customer inquiries, quicker response, and continuous search for opportunities (Carson et al. 1995), they also face many obstacles in managing foreign operations due to costs, risks, and the sophistication needed in international business (Leonidou 2004). Smaller companies often lack the necessary financial, human, and/or managerial resources and prefer exports to other types of foreign operations (Hollenstein 2005; Leick 2011). SMEs are not just small versions of large companies. Their unique characteristics with respect to ownership, managerial approaches, and resource constraints shape their strategic choices and determine how they settle obstacles when expanding their operations to foreign markets (Obadia/Vida 2006). Export-oriented SMEs gain a higher growth of turnover and employment, and are more innovative than SMEs operating solely in their domestic markets (European Commission 2010). Yet, SMEs face many challenges in their internationalisation process including: cultural differences, a lack of information, skills, access to finance, insufficient networks, language barriers, as well as administrative rules and trade barriers (Muller et al. 2014). While internationalisation of SMEs has attracted considerable research attention, the knowledge on cross-border relational exchanges in the context of SMEs is both scant and scattered.

In this research, we aim to fill this void in the literature and examine the impact of norm-based relational exchange on SME export performance. More specifically, we explore the relationships between flexibility, trust, satisfaction with export venture, and export economic performance. In addition, we examine the mediating role of psychic distance in the relationship between flexibility and trust. Data obtained from 175 SMEs' exporters are analysed using structural equation modelling. By incorporating a mediating role of psychic distance, the proposed model of relational exchange acknowledges the importance of an ex-

porter's perceived dissimilarities of the foreign market that enhance the complexity of operating in international markets. Further, since firm size may play a key role in managing relationships with foreign partners (Leonidou et al. 2014), our findings should add to the extant body of knowledge on international relationships by providing insights into SME exporters who face considerable liability of smallness, as well as newness (Lu/Beamish 2006; Child et al. 2009).

The present study focuses on SMEs' exporters in Slovenia. This country represents a relevant research setting for the study because the small domestic market (two million inhabitants) obliges companies of all sizes to seek opportunities in non-domestic markets. Not surprisingly, Slovenia reaches a considerably higher share of exports in GDP than the EU average (75% vs. 43%, respectively) (Eurostat 2015). In 2013, SMEs contributed approximately 45% of all exports in Slovenia (Statistical Office of the Republic Slovenia 2015). Since exports remain the main driver of economic recovery in this and many other small economies, understanding the determinants of sustainable SME export performance carries important implications for public policy and managerial practice.

In the remainder of this article, we first provide a brief literature review, then develop the conceptual model, and provide the research hypotheses. Next, we detail the methodology and provide results of our data analyses. We conclude with a discussion, contributions, research limitations, and suggestions for future research.

2 Theoretical background

In general, interorganizational exchanges can be divided into discrete and relational exchanges (Macneil 1980). While discrete exchanges are independent of past and future relations between the contracting parties and involve only the transfer of ownership to a product or a service (Goldberg 1976; in Heide 1994), relational exchanges reflect an ongoing process, which involves multiple transactions that recur over time, accounting for the historical and social context in which transactions take place (Dwyer et al. 1987; Heide 1994; Gençtürk/Aulakh 2007).

For exporters, maintaining long-term relational exchanges with their foreign distributors represents an important source of competitive advantage. Recurrent exchanges enable cost reductions due to mutual learning effects and are difficult for competitors to imitate due to the idiosyncratic skills involved (Gençtürk/Aulakh 2007). However, in developing successful cross-border relationships, exporters face additional challenges, including geographical and psychic distance as well as heterogeneity and volatility of the international business environment. Consequently, higher risk and complexity are associated with the initiation, the development, and the sustenance of international relationships (Leonidou et al. 2014).

The way the relationship between exporter and importer is managed can determine, to a great extent, their success or failure (Leonidou et al. 2006). According to the literature, there are two fundamentally different approaches to relationship management: unilateral and bilateral governance (Heide 1994). Unlike unilateral governance, which is based on a control over the distributor, bilateral governance is based on relational norms (Bello/Gilliland 1997). Relational norms refer to the expectation of mutuality of interest, prescribing stewardship behaviour in order to enhance the benefits of the relationship as a whole (Heide/John 1992: 34). Under this type of governance mechanism, both exchange partners develop joint values and expectations about what behaviours are appropriate in order to complete formal arrangements (Heide 1994). Accordingly, relational norms encourage partners to achieve common goals through cooperation (e.g. Bello/Gilliland 1997) and therefore act as a safeguard against opportunistic behaviour. Socially bonded companies govern relationships using relational norms (Obadia/Vida 2006). Relational norms as a governance mechanism are particularly appropriate for international exchanges where companies are geographically and culturally separated, and differ in their legal environment (Zhang et al. 2003). Gençtürk and Aulakh (2007) empirically confirm that norms-based governance is more beneficial for performance than the control-based (i.e. unilateral) governance.

Flexibility is one of the relational norms that can be used to govern cross-border relationships. It refers to a “bilateral expectation of willingness to make adaptations as circumstances change.” From the exporter’s perspective, flexibility ensures the relationship will be subject to good-faith modification if a particular practice proves detrimental in the light of changed circumstances (Heide/John 1992: 35). Flexibility is a coordination mechanism because exporters and their foreign distributors often must adapt their operations in order to respond to unforeseen changes (Bello et al. 2003).

Although flexibility is recognised as a vital asset in various types of relationships (Ivens 2005), particularly so in international exchanges (e.g. Gençtürk/Aulakh 2007), the extant literature provides limited and fragmented insights into this relational norm. For example, Heide (1994) reveals that symmetric dependence enhances flexibility, suggesting that both parties must be somehow locked into the relationship. Similarly, Bello and Gilliland (1997) find that human specific investments increase partners’ flexibility, whereas market volatility decreases it. They also reveal that flexibility has a stronger positive impact on export channel performance than the unilateral mechanism (i.e. output control). In addition, Bello et al. (2003) confirm the positive impact of relationalism (i.e. flexibility, information exchange, and solidarity) on the distributor’s performance. Ivens (2005) finds that the supplier’s flexibility is an important determinant of customer satisfaction, trust, and commitment. However, Ivens examines the flexibility of only one partner in the relational exchange (i.e. service

provider) in the context of relationships taking place in the domestic market. To conclude, the extant empirical literature provides a dearth of information on the role of flexibility as a mechanism for trust development in a cross-border setting.

Trust is central to all relationships and represents one of the core dimensions of relationship quality (e.g. Morgan/Hunt 1994; Leonidou et al. 2006; Styles et al. 2008; Leonidou et al. 2014). Although trust has been extensively examined in prior research across different disciplines, a concise and universally accepted definition remains elusive (Mayer et al. 1995; Schoorman et al. 2007; Zhong et al. 2014). A literature review reveals more than 40 conceptualizations of trust. Overall, the following two definitions have been adopted in the key literature: 1) trust as a psychological state in which one party is willing to be vulnerable to another party; and 2) trust as a decision of one party to rely on another party (Zhong et al. 2014). According to Sabel (1993), trust refers to a mutual confidence that no party involved in an exchange will exploit the others' vulnerability. Mayer et al. (1995: 712) define trust as a party's willingness to be vulnerable to the actions of another party based on the expectation that the other party will perform particular actions which are important for a trusting party. There are two conditions that must exist for trust to develop: risk and interdependence, where one party's interest cannot be achieved without reliance upon another party (Rousseau et al. 1998). In the marketing field, a widely adopted definition is the one proposed by Morgan and Hunt (1994) who conceptualize trust as existing when one party has confidence in an exchange partner's reliability and integrity. Trust is "the belief of one party in a relationship that the other party will be reliable, fair, and honest in taking actions that will help meet organizational needs" (Anderson/Weitz 1989; Morgan/Hunt 1994; in Leonidou et al. 2014: 22).

According to Kuczi and Makó (1997), trust has three dimensions: (1) mutual respect for one another's interests or 'moral competence', (2) the partners' professional competence, which guarantees the long-term advantages of trust relations, and (3) time (i.e. the period, in which relations based on mutual dependence either develop or become impossible). Since the development of trust entails a process of learning, Sabel (1993) uses the term 'studied trust'. Through interactions, partners learn about each other's trustworthiness and the value of trusting (Sabel 1993; Kuczi/Makó 1997; Korsgaard et al. 2015). Partners may cooperate but not necessarily trust each other; if there is a lack of trust between partners, the benefits of cooperation will be sacrificed to autonomous pursuit of self-interest (Sabel 1993). Partners trust each other when they have compatible motives; therefore a real problem is how to build trust among both parties through a complex redefinition of collective values (Sabel 1993). On the other hand, Grabher and Stark (1997) believe that strong ties between the actors may hinder their ability to gain information and mobilize resources from the environment; hence weaker ties between actors are crucial for the adaptability of network.

Despite the fact that trust is bidirectional (i.e. both partners are required to both trust and be trusted in order to engage in mutually beneficial exchanges), trust is typically conceptualized and measured as a unidirectional phenomenon (Korsgaard et al. 2015). Ideally, over time both partners share a high level of mutual trust, but in the reality this situation does not always exist (Mayer et al. 1995; Schoorman et al. 2007; Korsgaard et al. 2015). Trust asymmetry is particularly disruptive to the individuals who trust more than their partners, because individuals may lose their motivation to invest resources in the relationship (Korsgaard et al. 2015).

Although the extant empirical studies confirm the importance of trust in enhancing relationship commitment and cooperation, and reducing uncertainty (e.g. Morgan/Hunt 1994; Styles et al. 2008), its relationship to performance is complex and still poorly understood (Katsikeas et al. 2009). For example, Zhang et al. (2003) and Katsikeas et al. (2009) confirm a positive trust-performance relationship, whereas Aulakh et al. (1996) report an insignificant direct effect. Leonidou et al. (2014) reveal in their meta-analysis that trust is only positively related to relationship performance, but not to financial performance. Based on their study of small-firm networking in Hungary, Kuczi and Makó (1997) indicate two major advantages of trust between business partners: (1) the sharing of both economic gains and losses in order to secure the benefits of long-term cooperation; and (2) the predictability of the partners' behaviour.

In addition, trust may differ systematically across cultures (Noorderhaven 1999; Zaheer/Zaheer 2006; Schoorman et al. 2007; Korsgaard et al. 2015). For example, trust is likely to be harder to instil in the Japanese partner than in the US partner (Zaheer/Zaheer 2006). Similarly, Noorderhaven (1999) suggests that trusting someone in Japan may be something else than trusting someone in the Netherlands. Culture can affect the perception of partner's ability (i.e. competence), benevolence (i.e. the extent to which a party is believed to want good for the trusting party), and integrity (i.e. the partner will fulfil agreements as promised), as well as the importance given to each of these variables (Schoorman et al. 2007). Consequently, the understanding of trust and governance mechanisms in international distribution channels cannot be achieved without recognizing that relationships take place in different cultural and legal/political environments (e.g. Zhang et al. 2003). However, cultural distance is only one component of a broader concept of psychic distance (Shenkar 2001; Dow/Karunaratna 2006). Psychic distance and similar concepts (distance, cultural distance, cultural sensitivity) have been widely examined in numerous studies in the fields of international business and marketing (e.g. Smith et al. 2011; Sousa/Lages 2011), often yielding inconsistent results (e.g. Zanger et al. 2008). Psychic distance affects trust development between the exchange partners (Katsikeas et al. 2009). This is particularly relevant for SMEs which are, relative to

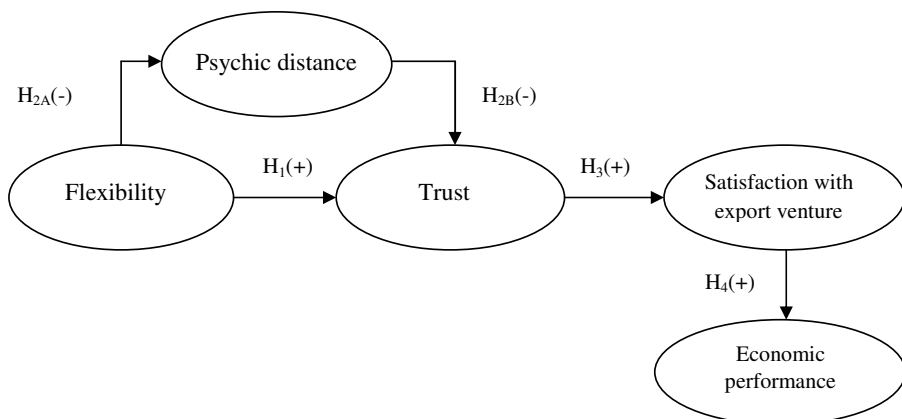
their larger counterparts, less prepared to deal with differences between the domestic and foreign markets (Obadia/ Vida 2006).

With regard to performance outcomes, researchers use various conceptualizations and measures to capture different aspects of export performance, such as financial or economic performance, relational performance and strategic export performance, typically by adopting subjective approach. Most common is the focus on financial or economic export performance, measured by indicators, such as export sales, export sales growth, export profits, return on investment, cost savings, market share etc. (e.g. Bello et al. 2003; Zou et al. 1998; Leonidou et al. 2014). Relational performance refers to satisfaction with export venture (Zou et al. 1998) and success of one firm in helping the other attain its goals by coordinating venture activities and adjusting business practices for the other (Kumar et al. 1992, in Leonidou et al. 2014). The third aspect captures the strategic outcomes of export venture, such as improved global competitiveness, strengthening the strategic position, and increased global market share (e.g. Zou et al. 1998).

3 Research hypotheses

Based on the literature review, we develop a conceptual model of the impact of a flexibility-trust mechanism on exporter's performance (see Figure 1). The conceptual model focuses on the exporter-importer relationship at the interpersonal level, because interpersonal relationships can have a stronger and longer-term effect on a person's behaviour than the relationships with companies (Iacobucci/Ostrom 1996; Palmatier et al. 2007). With the marriage analogy, Dwyer et al. (1987) posit that companies depend on the relationships between individual players. The critical points for facilitating and maintaining relationships are the psychological and social factors of the individual actors who are "creators" of the relationship and "insiders" in interactions (Juttner/Wehrli 1995). Accordingly, trust resides at the individual level (Zhong et al. 2014).

To summarise our research hypotheses, we posit that flexibility enhances trust (H_1). We also posit that psychic distance mediates the flexibility-trust relationship. More specifically, we posit that flexibility reduces psychic distance (H_{2A}), which negatively impacts trust (H_{2B}). Further, trust is expected to be positively related to satisfaction with export venture (H_3), which in turn positively affects exporter's economic performance (H_4). Our research hypotheses are both theoretically-grounded and empirically-driven. Yet, it is worth mentioning that only a very limited number of empirical studies have examined these issues specifically in the context of SMEs.

Figure 1: A conceptual model

In our study, flexibility is defined as the willingness of the exporter and importer to adapt to each other due to changes and unexpected circumstances (Heide/John 1992; Bello et al. 2003). Business relationships are embedded in environmental conditions, which are more or less subject to change (Ivens 2005), therefore both exchange partners need to adapt to new circumstances in order to accomplish their goals. Both parties develop expectations regarding the exchange partner's behaviour covering a longer period of time (Heide/Stump 1995). As companies move from discrete exchanges toward relational exchanges, the supplier displays an increasing willingness to provide the buyer assistances, and is even willing to make sacrifices for which there is no immediate or explicit compensation (Noordewier et al. 1990). Such behaviour may be viewed as a form of inter-temporal compensation (Dwyer et al. 1987), distributed in a fair manner in the long run (Kaufmann/Stern 1988).

Relational norms develop over time and facilitate the development of trust (Joshi/Stump 1999; Zhong et al. 2014). In our study, trust is defined as the exporter's trust in the importer in line with Morgan and Hunt (1994). Flexibility is proposed to be positively related to trust by creating a stock of goodwill (Madhok, 1995). Goodwill trust is based on its mutual belief that each partner will behave in a way that is beneficial to both partners and assumes that one party will not take advantage of the other, even if an opportunity to do so should arise (Styles et al. 2008). Partners whose behaviour is predictable are trusted more than those who behave in an uncertain manner (Katsikeas et al. 2009). Leonidou et al. (2014) confirm in their meta-analysis that adaptation in a business relationship enhances trust. Therefore we posit:

H1: Flexibility is positively related to trust.

In addition, we posit that psychic distance mediates the flexibility-trust relationship. In our study, psychic distance refers to the exporter's perceived dissimilarities of foreign market and perceived difficulties in understanding the market and operating with local companies (Prime et al. 2009; Obadia 2013). The larger the psychic distance, the more difficult it is to gain effective market knowledge of foreign markets. In forming relationships, exporters have to adapt to the culture specific business realities of the new environment (Majocchi et al. 2015). In distant relationships, trust between partners is limited due to the restricted awareness and understanding of each other's position and intentions, and a distorted information flow which increases uncertainty and difficulties in building close social ties (Bello et al. 2003). When psychic distance is high, the development of relationship is more difficult to achieve and more resources are needed (Lin/Germain 1998). Psychic distance increases possibilities for conflicts between the exchange partners (Leonidou et al. 2006) and impedes the development of shared values that enable the development of trust (Nes et al. 2007). Psychic distance lowers the quality of communication between the partners, and consequently raises the complexity of decision-making (Katsikeas et al. 2009). Child et al. (2009) demonstrate that in order to cope with the cultural issues in the new market, exporting firms rely on their local representatives who shield exporters from local problems. In contrast, cultural sensitivity (i.e., a person's competence to mitigate psychic distance), creates conditions for relationship development, which enhances cooperation and trust (Styles et al. 2008). The extant empirical findings confirm that psychic distance is negatively related to trust (e.g. Nes et al. 2007; Katsikeas et al. 2009; Obadia 2013; Leonidou et al. 2014), whereas cultural sensitivity enhances trust (Styles et al. 2008; Lohtia et al. 2009). In contrast, some studies find no significant impact of distance on trust (Zhang et al. 2003; Leonidou et al. 2006).

On the other hand, the relationship between flexibility and psychic distance has been rarely addressed in empirical research. When two parties develop shared values or norms, benevolent intentions can result and enable one party to better understand the other partner's objectives and goals (Macneil 1980). When both partners are willing to adapt to each other, they demonstrate awareness and willingness to accept or at least understand the partner's position despite the cultural and other differences. In cross-border relationships, flexibility is an imperative in dealing with different and changing environmental conditions (Aulakh et al. 1996; Gençtürk/Aulakh 2007). Moreover, flexibility in the relationship requires transaction-specific investments (e.g. making special product modifications or adjusting inventory policy to meet specific market requirements), which are not easily transferable to relationships with other business partners (Ford et al. 2011; Hallén et al. 1991, in Leonidou et al. 2014). Thus, flexibility denotes a serious commitment to the business relationship. The investments made in interfirm adaptations signify a willingness to build a long-term relationship and to find

joint solutions to common problems, as well as a shared sense of equitable treatment (Ford et al. 2011; Hallén et al. 1991, in Leonidou et al. 2014). In this vein, mutual flexibility in the relationship can help exporters cope with perceived dissimilarities of foreign markets and difficulties related to foreign operations. Therefore, we expect that flexibility in the relationship can decrease the perceived psychic distance. In line with the above discussion, we posit:

H2A: Flexibility is negatively related to psychic distance.

H2B: Psychic distance is negatively related to trust.

Trust has the potential to influence the development of satisfaction (Conway/Swift 2000), which is typically positioned as an important construct in inter-organisational research (Duarte/Davies 2004). Trust and satisfaction have often been evaluated together due to their close interrelationship in impacting the business-to-business exchange (Dwyer et al. 1987). In our study, we examine satisfaction with the export venture in line with Zou et al. (1998). Satisfaction with the export venture reflects the exporter's satisfaction with the importer. It represents a positive emotional state resulting from the appraisal of all aspects of a working relationship (Geyskens et al. 1999). As companies experience success with coordinated joint activities, over time, they will subsequently experience satisfaction, in part because of perceptions of compatibility between companies (Anderson/Narus 1990). In export-import relationships, a high level of trust facilitates the partners to coordinate their resources effectively and manage them in productive ways (Katsikeas et al. 2009). Gaining trust in another partner enhances the feeling of security, thus facilitating engaging in a behaviour that provides positive outcomes and prevents negative results (Leonidou et al. 2007).

While a positive relationship between trust and satisfaction has been empirically confirmed by a number of studies (e.g. Anderson/Narus 1990; Ferro/Redondo 2005; Silo et al. 2006), Barnes et al. (2010) do not confirm the positive effect of trust on satisfaction. More recently, a meta-analysis reveals that trust is positively related to relational performance (Leonidou et al. 2014). In addition, Gençtürk and Aulakh (2007) find that norms-based governance (i.e. trust, commitment and flexibility) is positively related to a manufacturer's satisfaction with its foreign distributor. Consequently, we assert the following:

H3: Trust is positively related to satisfaction with export venture.

While satisfaction with the export venture is but one of the dimensions of overall export performance, the literature suggests it is a strong indication of success in exporting (Zou et al. 1998). We expect that satisfaction with export venture is related to positive economic outcomes of bilateral international exchanges. In our study, we define export economic performance as the accomplishment of sales, profit, growth, and economic goals (Bello/Gilliland 1997). More satisfied buyers enjoy higher quality relationships with their selling companies and create

a higher export performance. Indeed, the study of small- and medium-sized exporters (Ural 2009) confirms that exporter satisfaction with the relationship is positively related to export performance. In addition, a recent meta-analysis finds a positive relationship between relational performance and financial performance (Leonidou et al. 2014). Thus, we hypothesise as follows:

H4: Satisfaction with export venture is positively related to export economic performance.

4 Methodology

4.1. Data collection and sample characteristics

Data were collected using an Internet survey among Slovenian exporting SMEs across different industries. We developed the sampling frame by systematic random selection of exporting firms in the AJPES database (i.e. Agency of the Republic of Slovenia for Public Legal Records and Related Services) using the following criteria: (a) the companies employed between ten and 250 people; (b) they exported to more than three foreign markets; (c) exporting generated at least 10% of their total revenues in the previous year. Based on the initial firm listing, 643 companies met these criteria. Managers in charge of exporting received an e-mail containing a link to the Internet survey. Respondents were asked to base their answers on a business relationship with one of their foreign independent distributors that the respondents have worked with personally for at least six months. To minimize respondent bias in the choice of focal distributors (Katsikeas et al. 2009) and enhance the external validity of the study, the sample was randomly divided into three groups. The first group of respondents reported on the focal relationship with one of their two largest overseas partners, the second group on their third- or fourth-largest foreign distributor, and the third group focused on their smallest importers.

In total, 175 usable questionnaires were returned, yielding a 27.2% response rate. About half of the companies in the sample (48%) are classified as small (i.e. companies with fewer than 50 employees), and the rest are classified as medium-sized companies (50-249 employees). Companies operate in different industries, including manufacturing (60%), wholesale and retail trade (13%), construction (6%), and other industries (e.g. transportation, storage and communication, agriculture). Overall, the respondents selected their foreign partners from 23 countries, but primarily from the EU (49%). The majority of respondents were representatives of top management (49.7%), while the remaining respondents were export managers (29.1%) and export representatives. On average, the respondents were responsible for the focal business relationship for 5.29 years.

The nonresponse bias was assessed by comparing responding and non-responding companies in terms of their employment and percentage of exports in sales.

No significant differences were found. We also randomly selected 30 nonrespondents and asked them to respond to five questions from the questionnaire. The *t*-tests of group means revealed no significant differences between the responding and nonresponding companies. Hence, a nonresponse bias does not seem to pose a problem in this study.

4.2. Operationalization and measurement

All constructs were measured using multi-item 7-point Likert scales (1 = completely disagree to 7 = completely agree). The items used to operationalize the constructs were adapted to the current research context from prior research (see Table 1 for questionnaire items). Flexibility was measured with three items in line with Bello et al. (2003) in order to reflect a willingness of both parties to adapt to each other due to changes and unexpected circumstances. Trust was measured with three items from Morgan and Hunt's scale (1994) that describe the exporter's trust in the importer. Satisfaction with export venture was operationalised based on Zou et al. (1998). Export economic performance was measured with three items in line with Bello and Gilliland (1997), assessing the exporter's performance in terms of attainment of sales goals, growth goals, and market share goals for the focal foreign market. Psychic distance was measured with three items adapted from Prime et al. (2009) and Obadia (2013). These captured the exporter's perception of dissimilarities of the foreign country, and perceived difficulties in terms of conducting business – as well as understanding people and the business environment.

5 Results

First, we evaluated a measurement model with five constructs. A confirmatory factor analysis using AMOS software was conducted in order to assess the unidimensionality of each construct (Anderson/Gerbing 1988). The fit statistics of the model indicates a good fit to the data, though the χ^2 is statistically significant ($\chi^2 = 125.71$; d.f. = 79; $p = 0.001$; GFI = 0.91; NFI = 0.95; CFI = 0.98; RMSEA = 0.058). Table 1 shows the measurement items along with the standardized loading of each item, the composite reliability index, CR (Anderson/Gerbing 1988), and the variance extracted, AVE (Fornell/Larcker 1981). Constructs *Flexibility*, *Trust*, *Satisfaction with export venture*, and *Export economic performance* exhibit indexes that are largely superior to the reference values (CR=0.6, AVE=0.5) recommended by Bagozzi and Yi (1989). Only the construct *Psychic distance* with value of AVE (0.43) is at a low level of acceptance. However, the composite reliability index of this construct is higher than 0.6, and all standardized factor loadings are higher than 0.7, which suggests a sufficient convergent validity (Hair et al. 2005). It is worth mentioning that the average variance extracted below 0.5 can be found in some similar studies on relational exchanges (e.g. Ivens 2004; Gençtürk/Aulakh 2007). Next, the discriminant validity was

assessed; for each pair of the constructs we compared the fit of the constrained model, in which the correlation between the two constructs was constrained to equal one, with the fit of the unconstrained model. A χ^2 difference superior to 3.84 (d.f. =1) indicated discriminant validity.

Table 1: Scale properties and items

Scale properties and items	St. load.
FLEXIBILITY (CR = 0.84; AVE = 0.65)	
Both parties are flexible in their response to last-minute requests made by the other party.	0.88
Both parties are open to each other's request to modify prior agreement.	0.86
Both firms are ready to adjust to new situations.	0.80
TRUST (CR = 0.92; AVE = 0.79)	
This distributor can be counted on to do what is right.	0.99
This distributor has high integrity.	0.91
This distributor can be trusted completely.	0.93
PSYCHIC DISTANCE (CR = 0.69; AVE = 0.43)	
This country is so different that it is difficult for us to work there.	0.72
It is difficult to understand this country and its citizens.	0.73
We have problems to understand how the market works in that country.	0.81
SATISFACTION WITH EXPORT VENTURE (CR = 0.88; AVE = 0.71)	
The performance of this export venture has been very satisfactory.	0.84
This export venture has fully met our expectations.	0.91
This export venture has been successful.	0.91
EXPORT ECONOMIC PERFORMANCE (CR = 0.98; AVE = 0.94)	
Sales goals for this foreign market were attained.	0.96
Growth goals for this foreign market were attained.	0.92
Market share goals for this foreign market were attained.	0.93

After assessing the psychometric properties of multi-item scales, we calculated a composite score for each latent variable. Descriptive statistics along with the correlations between the latent variables are provided in Table 2. No significant differences were found in the mean scores given the company size (small- vs. medium-sized companies).

Once the constructs reliability, convergent validity, and discriminant validity were established, the structural model was evaluated to test the hypothesized relationships between the constructs. The fit statistics indicated that a model represents a good fit to the data ($\chi^2= 154.43$; d.f. = 84; $p = 0.000$; GFI = 0.89; NFI = 0.93; CFI = 0.97; RMSEA = 0.069). Table 3 shows standardized path coefficients and t-values.

Table 2: Descriptive statistics and correlations

	Mean	SD	1	2	3	4	5
Flexibility	5.73	1.05	1.00	0.55	-0.31	0.60	0.42
Trust	5.33	1.48		1.00	-0.41	0.63	0.40
Psychic distance	2.16	1.13			1.00	-0.41	-0.28
Satisfaction with export venture	5.39	1.14				1.00	0.75
Export economic performance	5.43	1.30					1.00

Table 3: Structural model results: Testing the research hypotheses

	Hypotheses	Stand. path coefficients	t-value*	Results
H ₁ (+)	Flexibility → Trust	0.47	5.86	Supported
H _{2A} (-)	Flexibility → Psychic distance	-0.31	-3.22	Supported
H _{2B} (-)	Psychic distance → Trust	-0.27	-4.26	Supported
H ₃ (+)	Trust → Satisfaction with export venture	0.62	6.43	Supported
H ₄ (+)	Satisfaction with export venture → Export economic performance	0.74	6.86	Supported

Legend: *Significant at $p \leq 0.05$, if $|t| \geq 1.96$

The results support all five hypotheses. As predicted, flexibility is positively related to trust, which in turn positively affects satisfaction with export venture. The higher the satisfaction with export venture, the higher the export economic performance. Furthermore, psychic distance mediates the flexibility-trust relationship. Flexibility negatively affects psychic distance, which in turn is negatively related to trust.

6 Discussion and conclusions

6.1. Theoretical contributions

Using the context of bilateral cross-border exchanges in SMEs, in this study, we develop and empirically test a conceptual model of the impact of flexibility-trust mechanism (mediated by psychic distance) on exporter's performance. The findings confirm that the flexibility-trust mechanism serves as an effective tool for managing relational exchange, leading to better exporter performance. This research contributes to our understanding of SMEs' international relational exchange and its impact on export performance. To the best of our knowledge, this study represents the first attempt to examine the entire chain of cross-border relationships, thereby simultaneously providing evidence both on a trust-building mechanism, the consequences of the flexibility-trust mechanism on exporter's

performance, and the role of psychic distance in the relationship between exporter and importer.

The results highlight the importance of flexibility, as it enhances trust both directly and indirectly by reducing the negative effect of psychic distance on trust. While the flexibility-trust link has been rarely examined in empirical research (Leonidou et al. 2014), prior research has not dealt with the flexibility-psychic distance relationship in the context of the exporter-importer relationship. Therefore, our results offer new empirical insights into this relational norm and recognize it as an effective mechanism for building trustful cross-border relationships. The results also reinforce the findings of previous empirical research that demonstrate a positive relationship between trust and performance of international operations (Zhang et al. 2003; Katsikeas et al. 2009). Our study shows that trust is positively related to the satisfaction with the export venture and consequently to the economic performance of the export venture.

Second, our model incorporates the construct of psychic distance and offers evidence of its mediating role in the flexibility-trust mechanism in the context of SMEs cross-border ventures. Psychic distance is likely to have a stronger negative impact on foreign operations of SMEs relative to larger firms, therefore it is particularly vital to examine PD in the context of SMEs (Child et al. 2009). The results confirm that the perceived dissimilarities of the foreign market are fuelled by weak flexibility of both exchange partners. Furthermore, we find that psychic distance decreases the exporter's trust in the foreign distributor. While this is in line with some previous studies (e.g. Nes et al. 2007, Katsikeas et al. 2009; Leonidou et al. 2014), other research finds no significant effect of distance on trust (e.g. Zhang et al. 2003; Leonidou et al. 2006).

Finally, despite the considerable research interest in the internationalisation of SMEs in recent years, research on international relational exchanges in the context of SMEs remains scant, particularly with respect to empirical evidence from less commonly researched firms in Central Europe. Hence, this study can advance the theory by expanding the boundaries of existing research beyond the developed Western markets (Lages et al. 2015).

6.2. Managerial implications

SMEs are struggling for success in international markets. Results of the present study suggest SMEs should be encouraged to invest in long-term relationships and support the notion that the quality of offerings is insufficient for achieving adequate economic performance (Lages et al. 2009). The finding that SMEs can enhance their export economic performance by developing trustful relationships with their foreign distributors is particularly valuable, as strong social bonds with foreign business partners are difficult for competitors to imitate. One possible way to develop and maintain interpersonal trust is to increase the flexibility

of both exchange partners. The flexibility-based trust may help to develop interdependence and safeguard against opportunistic behaviour. Although SMEs are often characterized by a higher flexibility to customer inquiries relative to their larger competitors, it is important to bear in mind that flexibility as a relational norm implies reciprocity. Hence, both parties have to be willing to adapt to each other in order to accomplish common goals. Many aspects of export performance are a joint accomplishment and require the cooperative adaptation of the parties (Bello/Gilliland 1997). Flexibility of the parties can be increased by human investments (Bello/Gilliland 1997). For example, the partners may offer a specialized knowledge on product/service and market, communicate openly and intensively, solve potential conflicts and problems when they occur, and make adaptations which can enhance the benefits of the relationship as a whole.

Given their resource constraints, limited bargaining power, as well as market power (Knight 2000; Majocchi et al. 2015), SMEs are more vulnerable to environmental changes (Lu/Beamish 2006). Mutually adaptive actions in a business relationship can improve the partners' responses to the changing environment and enable them to offer a superior value to their customers. Moreover, joint adaptations can also lead to more equitable exchanges between the exporter and importer (Leonidou et al. 2011), and place exporters in a relatively stronger position in the relationship. Mutual adaptations often require specific investments, which increase the importer's cost of switching to other business partners. Therefore, SMEs are advised to carefully select their foreign distributors who are equally prepared to make adaptations in order to achieve common goals, and with whom the exporters can develop long-term and trustful bonds.

While psychic distance has not previously been examined as a function of flexibility of both relational partners, our finding of the inverse relationship between flexibility and psychic distance has important implications managerial practice of SMEs. In addition to considerable liability of smallness reflected in lower commitment from their foreign intermediaries and higher costs of export operations due to the reduced size of export ventures (Crick 2004), exporting SMEs often face considerable challenges in dealing with different cultures and business practices in foreign markets (Leonidou 2004; Child et al. 2009). Our results suggest that psychic distance effects can be reduced not only by improving export managers' cross-cultural competencies via coaching, training, and experiential knowledge, but also by strengthening the flexibility of both parties in the relationships. In nurturing this relational norm, SMEs can reduce the effects of perceived foreignness in cross-border exchanges (Obadia 2013).

Perceived dissimilarities of foreign markets hinder the process of trust development not only in the initial phase of internationalisation, but also in ongoing relationships. Building strong and trustful relationships does not happen accidentally (Leonidou et al. 2002). It is an evolutionary process, which has to be care-

fully managed, particularly in foreign markets with considerably different cultures and business practices. This is particularly relevant for SMEs, who often focus on operational or tactical issues and short-term objectives, as opposed to longer-term strategic activities (Carson et al. 1995). Many smaller firms view exporting as either a peripheral business activity (Leonidou 2004), or they are reluctant to expand their business operations to foreign markets due to the potential cross-border challenges (Crick 2004; Hollenstein et al. 2005; Muller et al. 2014). In addition, business decisions in SMEs are usually made by a single-decision-maker, who may lack the time (Leonidou 2004) and tends to be a generalist rather than a specialist in any particular area (Carson et al. 1995). Our results suggest that SMEs should adopt a more strategic perspective and view exporting as an important opportunity for a company's growth. In order to successfully exploit export opportunities, SMEs are advised to invest time, effort, and financial resources to acquire the right competencies in relationship building across borders. In particular, exporters would do well to participate in cross-cultural training, show genuine interest in other cultures and business practices, develop experiential knowledge, and increase their foreign language proficiency.

To conclude, our results suggest that SME exporters can reduce the costly control mechanisms and effectively manage their relationships with foreign distributors through a flexibility-trust mechanism which enhances the exporter's performance. However, they should also monitor their foreign distributors because both governance mechanisms (bilateral and unilateral) contribute to the overall performance (Bello/Gilliland 1997).

6.3. Limitations of the study and further research

When interpreting the results and implications of our study, some important limitations should be taken into account. First, similar to most existing empirical studies, we collected data only from one side of a relationship. Yet, the exchange is a two-sided coin, involving exporters and importers. For example, Ellis (2008) reveals that psychic distance is asymmetrical in nature and that assessments made by sellers and buyers are inherently not equivalent. Similarly, partners from different countries are likely to bring asymmetrical conceptions of trust to the business relationship (Zaheer/Zaheer 2006). Therefore, data collection from both partners of the dyad or at least a combination of one-sided survey with in-depth case studies is strongly recommended for future research to gain a better understanding how dyadic trust evolves and how it affects export performance. Second, our analysis was limited to flexibility as the single relational norm. In future research it would be beneficial to explore additional relational norms (e.g. solidarity, reciprocity, implementation of planning, etc.) and their relative impact on trust and psychic distance. Third, in this study we focused on SMEs, which are proverbially flexible.

Finally, we did not specifically explore the role of relationship duration in this study. We may reasonably expect that, over time, flexibility and trust increase, while psychic distance decreases. However, Zhong et al. (2014) reveal an inverted U-shaped relationship between relationship duration and trust, suggesting that beyond a certain threshold of duration, familiarity may begin to breed inefficiency because of redundant information and opportunism resulting from a loosened monitoring (Uzzi 1997; in Zhong et al. 2014). Therefore, building trustful and close relationships may also entail a dark side. Considering the high attrition rate of SMEs' international ventures (Obadia/Vida 2006), an investigation of the role of relational norms and attitudes over time may provide a fertile ground for future research to illuminate the issue of sustainability of exporting activities for smaller firms.

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