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THE EFFECT OF INTEGRATIVE TRUST AND INNOVATION ON FINANCIAL PERFORMANCE IN A DISRUPTIVE ERA

Judit Oláh,

*WSB University, 41-300
Dabrowa Górnicza, Poland
E-mail: juditdrolab@gmail.com
ORCID: 0000-0003-2247-1711*

Yusmar Ardhi Hidayat,

*Ibrig Károly Doctoral School,
University of Debrecen, Debrecen,
Hungary; Business Administration
Department, Politeknik Negeri
Semarang, Semarang, Indonesia,
E-mail:
yusmar.bidayat@econ.unideb.hu;
yusmardhi@polines.ac.id
ORCID: 0000-0002-1835-6879*

Zoltán Lakner,

*Szent István University,
Faculty of Economics and Social
Sciences, Gödöllő, Hungary,
E-mail: lakner.zoltan@szie.hu
ORCID: 0000-0002-2662-2241*

Sándor Kovács,

*University of Debrecen, Faculty of
Economics and Business, Debrecen,
Hungary,
E-mail:
kovacs.sandor@econ.unideb.hu
ORCID: 0000-0002-1216-346X*

ABSTRACT. This study hopes to contribute to understanding how integrated trust and innovation affects financial performance. Our objectives can therefore be stated as follows. The first is to examine the influence of institutional trust on interpersonal trust and inter-organisational trust. Subsequently, the study investigates the effect of interpersonal trust on enhancing inter-organisational trust. The third purpose is to study the influence of inter-organisational trust on financial performance through innovation as a mediating variable. The study implemented 103 samples of ICT Companies in Hungary. The Partial Least Square (PLS) – Structural Equation Model verified the hypotheses in the research model.

The results show that there appears to be a positive association between institutional trust and interpersonal trust. Institutional trust has a positive influence on inter-organizational trust, thus interpersonal trust positively affects inter-organizational trust. This study also claims that the effects of inter-organizational trust and innovation are particularly prominent and noticeable, with significant consequences for financial performance. Here we present tests that showed that interpersonal trust performed a complementary role, but innovation failed as a mediating variable. The primary suggestion we make concerns strategies to manage interpersonal trust and a favorable sense of confidence within a company. The company should also assertively maintain trust in customers and suppliers.

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Introduction

With the development of industrialization 4.0 in recent years, the Hungarian Information and Communication (IC) sector has performed a significant impact on the economy. This sector contributed 5% of overall Gross Domestic Product (GDP) in 2018 (KSH, 2020). For instance, the IC sector is the backbone supporting industrialization 4.0 in the manufacturing sector, which contributes 22% of GDP. Besides, the innovative applications of the IC sector also enable other sectors such as wholesale and retail trade, public administration, real estate and transportation to perform e-business. The IC sector consists of about 1400 ICT companies. They had booked revenues of approximately 0.7 billion Euros in 2018, and this was expected to surge by approximately 45% in 2019 (EMIS, 2020). This upward trend, however, is expected to continue, to be followed by challenges to achieve and maintain significant returns under conditions of competitive pressure (Oláh et al., 2019a). As a result of these pressures, about 10% ICT companies have closed in the last two years (EMIS, 2020).

In order to survive in the disruptive era, ICT companies should accomplish efficient production, develop trusted collaborations, and improve innovation to achieve profit. These issues have been thoroughly studied and well documented by some scholars, particularly Bilan et al. (2019) and Lechman (2018). In an internal organization, trust supports efficiency (Sako, 1992) and the effectiveness of organizations by simplifying interpersonal relations and internal integration (Bugdol, 2013). The ability to enhance interpersonal trust within a company has been confirmed by the better productivity of employees' performance. It should be noted that previous studies have indicated that workers' productivity may improve, as well as the company's performance (Brower et al., 2009; Fulmer & Gelfand, 2012). Studies have validated a consistent connection between interpersonal trust and company performance (Brower et al., 2009; Fulmer & Gelfand, 2012; Kliestikova et al., 2017). Indeed, some analyses have shown that interpersonal trust may reduce internal transaction costs (Davis et al., 2000; Dyer & Chu, 2003; Zvaríková & Majerová, 2014).

Observational studies have made evident the fact that ICT companies should create a network with their business partners to support production (Ključnikov¹, et al., 2019; Oláh et al., 2017) and maintain social collaboration (Mura et al., 2015; Oláh et al., 2019b), and to access

pivotal resources (Pratono, 2018). More recently, it has been revealed that a social network including trust in partners enhances business performance as a result of reducing external transaction costs (Almășan et al., 2019; Sako, 1992; Sako & Helper, 1998). This finding is backed up by scholars (Uzzi, 1996). Williamson (1993b) concludes that trust as an economic safeguard in networking may reduce transaction costs and increase innovation (Meyer & Meyer, 2017; Molina-Morales et al., 2011; Vaníčková & Szczepańska-Woszczyzna, 2020). Some studies have also observed a strong relationship between inter-organizational trust, business performance, and innovation (Kovacova et al., 2019; Wang et al., 2011; Zaheer et al., 1998). In fact, innovation implies greater trust within collaborations due to extensive time problems, the appropriation of further risk, and a greater reliance on external forces (Afonasova et al., 2019; Revilla & Knoppen, 2015; Todorović et al., 2019). This is consistent with the idea that external authorities, such as institutions, may provide legal protection and an appropriate business climate as the requirements of collaborations (Goergen et al., 2013). As a consequence, the performance of various institutions may promote trust in the institutions which they are connected to, to rebuild - or to weaken - interpersonal trust and trust in business partners (Brehm & Rahn, 1997; Levi, 1996; Sroka et al., 2014).

Recent studies have shown that trust may be a decisive concept relating to firm performance, but this remains an arguable area of inquiry. Although the majority of studies suggest that a higher level of intra-organisational trust (Robert Galford & Anne Seibold Drapeau, 2003) has a definite impact on business performance (Allen et al., 2018; Davis et al., 2000; Dyer & Chu, 2003; Iancu & Nedelea, 2018), this issue remains open for debate. Recent investigations have demonstrated that trust may also have an inconsistent effect on company performance (Baranyai et al., 2012; Robert W Palmatier et al., 2006). Besides, Johnston et al. (2004) concluded that the level of trust in business partners had no significant impact on company performance. Dvorsky et al. (2020) argued that the strategic management of companies has a positive impact on the companies' performance. Zaheer et al. (1998, p. 154) argued that interpersonal trust within a company had no direct effect on performance. Regarding the impact of institutional and company performance, Goergen et al. (2013), for example, examined that, country trust and firm-level trust acting together have a positive effect on performance and are substitutes for each other. Almási & Zéman (2019) point out that the human factors and elements of corporate controlling have a positive effect on business operations and growth. On the other hand, trust in the public and stakeholders has a negative influence on the company's profitability (Oláh et al., 2019b). From this review of the different

results, the main point to conclude is that limited attention in previous research has been paid to the relationships between interpersonal trust, inter-organisational trust, institutional trust and business performance simultaneously.

Therefore, in this study, we propose a novel approach to how integrative trust may affect financial performance. Integrative trust consists of institutional trust, internal trust, and inter-organizational trust. The conceptual framework starts from institutional trust as an external variable, which will empower both internal trust and inter-organizational trust in the company. Then, internal trust will boost the influence of trust between the company, and its partner(s), which affects innovation and financial performance. This study has three important purposes. The first objective is to investigate the influence of institutional trust on interpersonal trust and inter-organizational trust. A secondary objective is to evaluate the effect of interpersonal trust on empowering inter-organizational trust. The final purpose of this research is to examine the influence of inter-organizational trust on financial performance through innovation as a mediating variable. This study starts with the fundamentals of social capital, transaction cost, types of trust, innovation and financial performance to develop a theoretical framework. We then provide details of the experimental method used, i.e. the sampling method and operational variables, and then discuss the results, and draw the conclusions.

1. Literature review

We briefly review the relevant perspectives and previous studies in order to address integrative trust, innovation, and financial performance. Some of the material presented in this literature review has been published in academic journals. First, we explore the underlying theory, from the social capital connected to transaction cost and various types of trust. Then we pay special attention to discussing the direction between institutional trust, interpersonal trust and inter-organizational trust. Finally, we also review the influence of inter-organizational trust on financial performance with innovation as a mediating variable to support our hypotheses.

Social capital

From our systematic review, we approach social capital theory from two perspectives, an ego-centric and a socio-centric view. The ego-centric viewpoint describes an employee or manager as a principal factor who gives and takes resources from the company's organization

(Adler & Kwon, 2002). Meanwhile, the socio-centric perspective defines how a company in a network or linkage may provide cohesiveness with business partners and enhance production capacity for mutual performance (Suseno & Ratten, 2007). This approach is in line with other proven links between social factors and performance, such as corporate social responsibility and financial performance (Myšková & Hájek, 2019), the effectiveness of social dialogue and outcomes for employees and entrepreneurs (S. Bilan et al., 2020), social capital, motivation and successful business continuity (Wiroto & Taan, 2019). The socio-centric concept may enhance a cooperative engagement between the company and its business partners. The concept of social capital, consisting of trust, social norms, networks, and mutuality may enhance mutual advantages. The internalization of social capital in a collaboration may provide the opportunity to obtain an approach to worthwhile sources of assets (Pratono, 2018). In this research, we describe trust and networks as the proxy of the social capital concept. Most studies have demonstrated that companies with the capability to develop trust and networks may enhance business performance (Ayu et al., 2020; Cooke & Wills, 1999; Cygler & Sroka, 2017; Gaur et al., 2011; Moeller, 2009; Pratono, 2018; Seppänen et al., 2007; Shahmehri et al., 2015), which is consistent with our framework. The underlying mechanism of how trust as social capital enhances business performance is clearly framed within the transaction cost perspective.

Transaction cost

A company may generate profit and exchange costs when it produces products and services. Also, a firm may plan to enhance production by considering internal and external exchange costs. A company may have high expenditure on the costs of its internal and external exchanges, which are referred to as transaction costs (TC). In its internal organization, a company may plan to expand production by considering the capability of internal human resources. A company may make a specialized investment to develop human capital. As a result, employees may learn and develop particular competencies to support targeted company production.

Moreover, a manager may control and monitor his/her employees to perform the work. A manager develops interpersonal trust in an internal company in order to reduce controlling and monitoring costs (Davis et al., 2000; Dyer & Chu, 2003). As a result, interpersonal trust may enhance work performance (Bugdol, 2013; Fukuyama, 1995; Sako, 1992). Besides, a company may decide to expand its production when its internal exchange costs are cheaper than its external exchange costs. However, the internal exchange costs may exceed its external

exchange cost; as a consequence, the company may plan to expand production by implementing collaboration with its business partners. Hence, a company may consider the external TC, for instance, the cost of searching for suppliers, negotiating prices, and making contracts. Besides, a company may control its partners to ensure they fulfill the agreement (Baye & Prince, 2017; Chao, 2011).

The activities mentioned above may increase the extent of transaction costs. Then, the company could reduce transaction cost in term of external exchange costs are efficiently reduced within a vertical integration and / or by market governance. The firm could implement types of vertical integration through asset specificity, encounter uncertainty, and repeat transactions frequently (Crook et al., 2013). The company may collaborate with its business partners by implementing a relationship-specific exchange. This type of exchange occurs when the parties have made a specialized investment, for example, regarding site-specificity, physical-asset specificity, dedicated assets, and human capital. Dedicated assets represent the general investment made by the company to exchange with a particular partner. It describes how a company may collaborate with its partners in order to exchange assets to support production. The collaboration is framed as a contract with the partner. The company may trust the partners to minimize the level of transaction costs. Besides, trust in partners has a role as governance in controlling the partner who performs the agreements in the contract (Baye & Prince, 2017; Crook et al., 2013; Williamson 1988). The company should manage cooperation with the partner because this would support the production process, in collaboration with the partners (Chao, 2011). A company may reduce a partner's opportunistic behaviour by implementing trust (Zaheer & Venkatraman, 1995). The company should implement trust as a cost-effective safeguard to maintain mutual dependency with its partner's trust (Williamson, 1993a). Guarantee schemes may avoid the risks which may result in additional costs, and be counter-productive to the agreements in the contract (Mugarura, 2016). If the company trusts its partner, it may benefit from minimized costs. Many scholars argue that trust involves costs when the partners do not perform the agreement. As a consequence, the company can mitigate the risk through trust in its partners. An adequate safeguard to reduce transaction costs is trust in partners and internal trust (Williamson, 1993a). Besides, institutional trust may support the level of both types of trust.

Institutional trust, internal trust and inter-organizational trust

Zaheer et al. (1998) describe trust as the expectation that a party which is relied on will fulfill its responsibilities, act in an expected way, and avoid opportunism; they also discuss the possibility of risk. Trust can be expressed in different forms, including cognitive, behavioural, and emotional, at both interpersonal and inter-organizational levels. Interpersonal trust also consists of three components: reliability, predictability, and fairness, but with an individual as both the referent and the origin of trust. Meanwhile, inter-organizational trust has three characteristics: reliability, predictability, and fairness. Institutional trust (IT) refers to the confidence level of the company in various institutions (Askvik & Jamil, 2013; Bursian et al., 2015; Oláh et al., 2019b). Trust in the institutions in a nation will affect business. For instance, trust in government is the expected extent of a company's trust in the quality of a bureaucracy which operates autonomously from political pressure. The business believes that the government has the strength and expertise to govern without the business having to deal with severe changes in policy, and that it provides a service to business (Goergen et al., 2013; Porta et al., 1996; Rim & Dong, 2018).

A company may start a collaboration with a level of trust, either high or low, regarding the performance of various institutions, and for various recognized reasons (Kadefors, 2004). When managers decided to sign a contract, they call for some safeguards that ensure the transactions will be fulfilled. The government performance may create personal trust (Brehm & Rahn, 1997; Levi, 1996). The judicial authorities also support partnerships between parties. When conflicts emerge between the parties, the law provides an ultimate safeguard to enforce the agreements in the contract (Ring & Van de Ven, 1992). Governments, legal systems, institutions, and common rules affect cooperation (Kadefors, 2004). To sum up, the performance of various institutions creates trust and collaboration. Subsequently, institutional trust empowers internal trust and inter-organizational trust

This study notices that institutional trust, as the external variable which is part of the business climate, may support internal and inter-organizational trust. Some scholars, such as Goergen et al. (2013) and Rim and Dong (2018), argue that the level of institutional trust may influence the business conditions in the internal company and the business climate in general (Brehm & Rahn, 1997; Lim et al., 2016; Putnam, 1995).

However, research into the influence of trust in empowering these internal conditions and business networks has produced debatable results. Goergen et al. (2013) argued that high levels of firm trust combined with high levels of government trust are likely to be counterproductive and ultimately to harm firm performance (Draskovic et al., 2017; Kliestik et

al., 2018). Indeed, being one of the social capital constituents (Kaasa, 2019), trust in the public and stakeholders diminishes profitability (Oláh et al., 2019b). The extent of institutional trust may not improve firm performance when it is still low, but when the institutional level is high, it gives advantages to the company (Goergen et al., 2013). Since the company may have trust in various institutions, the company then only needs to focus on managing internal trust and intra-relational trust to enhance business performance. In proposing a novelty as the theoretical framework of this research, this study will argue that institutional trust empowers the direction of trust in partners and internal trust simultaneously. Then the empowered internal trust will increase the trust in partners and consequently will enhance financial performance. This research proposes an integrative trust which supports the hypotheses below.

Hypothesis 1. Institutional trust is positively related to empowering interpersonal trust

Hypothesis 2. Institutional trust is positively related to enhancing trust in partners

Internal trust and inter-organizational trust

Some scholars argue that if a manager trusts in his/her subordinates, and vice versa, this will create efficient production (Sako, 1992) by reducing monitoring costs to support the manufacturing process (Bugdol, 2013). The role of trust may improve internal management practice, corporate culture, and the organization as a whole (Bieńkowska & Zabłocka-Kluczka, 2016).

The influence of interpersonal trust has an impact on intra-organisational trust, consisting of two concepts: dispositional and relational trust. Dispositional trust describes the expectation of trust simply in partners in general. Relational trust comes from a relationship with the partners, because trust emerges from the understanding of, and the relations with, a specific exchange companion. Zaheer et al. (1998) emphasize that the relationship between a manager and a partner's manager may develop inter-organizational trust. A trusted manager may develop inter-organizational trust through an institutionalizing process. During this time, a repeated relationship between two companies becomes more comfortable and more stable, and creates a relationship of collaboration. In this context, the manager - on behalf of the company - represents interpersonal trust, and may trust the partner's manager in relation to the bond between the companies. Trust between a manager and his/her partner may reduce boundaries between a company and its organizational partners. As a result, the empowered internal trust will increase the trust between the partners (Zaheer et al., 1998). This research

proposes that a pleasant climate of interpersonal trust in a company may affect the level of inter-organizational trust.

Hypothesis 3: Interpersonal trust has a positive effect on inter-organizational trust

Trust and financial performance

A company may plan to expand production through collaboration with business partners because the internal exchange costs may exceed the external exchange costs. The company may consider the potential benefit of collaboration to be greater than the external exchange costs in terms of searching for suppliers, negotiating prices, making contracts, and controlling partners. Therefore, the company may decide to collaborate with its partners to enhance production. Then this will increase, as well as the sales of the products or services. As sales increase, profits may also rise (Brigham & Houston, 2019).

Previously, scholars have examined inter-organizational trust as a significant factor (Davis et al., 2000) in boosting business performance (Barney, 2001). However, their results of the effect of trust on business performance are debatable. This study measures business performance in terms of profitability as one of the significant achievements of business performance. Profitability reflects the efficiency of the company in term of increasing sales while minimizing production costs (Davis et al., 2000). Inter-organizational trust as the proxy of minimizing cost may increase profitability as well as raising production and sales. The profitability ratio also indicates how successfully a company can control and apply its resources.

Oláh et al. (2019b) indicated that trust in business partners has a positive influence on financial performance. Besides, trust in management is positively related to a company's financial performance in terms of sales and profits (Davis et al., 2000). On the other hand, trust in a partner may also have an inconsistent effect on company performance (Robert W. Palmatier et al., 2006). Besides, Johnston et. al. (2004) and Corsten and Felde (2005) concluded that the level of trust had no significant impact on financial performance. This study will propose the hypothesis below.

Hypothesis 4: Interorganizational trust has a definite influence on financial performance

Intra-organisational trust, innovation, and financial performance

In a disruptive era, a company should develop an innovative product to compete with rivals by collaborating with partners (Corsten & Felde, 2005). Trust in partners has a positive effect on resource combinations and exchanges between the collaborating parties, which in turn affects the value creation of product innovation (Tsai & Ghoshal, 1998). Trust also results in improvements in the product (Jean et al., 2014).

However, results of the effect of trust on innovation are debatable. One group of researchers argues that inter-organizational trust has a positive influence on innovation. For instance, inter-organizational trust has a positive influence on innovation (Corsten & Felde, 2005; Lee et al., 2015; Murphy, 2002). Trust may create an innovative process, improve the economic scale and develop sales (Chao, 2011). Besides, trust has a positive and linear relationship with innovation performance (Wang et al., 2011).

The opposing group argues that trust has no direct influence on innovation (Landry et al., 2002). Moreover, trust requires an optimal climate if it is to be positively related to the innovation level. A higher level of trust which exceeds the optimal condition will diminish innovation. In other words, trust is worthwhile, but excessive trust is not a virtue (Molina-Morales et al., 2011). Besides, trust does not influence innovation (Landry et al., 2002). This study will propose the fifth hypothesis below.

Hypothesis 5. A higher level of trust in a partner may create an innovation capability.

A positive relationship between trust and innovation is reported by previous results from Corsten & Felde (2005), Lee et al. (2015), and Murphy (2002). Subsequently, innovation develops product performance which has a positive influence on financial performance (Vaccaro et al., 2010) in terms of asset specificity (Baye & Prince, 2017; Williamson, 1993b). This research will propose the hypothesis to support that innovation has a positive effect on financial performance.

Hypothesis 6. Innovation capability may enhance financial performance.

2. Methodological approach

Population and sample

The study population was predominantly made up of ICT companies active in Hungary which have a collaborative partnership with business associates. The study analyzed about 90 per cent of active ICT Companies, i.e. 1625 of 1800. Most of the ICT companies are in Budapest. The other companies occupy cities such as Debrecen, Budaors, Szekesfehervar,

Szeged, Győr, Nyiregháza and others. This study used random cluster sampling based on the addresses of ICT Companies. The common characteristic of these samples are active operation, being located mostly in Budapest and other cities in Hungary, and having at least one collaboration with a partner. We recently conducted an online survey by submitting a questionnaire to company founders and / or managers as critical informants and respected sources. This survey resulted in 156 samples from 250 questionnaires. The study then excluded outliers from previous samples, and finally used 103 samples. This number of samples is appropriate, according to Hair Jr et. al. (2016, p. 26). Besides, the model in this study has six hypotheses.

Variables and operational definition

The research model comprises five latent variables derived from previous studies. The simplest model consists solely of institutional trust, interpersonal trust, inter-organizational, innovation capability, and financial performance. We present the observed variables, as shown in Table 1.

Table 1. Variables and operational definition

Latent Variables Definition	Items	Indicators of Latent Variables
Interpersonal Trust (IPT)	IPT1	(1) trust between employees and managers/subordinates, as well as the relationships among the owners and management, and also confidence between employees in the same situation (Davis et al., 2000; Oláh et al., 2017),
	IPT2	(2) a decisive role in creating a corporate culture and a climate of trust (Sankowska, 2013),
	IPT3	(3) rating of managerial style at the company (Brown et al., 2011),
	IPT4	(4) level of staff turnover in the company (Vanhala & Dietz, 2015).
Intra- organisational Trust (IOT)	IOT1	(1) the level of trust in a business partner (Wei et al., 2012);
	IOT2	(2) the degree of trust in customers and clients,
	IOT3	(3) the extent of trust in suppliers and subcontractors,
	IOT4	(4) the degree of trust in other IT providers similar to the company (Jean et al., 2014);
	IOT5	(5) the consideration of the duration of relationships with the clients, from short term to long term,

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	IOT6	(6) the evaluation of the beneficial degree of the company's relationships with contracting partners (Cao et al., 2017),
	IOT7	(7) time for processing in terms of a contract with clients (Balboni et al., 2018),
	IOT8	(8) the company's role as decisive in building trust between the company and partner companies (Mari, 2010)
Institutional trust (IT)	IT1	(1) the level of trust in state government, ministries, government agencies (Khan et al., 2019),
	IT2	(2) the degree of trust in the state administration (public procurement office, competition office, the national bank, and others),
	IT3	(3) the extent of trust in the courts, the judiciary, and the prosecutor's office,
	IT4	(4) the level of trust in politicians,
	IT5	(5) trust in local government,
	IT6	(6) trust in the chambers of commerce,
	IT7	(7) trust in banks (Khan et al., 2019),
	IT8	(8) trust in large firms,
	IT9	(9) trust in small firms,
	IT10	(10) trust in customers, and
	IT11	(11) trust in current business partners (Askvik & Jamil, 2013; Bursian et al., 2015; Oláh et al., 2019b; Vasa et al., 2014)
Innovation (IN)	IN1	(1) The degree of innovation in the company's products and services is high compared to competitors (Lee et al., 2015),
	IN2	(2) The level of customization to distinct customer requirements is high compared to competitors,
	IN3	(3) The extent of the uniqueness of the company's products and services is greater than that of its rivals (Jean et al., 2014),
	IN4	(4) The company is more innovative than competitors in deciding what methods to use in achieving targets and objectives (Molina-Morales et al., 2011),
	IN5	(5) The company is more innovative than rivals in initiating new procedures or systems (Maurer, 2010), and
	IN6	(6) The company is more innovative than competitors in initiating changes in the job content and work methods of the staff (Molina-Morales et al., 2011; Sankowska, 2013).
Financial Performance (FP)		This research utilizes profitability ratios to indicate financial performance. Profitability ratios consist of:
	FP1	(1) Return on Assets (ROA),
	FP2	(2) Return on Equity (ROE),
	FP3	(3) Return on Sales (ROS),
	FP4	(4) Return on Capital Employed (ROCE), and
	FP5	(5) Operating Profit Margin (OPM) (Brigham & Houston, 2019; Oláh et al., 2019b).

Source: *Authors' own compilation*

We measured each question of trust on a five scale-range, ranging from very low to very high. On the innovation scale, responses to the survey were given on a 5-point scale, from strongly disagree to strongly agree. Another variable, financial performance, was assessed by a ratio scale. In this research, we formed IOT and IN as reflective indicators, then IPT, IT and FP as a formative construct. As a consequence, the assessment of each construct may use a different approach.

Tool of analysis

This research applied a Partial Least Square Structural Equation Model (PLS-SEM) to examine a proposed model, because PLS-SEM is a powerful method to assess the representations of the constructs by weighting composites of the measured indicators. The weighted aggregated indicators represent proxies for measurement error. Besides, this also generates a single precise result for each composite for each examination (Hair et al., 2019; Hair Jr et al., 2016; Ravand & Baghaei, 2016). A path model in this study comprises an inner model and an outer model. The inner model in this research denotes the directions between the latent variables consisting of institutional trust, interpersonal trust, inter-organizational trust, innovation capability, and financial performance, as shown in Figure 1. This research constructs institutional trust, interpersonal trust, and financial performance on formative measurements, while inter-organizational trust and innovation are constructed as reflective indicators (Hair Jr et al., 2016).

The research employed Confirmatory Factor Analysis (CFA) to acquire significant indicators from each construct. This is a decisive step to confirm the factors before running the PLS-SEM analysis to examine the correlation between the observed construct and latent variables. The cut-off point is 0.5 for each indicator in each latent variable. Based on the cut-off point, this research will omit the indicators which do not significantly contribute to the latent variables (Hair Jr et al., 2016). Based on the rule of thumb, we omitted the indicators which did not significantly contribute to the latent variables. We then employed significant indicators as listed in Table AI.1 in the Appendix.

3. Conducting the research and its results

Table 2 describes the surveyed respondents regarding their profession and highest educational level. The main thing to note is that most of the respondents were managers,

followed by middle managers, with a minority working as junior managers. Furthermore, most of the respondents had graduated from university. The number of those with a further education college certificate was half of the number of those who were university graduates. The percentage of managers with a higher education certificate was the highest, at about 34 per cent, which was double the number of junior managers with a similar educational level. The number of managers with a further education college certificate was half that of the number of managers with a university degree. The lowest number of respondents were those who had graduated from secondary school.

Table 2. Respondent profile

Position	Educational Level			Total
	College	Secondary	University	
Junior	3	0	11	14
Middle manager	12	2	22	36
Manager	16	2	35	53
Total	31	4	68	103

Source: *Authors' own data. n = 103*

Table 3. Company report

Company Age	Frequency
Between 1 and 10 years	13
Between 10 and 20 years	47
Between 20 and 30 years	38
More than 30 years	5
Firm Assets	
Less than 1 Million Euro	54
Between 1 and 3 Million Euro	26
Between 3 and 5 Million Euro	12
More than 5 Million Euro	11

Source: *Authors' own data. n = 103*

Table 3 illustrates the firms' profiles in terms of age and assets. The most typical age of a company was between ten and twenty years, at about 45 per cent of the total. The next most typical was companies established between 20 and 30 years ago, at about 8 per cent less than the first group. Next came companies running for ten years, at about 12 per cent. Finally, only a few firms had been operating for more than 30 years. The typical value of the assets owned by the companies was below one million Euro. Companies with assets from one to three

million Euro were half as typical as the first group. Finally, companies with assets between 3 and 5 million were similar in number to firms with assets of more than five million Euro.

3.1. Constructs assessment

We examined the proposed model based on the measurement and structural models. First, we analyzed the measurement of the construct regarding the reliability, validity, variances of the indicators, and collinearity. After this, we also analyzed the structural model in terms of the goodness of fit, the path coefficient of regression, the coefficient of determination, and mediation path analysis (Hair et al., 2019; Tenenhaus et al., 2005).

We conducted a reliable evaluation of IOT and IN by way of reflective constructs. We had previously examined the loading factors for indicators from IOT and I, which were above 0.50 as a minimum rule of thumb for each indicator, as shown in Table AI.1 in the Appendix. All the loading factors are higher than 0.6. Then, we also checked the internal consistency ratio with Cronbach's Alpha (CA). Table 4 shows that the Cronbach's Alpha (CA) coefficients of IOT and IN are greater than 0.7. We also indicated that the value of Dillon-Goldstein (D.G.) rho for IOT and IN was above 0.7 as the rule of thumb. Finally, we conclude that IOT and IN meet the internal consistency.

In terms of the validity of the construct, we indicate that the average variance extracted (AVE) for IOT and IN is higher than 0.5. Consequently, we concluded that IOT and IN meet the convergent validity. Then, we also showed that IOT and IN reflected the discriminant validity because the AVE values are higher than any correlations with any other constructs, as shown in the Appendix in Table AI.2

Table 4. Reliability, variance, and VIF summary

Latent variables	Indicators	CA	D.G. rho	AVE	VIF
IPT	2	0.46	0.79	0.64	1
IOT	4	0.70	0.82	0.50	1.021
IT	3	0.89	0.93	0.15	1
IN	4	0.83	0.89	0.67	1
FP	3	0.93	0.95	0.76	1.005

Source: Authors' own data. $n = 103$

Next, we also examined of IPT, IT, and FP as formative constructs. The examination of formative measurement consists of reliability, convergent validity, collinearity, and

significant weight (Hair et al., 2019; Ravand & Baghaei, 2016). We assumed that IPT, IT, and FP are internally consistent because of the D.G. rho value above 0.7.

We then examined the convergent validity of the construct regarding the values of factor correlations for each construct with a 0.7 rule of thumb. We noticed that the indicators of IT, IPT, and FP have factor correlations above 0.8, as illustrated in Table AI.1 in the Appendix. As a result, we consider that all the measured variables of IT, IPT, and FP meet the convergent validity requirement. Then, all the indicators of IT, IPT, and FP have a Variance Inflation Factor (VIF) value of below three. We concluded that the aforesaid measured variables do not correlate with each other. This implies that the observed variables meet the non-collinearity assumption. Based on the significant weight dimension, we established that all the measured variables are significant, except for IPT 2.

3.2 Structural Model Assessment

We examined first the structural model relating to the Goodness of Fit (GoF). The result of the GoF is illustrated in Table 5.

Table 5. The goodness of model fit

Model	GoF	GoF (Bootstrap)	Standard error	Critical (CR)	ratio
Outer model	0.88	0.84	0.059	15.17	
Inner model	0.66	0.67	0.061	10.73	

Source: *Authors' own data. n = 103*

The goodness of fit (GoF) indicates an overall measure of model fit for PLS-SEM (Hair Jr et al., 2016; Henseler & Sarstedt, 2013). The suggested cut-off of is 0.60 (Ravand & Baghaei, 2016; Sanchez et al., 2013). Table 5 shows that all the values of the GoF are above 0.7; the outer model in terms of the directions between the latent variables is excellent. The inner model, representing the associations between latent variables and their indicators, is exceptional.

As a result, the regression path of the hypotheses is presented in Figure 2.

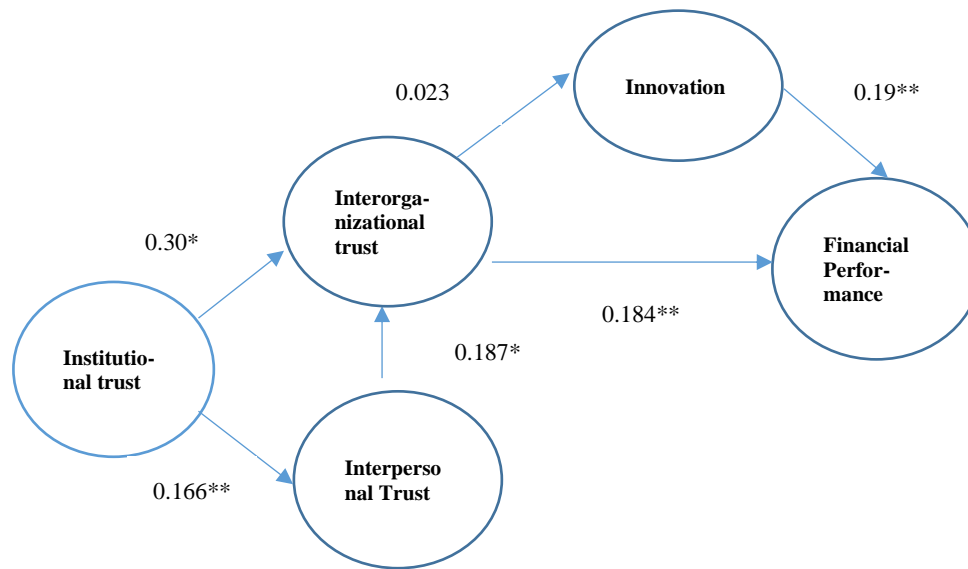


Figure 1. Integrative Trust, Innovation, and Financial Performance Model.

Source: Authors' own data. $n = 103$; *) significant below 5%. **) significant below 10%.

In this study, we proposed six hypotheses with 95% confidence intervals. The results appear to make sense and to be compatible with our expectations. The results of the regression path and the coefficient of determination are shown in Table 6.

Table 6. Path coefficient and R^2

Hypothesis	Coefficient	t-stat	Probability	Predictor(s)	Outcome	R^2
H1: IT \rightarrow IPT	0.166	1.690	0.094**	IT	IPT	0.028
H2: IT \rightarrow IOT	0.301	3.212	0.002*	IT and IPT	IOT	0.144
H3: IPT \rightarrow IOT	0.187	1.989	0.049*	IOT	IN	0
H4: IOT \rightarrow FP	0.184	1.903	0.060**	IOT and IN	FP	0.071
H5: IOT \rightarrow IN	0.023	0.227	0.821			
H6: IN \rightarrow FP	0.188	1.953	0.054**			

Source: Authors' own data. $n = 103$; *) significant below 5%. **) significant below 10%.

This study contributes to the literature combined with previous studies. This research has established a strong, positive relationship between Institutional Trust (IT) and Interpersonal Trust (IPT), confirming the perspective of institutional trust as a guarantee and developer of the internal business climate within a company. The result shows that IT has a positive effect on IPT within a company. From a social capital perspective, IT may encourage managers and employees to perform within an organization more positively in order to achieve collective goals. IT may simplify the internal coordination and cooperation between the manager and employees to their mutual advantage in the company (Putnam, 1995). The finding of this study

confirms previous observations that confidence in institutions influences interpersonal trust (Brehm & Rahn, 1997; Levi, 1996). This result relates to the strong relationship in which a higher level of institutional performance would indicate an increase in interpersonal trust, as was previously explored by Brehm and Rahn (1997). Our approach is not comparable to the result from Lim et al. (2016), who investigated the path of IPT on trust in institutions.

In this research, IT reveals a 2.8 per cent variability in IPT. Therefore, we consider the low coefficient determinant for this relationship proves that there may be other factors beyond IT that are essential to nurturing IPT. Two studies have investigated the sources of IPT within the company in terms of the cognitive basis and affective basis of trust. For instance, McAllister (1995) examined the idea that colleagues' consistent responsibility for accomplishment had a significant influence on IPT from a cognitive basis perspective. Then, he also revealed that regular relations, partners' act of affiliation, and the forms of social responsibility adopted by subordinates fostered IPT in terms of affective-based trust. Moreover, Costigan et. al. (1998) also showed correspondingly that dyadic connection, enthusiasm, confidence, manners, personal initiative, the career promotion system and objective assessment, and effective remuneration as a reward for work determined IT from the perspective of affective-based trust.

The next significant result of this study relates to the impact of IPT on Inter-organizational Trust (IOT). We reveal the significance of IPT in enhancing trust in business partners. This result supports the experiment by Zaheer et al. (1998) related to micro-macro inter-organizational networks. The connection between the manager and his/her partners is usually set up through informal interpersonal relationships (Inkpen & Tsang, 2005; Sroka, 2011). Then, the connectivity between managers and corporate affiliates may develop into a relationship (Inkpen & Tsang, 2005). As a result, the manager, acting on behalf of the company, trusts directly in partners in an inclusive approach. IOT originates from an interpersonal relationship between the manager and his/her associates, and can be explained as follows. During this time, the recurrent affiliation between two representatives of each company matures more securely and steadily in creating an engagement of collaboration (Zaheer et al., 1998). The result shows that interpersonal and inter-organizational trust are correlated. This connection may affect cooperation processes (Zaheer et al., 1998), assist in partnership forming, and diminish transaction costs (Niazi & Hassan, 2016). From the transaction cost perspective, a company may increase production throughout the partnership with the business partners as the internal exchange cost surpasses the external exchange cost (Brigham & Houston, 2019). Indeed, trust between organizations might improve the flexibility of mutual

relationships. IOT also shortens adaptation time, improves product and process quality, reduces the cost of coordination activities (Smith et al., 1995), lessens the uncertainty of cooperation and – importantly - diminishes interaction costs (Mu et al., 2008).

We also proved that IPT fully mediated the influence of IT on IOT. This study reinforced the idea that interpersonal trust has a role as a complementary mediating variable. This outcome supported previous research from Brehm & Rahn (1997), who revealed that trust in government and various institutions could be a simplification of interpersonal trust (Brehm & Rahn, 1997) to perform essential business collaborations.

This research also emphasized the finding that IT and IPT strengthen IOT by about 14 per cent. This may be remarkable in a country with a low level of trust, such as Hungary (Sroka, 2011). Indeed, other factors connected with the reinforcement of intra-organizational trust are also revealed in previous studies, for instance, reliability and integrity, and qualities related to factors such as consistency, competency, honesty, fairness, responsibility, helpfulness, and benevolence (Morgan & Hunt, 1994). Besides, knowledge intensity and uncertainty also affect trust in business partners' maturity (Gaur et al., 2011).

The relationship between IOT and business performance may contribute to the debate among scholars. We measured financial performance as the proxy of business performance. As expected, the finding of this study supports previous researchers, such as Fang et al. (2008), Bien, Ben, and Wang (2014), Gaur et al. (2011), Wei et al. (2012), Shahmehri et al. (2015), and Moeller (2009), i.e. that IOT enhances financial performance.

From a transaction cost perspective, a company may expand production by comparing internal exchange costs and external exchange costs. In terms of collaboration, the company may predict that external exchange costs will be less than internal exchange costs. Therefore, the benefit in enhancing production surpasses the external exchange costs, such as searching costs, negotiating fees, and monitoring costs. In this context, trust operates as a hierarchical governance to push partners to accomplish an agreement (R. Galford & A. S. Drapeau, 2003; Inkpen & Tsang, 2005; Tsai & Ghoshal, 1998) to support the company's production. As a result, improving production while minimizing costs may improve sales, as well as the profit related to the financial performance. Our finding substantially supported the previous results which found that a higher level of trust in a partner (Robert Galford & Anne Seibold Drapeau, 2003) has a definite impact on the direction of business performance (Allen et al., 2018; Davis et al., 2000; Dyer & Chu, 2003; Iancu & Nedelea, 2018).

On the other hand, the results of this study may contradict researchers who argue that trust in colleagues may also have an inconsistent effect on company performance (Robert W. Palmatier et al. 2018). Johnston et al. (2004) concluded that the level of trust in business partners had no significant impact on company performance. Besides, confidence in a business partner does not directly affect business performance (Al-Hakim & Lu, 2017). However, this result contradicts that of Moeller (2009), who revealed that trust had no clear effects on financial performance.

Our next result does not support the proposed hypothesis in this research that inter-organizational trust has a positive influence on innovation. Comparing this with the results of Corsten and Felde (2005) and Tsai et al., (2010), there is a contradictive direction between trust and innovation. To further the debate, we consider that other factors affect innovation directly besides trust in partners. Previous scholars have argued that the budget for research and development (Capon et al., 1992), inter-functional coordination and human resource practices (Suseno & Ratten, 2007), a rapid response to information from the marketplace, and science and technology (Darroch & McNaughton, 2002) may encourage the innovation level. We also consider intermediate factors such as working in partnership with international customers, using technology to disseminate knowledge, responding to knowledge about technology, and being flexible and opportunistic (Kitchell, 1995) to be important.

Our result indicates that innovation was significantly associated with financial performance. This result was essentially confirmed in the research by Vaccaro et al. (2010), and Zaheer et al. (1998). Besides innovation, we also agree that strategic relevance and participation in the network has a great impact on financial performance (Moeller, 2009). Indeed, quality improvement and cost improvement are equally significantly, interrelated with financial performance (Maiga & Jacobs, 2007). We proposed that innovation may mediate the direction between intra-organisational trust and financial performance. However, innovation failed to mediate the influence of inter-organisational trust on financial performance. As a significant point, we revealed that inter-organisational trust and innovation might explain about 7 per cent of the variability in financial performance. From the perspective of social capital, we can establish a significant pathway in that trust and trustworthiness were found to be positively associated with resource exchange and combination. Consequently, resource exchanges and combinations create value for firms through significant, positive effects on product innovations (Tsai & Ghoshal, 1998). Besides, we also support the idea that building

social capital is related to enhanced business knowledge and innovation performance in similar European countries, such as Denmark, Ireland and Wales (Cooke & Wills, 1999).

Our finding implies that a company should develop shared relationship bonds, trust in partners, and mutuality significantly associated with knowledge sharing intentions, in order to achieve innovation (Akhavan & Mahdi Hosseini, 2016) and to deal with business pressure in a disruptive period.

After discussing the path coefficient result, we also investigated the direct and indirect effects of the model. This study has two types of moderating variable. First, interpersonal trust as a mediating variable to empower the influence of institutional trust on inter-organisational trust. Following this, innovation is proposed as a mediating variable to enhance the impact of inter-organisational trust on financial performance. We scrutinized the significance of a direct, indirect, and total effect to explain the role of interpersonal trust and innovation, as shown in Table 7.

Table 7. Direct and indirect effects of observed variables

Direction	Effect	Value	Significance of Coefficient	Justification of the mediating variable
IT → IPT → IOT	Indirect	0.0012	All coefficients are significant	Complementary (partial mediation)
IT → IOT	Direct	0.1001		
	Total	0.1013		
IOT → IN → FP	Indirect	0	IOT to IN is not significant; IN to FP is significant;	Direct only (no mediation)
IOT → FP	Direct	0.0345	IOT to FP is significant	
	Total	0.0345		

Source: Authors' own data. $n = 103$

Interpersonal trust has a role as a complementary mediating variable. This implies that interpersonal trust has a similar effect as institutional trust. Interpersonal trust has significantly mediated the influence of institutional trust on inter-organisational trust. Meanwhile, innovation has failed to mediate the influence of inter-organisational trust on financial performance. However, moving in the same direction, innovation may improve financial performance as well as inter-organisational trust. This may imply the need to consider the variables which may replace or empower innovation in forthcoming research.

3.3 Implications for theory and practice

This study is novel in describing a new perspective of integrative trust to improve financial performance. This study confirms the previous studies which argue that IT contributes to enhancing IPT and IOT. IPT also operates as a complementary mediating variable to influence IOT, which in turn improves FP. Although this study does not support the influence of IOT on innovation, it shows that innovation may improve FP.

This study further extends the discussion of trust as consolidative social capital to improve financial performance. A coincident trust may support business, with the further explanation that IT as an external cause may strengthen IPT within a company. IT also may strengthen the confidence between the company and business partners to support collaboration. IOT may also improve financial performance. Our study also explains the research gap around the question of whether trust in partners has a positive effect on business performance. Besides, it also supports previous scholars who have argued that innovation may improve financial performance.

According to the indicators which have high factor correlation, we initially recommend that firms and managers consider maintaining IPT in terms of developing trust between staff and supervisors, together with the connection between shareholders and management. Managers should maintain confidence between employees and their colleagues in the company (Davis et al., 2000; Oláh et al., 2017). Trust among employees may create effectiveness and cohesion in the company organization. The staff and their partners may work together as a team, share information, become engaged in rights and responsibilities, and cooperate. Trust between employees and workmates may develop talents and capability. As a result, a company can achieve significant objectives. Hence, managers should have a significant role in creating a corporate culture conducive to supporting the climate of trust within a company (Sankowska, 2013). Managers should develop interpersonal trust as an essential element in providing an influential corporate culture which ensures a sense of trustworthiness. As a consequence, employees may feel safe in speaking openly, taking advantage of appropriate situations, and revealing deficiencies, in order to achieve the company's targets.

Another recommendation is that managers should enhance the confidence level of customers and clients because they are the foremost resources. Without them, the business would not run well. The company should retain its clients and develop a relationship with them

by approaches involving trust. When customers maintain trust, a company can increase its business reputation and provide value-added to its clients. Besides, a company also should emphasis maintaining trust in suppliers, because the firm may acquire genuine benefits. A relationship of trust in suppliers may provide the company access to potential resources. Contractors may support the company's production through committed service, favorable prices, and exceptional conditions. As a result, the company may minimize external transaction costs and so enhance its manufacturing.

In line with a high level of interpersonal trust, trust in clients, and in suppliers, a company also should innovate its products and services in competition with its rivals. Innovation is one decisive concern of the company in terms of growth and synchronization in a challenging market (Dabija et al., 2017). As mentioned earlier, a firm may develop innovation by implementing new methods and novel procedures or systems to accomplish its targets. As a result, practical innovation may enhance productivity and thereby raise profitability, as supported in this study. Finally, the elements of profitability most affected by innovation include ROA, ROE, and ROCE, as verified in this study.

Conclusion

In summary, this study demonstrated that integrative trust has led to further improvements in financial performance. Naturally, this study provides a valuable concept for examining how IT enriches IPT and IOT. An exciting finding to note here is that IPT as a paired intermediating variable of IT may have an influence on IOT. As predicted, IOT may contribute to a significant increase in FP. The main limitation, however, is that this research failed to support the influence IOT on IN. As a final point, this finding reinforces the general framework that a rise in FP is accompanied by the increasing prevalence of IN.

We suggest three essential implications. As a first point, managers should pay attention to developing interpersonal trust and levels of confidence in order to support work effectiveness among employees. The subsequent recommendation is that a company can maintain and develop trust in customers as the primary assets. A firm should also consider sustaining trust in suppliers to ensure access to specialized resources. To sum up, we suggest that trust in business partners and innovation may support profitability.

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Appendix

Tabel AI.1 Factor Loading Correlation

	IT	IPT	IOT	IN	FP
IT1	0.926				
IT2	0.917				
IT5	0.882				
IPT1		0.805			
IPT2		0.805			
IOT1			0.650		
IOT2			0.744		
IOT3			0.807		
IOT4			0.683		
IN1				0.862	
IN2				0.659	
IN4				0.876	
IN5				0.847	
FP1					0.879
FP2					0.973
FP4					0.953
AVE	0.148	0.640	0.500	0.662	0.760

Source: Authors' own data. $n = 103$

Table AI.2 Discriminant validity (Squared correlations < AVE)

	IT	IPT	IOT	IN	FP
IT	1	0.0275	0.1104	0.0142	0.0002
IPT	0.0275	1	0.0560	0.0025	0.0000
IOT	0.1104	0.0560	1	0.0005	0.0353
IN	0.0142	0.0025	0.0005	1	0.0370
FP	0.0002	0.0000	0.0353	0.0370	1
Mean Communalities (AVE)	0.1481	0.640	0.500	0.662	0.760

Source: own data. $n = 103$

Table AI.3 Weights Dimension

Latent variable	Manifest variables	Standard error	Critical ratio (CR)	Lower bound (90%)	Upper bound (90%)
IT	IT1	0.8450	-1.4082	-1.6051	1.0555
	IT2	0.5041	-0.6059	-1.0364	0.6939
	IT5	1.0375	1.2367	-1.3784	1.5603

**THE EFFECT OF INTEGRATIVE TRUST AND INNOVATION ON FINANCIAL PERFORMANCE
IN DISRUPTIVE ERA**

IPT	IP1	0.4416	1.7406	-0.4647	1.0354
	IP2	0.4933	0.9166	-0.5846	1.0373
IOT	IO1	0.1693	1.6337	-0.0058	0.5307
	IO2	0.1764	2.9894	0.1985	0.7444
	IO3	0.0906	4.7592	0.2508	0.5675
	IO4	0.1957	0.3296	-0.2772	0.3747
IN	I1	0.1622	1.5086	-0.0872	0.4745
	I2	0.3218	0.6386	-0.2152	0.9311
	I4	0.2004	1.9260	-0.1378	0.6175
	I5	0.2417	1.5254	-0.1822	0.5286
FP	FP1	0.8614	-0.1082	-1.0938	1.6428
	FP2	1.3457	-0.0902	-2.0778	2.6717
	FP4	1.0706	1.1000	-1.4695	2.2002

Source: Authors' own data. $n = 103$