



EXPLORING FACTOR AFFECTING TRUST AND RELATIONSHIP QUALITY IN A SUPPLY CHAIN CONTEXT

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Abstract

This study explores and evaluates the factors affecting trust and the influence of trust on relationship quality. These influences are studied in supply chain relationships, focusing on companies operating in a developing country such as Albania. The aim is to contribute in the trust research and to show managers trust and its antecedents lead to better business performance and better relationships with partners. The data were collected from 162 Albanian businesses, all engaged in different business relationships with respective partners. The paper proposes a partial least squares model (PLS) for conceptualizing and measuring the effects of rule of law, communication, competence and reputation, personality traits and social interaction on trust. Also the effect of trust on relationship quality is quantified and measured. The results of the study support the hypotheses that all factor mentioned positively affect trust, and that trust has a considerable effect on relationship quality. The research demonstrates the effectiveness of multivariate modeling in analyzing constructs like trust and relationship quality. In practice, this study provides managers with deep understanding of different aspects of their business relationships, focusing exclusively on trust.

Keywords: Trust, Relationship quality, Supply chain, Developing country.

Introduction

It's been more than 20 years that Albania is part of free market economy. Numerous businesses operating in Albania have managed to adopt pretty well with the free market rules, as well as to establish successful relationships and partnerships between them. Business parties engaged in long-term successful relationships benefit from them in many ways. Worthy to mention are reduced perceived level or business-associated risk, better planning of business operations, cost reductions, increased efficiency and efficacy, reduced uncertainty for the future, etc. (Deutch 1973; Scanzoni 1978; Grönroos, 2000; Håkansson and Snehota, 1995; Morgan and Hunt, 1994; Sheth and Sisodia, 2005; Sirdeshmukh et al., 2002). Thus, developing close long-term relationships is fruitful to companies. Researchers have found that a key ingredient in building such relationships is trust. As a central variable of social exchange theory, trust is a

cornerstone in developing and maintaining business relationships (La Londe, 2002, Sherman, 1992). The focus of this study will be the factors that influence trust between parties in a supply chain relationship. This study also investigates the nature or relationship between trust and relationship quality, where relationship quality is reflected through long-term orientation, satisfaction, and perceived obtained value derived from relationship. Albanian companies, although relatively young, are materializing the benefits that steam from long-term relationships with their business partners. It is of great interest from both academic perspective and managerial one to understand the forces that affect trust in a relationship in a transition economy such as Albania. Institutional elements of trust formation are still weak in Albania, as in transition economies in general, so business partners have to rely on other clues in building their trust toward other parties. The study was based in data obtained from 162 Albanian companies operating in different industries. The model built, which comprises factors that influence trust and the relationship between trust and relationship quality, was based on an extensive relevant literature review. Hypotheses were tested using partial least squares (PLS) structural equation model. The results reveal interesting implications about trust formation and relationship quality, in a developing country context.

Literature Review

Many academics and practitioners use the word "trust", but what exactly is trust? Generally trust involve one part's expectations that another part will behave in a certain way (Deutch 1973; Scanzoni 1978; Schurr and Ozanne 1985). Despite numerous studies conducted on trust in business relationships, still no agreement about his meaning has been reached (Nielsen, 2004). Reviewing business relationships' literature yields controversies and ambiguities on defining trust, its antecedents, manifestations and consequences (Atkinson and Butcher, 2003; Brashear et al., 2003). Hosmer proposes this definition of trust:

Trust is the reliance by one person, group, or firm upon a voluntarily accepted duty on the part of another person, group, or firm to recognize and protect the rights and interests of all others engaged in a joint endeavor or economic exchange (Hosmer, 1995, p. 393).

The importance of trust arises by the fact that it is regarded as an important contributor to the strength of different relationships (Grönroos, 2000; Håkansson and Snehota, 1995; Morgan and Hunt, 1994). Trust is the building block in relationship marketing and social exchange theory (Morgan and Hunt, 1994; Whitener et al., 1998). It is widely accepted as an important factor in dyadic business relationships (Young and Wilkinson, 1989).

In a supply chain context, trust is often referred as essential element for successful supply chain partner's relationship (Sahay, 2003; Svensson, 2004; Gounaris, 2005; Varma et al., 2006). Spekman and Davis (2004) argued that building partnership trust is at the heart of managing risk and a prerequisite in supply chain. Thus, both researchers and practitioners are increasingly turning their attention to the concept of trust, as a mean for reducing uncertainty and securing a long-term relationship with business partners (Møllering, 2004). Trust has gained growing importance from academics and practitioners, who widely agree on his important role in the creation, development, and maintaining ongoing inter- and intra-firms' marketing relationships (Atkinson and Butcher, 2003; Brashear et al., 2003; Chow and Chan, 2008; Kingshott and Pecotich, 2007; Morgan and Hunt, 1994; Sheth and Sisodia, 2005; Sirdeshmukh et al., 2002).

According to Child (2001, p. 275), "despite the value placed on it, trust remains an under theorized, under researched and therefore poorly understood phenomenon." This makes even more elusive the understanding of the value of trust in day-to-day social exchanges and its

significance in business relationships, particularly in supply chain one. Conducting an investigation into these issues would be very helpful to improve our knowledge about the role of trust and the mechanisms by which it operates in establishing and maintaining relationships between firms in supply chain.

Several findings regarding trust support the central role of trust as a key managerial concept. Thus, trust is considered crucial to the process of problem resolution (Anderson and Narus, 1990; Schurr and Ozane, 1985), and as an important ingredient of the creativity involved in solving problems (Woolthuis et al., 2002). Beside these, trust is found to transform disagreements into functional conflicts and to result in productivity benefits (Morgan and Hunt, 1994). In this context, partners are more willing to implement agreements, thereby reducing the extent, the intensity and the frequency of dysfunctional conflict (Zaheer et al., 1998). Trust can also help in reducing transaction and negotiation costs (Doney and Cannon, 1997; Madhok, 2006). These costs include all the expenditures necessary to achieve an agreement that satisfies the two parties (Ganesan, 1994; Zaheer et al., 1998) and the time and efforts needed to fulfill an effective course of actions (Dyer and Chu, 2003; Chow and Chan, 2008). Such benefits may have a direct effect on performance and they could be further enhanced if exchange partners succeed in reaching their strategic objectives in terms of price, delivery, quality, and outcomes (Davies and Prince, 2005; Lane et al., 2001). Performance objectives of a firm can positively be affected (directly or indirectly) from the willingness to share confidential information, from human, technical and logistical support of trustworthy partners, and from fewer efforts needed to understand the partner. Firms can also achieve better implementation of strategies and managerial coordination (Narasimhan and Nair, 2005). Another benefit stemming from trust is fostering the firms' commitment and reducing the propensity to leave (Morgan and Hunt, 1994). Trust is also recognized as a determinant of long-term orientation (Ganesan, 1994; Khurram et al., 2005; Kingshott and Pecotich, 2007). Furthermore, some scholars consider trust as an essential condition for survival of any exchange commercial system (Chow and Chan, 2008; Geyskens et al., 1998; Malhotra and Murnighan, 2002), and also as a precious organizational resource (Davies and Prince, 2005).

Theoretical framework for conceptual model and hypotheses development

After an extensive literature review, several factors were found important in influencing trust. In the section below these factors are presented, together with respective hypothesis on the nature of influence:

Rule of law

Sometimes our expectations for other's behaviors are based on rules dictated by legislative and regulatory institutions. Business partners rely on state institutions to ensure that other partners are bona fide. Legal rules and policies of local, national and international governments, regulations set up by national organizations (e.g. trade unions) all influence the options that clients and vendors often have.

Political officers and institutions are motivated to produce trust because their legitimacy can be maintained only through public trust (Cintrin 1974). Expectations for system trust are based on community's written rules and on the effectiveness of regulatory institutions in enforcing these rules.

Trust in official control mechanisms is trust in the institutional controls that seek to provide assurance against and remedies for some types of harmful actions and negative consequences

(Zucker, 1986). Trust in the rule of law is the belief that proper, accepted, official and unofficial, formal and informal structures are in place to enable companies to anticipate situation normality and a successful business relationship. Pavlou and Gefen (2004) found that third-party institutional mechanisms that facilitate transaction success engender trust, not only in a few reputable sellers, but in the entire community of sellers.

Research has shown that the institutional framework of a business system can produce highly generalized norms of business behavior (Arrighetti et al., 1997) and, in this way, foster the development of trust.

Thus, the following hypothesis was developed:

H1: Rule of law positively affects trust.

Communication

Communication is a very important aspect of relationship, and it is considered as “a bilateral expectation that parties will proactively provide information useful to the partner” (Heide and John, 1992, p.35). Anderson and Narus (1990) define communication as the formal and informal sharing of meaningful and timely information between organizations. Effective communications are key ingredients for achieving the benefits of inter-organizational collaboration (Cummings, 1984). In a supply chain relationship context, a buyer’s willingness to share information represents a safeguard to the supplier in the sense that the buyer can be expected to provide unforeseen information that may affect the operations of the supplier (Wilson and Nielson, 2000). Several researchers have found that communication is positively related to trust in various inter-organizational relationships (Anderson and Weitz, 1989; Anderson and Narus, 1990; Morgan and Hunt, 1994). Establishing communication mechanisms in supply chains increases trust building and knowledge sharing, thus leading to effective management of collaboration (Cetindamar et al., 2005).

Based on these previous findings, respective hypothesis is formed:

H2: Communication positively affects trust.

Competence and reputation

Competence refers to the fact whether the transaction partner can perform his/her job competently. Researchers have found that competence and reputation will contribute positively in the building of trust in a supply chain relationship. Demonstrated competence leads to performance satisfaction and may be defined as the degree to which business transactions meet performance expectations (Wilson, 1995). A research of Moorman et al. (1993) supports the generally accepted idea that competence and reputation is an important foundation for trust.

Empirical evidence supports the link between supplier reputation and trust. Supplier reputation is the extent to which firms and people in the industry believe a supplier is honest and concerned about its customers. A favorable reputation is easily transferable across firms and enhances the credibility of the vendor (Ganesan 1994). If a buying firm assumes the supplier's reputation is well deserved, trust will be granted on the basis of the supplier's history in relationships with other firms. Ganesan (1994), in a study of industrial channel dyads, finds that a retailer's favorable perception of a vendor's reputation leads to increased credibility, which is a main component of trust. Similarly, Anderson and Weitz (1989) find that a channel member's trust in a manufacturer is positively related to the manufacturer's reputation for fair dealings with channel members.

Based on this previous research, respective hypothesis is formed:

H3: Competence and reputation have a positive influence on trust.

Personality traits

Considerable research has supported the view that trust between individuals is a function of an individual's propensity to trust, determined by one's personality traits. Rotter (1967) defines trust as a generalized expectancy held by an individual that the word, promise, or oral or written statement of another individual or group can be relied on. Individuals hold generalized expectancy to trust others, which determines their willingness to trust a partner in specific circumstances. Compared to situational determinants of trust germane to the specific context of the interaction, personality traits have been demonstrated to have a significant effect on an individual's level of trust (Schlenker, Helm and Tedeschi 1973). It has been suggested that propensity to trust is most influential in ambiguous circumstances, devoid of context-specific cues (Martin 1991, Schenker, Helm and Tedeschi 1973).

A buyer who believes that the supplier is credible and honest is one who believes that the supplier will live up to his or her word and has the expertise required to perform the job effectively and reliably (Doney and Cannon, 1997). A trustworthy supplier is one who is perceived to be positively disposed toward the buyer and willing to make short-term sacrifices with a balanced understanding of unforeseen circumstances (Kumar et al., 1995).

Based on these previous findings, respective hypothesis is formed:

H4: Personality traits have a positive influence on trust

Social interactions

Social bonds play an important role in the degree of interaction between a supplier and buyer. Williams et al. (1998) contends that organizational members "bond" through personal and social relationships with their counterparts in a particular firm. In supply chain relationships social interactions reduce the propensity of a partner to react negatively to inflexible and unfair behavior (Schurr and Ozzane 1985). Social bonds also create an informal environment where closer interpersonal relationships are developed and a better understanding of mutual needs is fostered. Frequent interaction engenders trust by providing buyers with information that enables them to predict a supplier's future behavior with confidence (Doney and Cannon, 1997). Social interaction may also strengthen trust when personal friendship between the buyer and supplier lead to benevolent intentions toward each other. Anderson and Weitz's (1989) concluded that interpersonal relationships are important in ensuring the continuity of a dyadic relationship. Similarly, Lee et al. (2001) also emphasize the importance of interpersonal relationship, and suggest that representatives in each organization should develop close personal relationships and enhance mutual understanding.

Zand (1978) refers to the process of trust building through repeated interactions as a process of "spiral reinforcement", in which initial levels of trust encourage information flow, which reduces uncertainty and further fosters trust. Similarly, Dwyer, Schurr and Oh (1987) found that marketing relationships develop in a trajectory that involves increasing trust based on fulfillment of trust at each stage.

From the above, this hypothesis can be extracted:

H5: Social interaction positively affects trust.

Trust and relationship quality

Trust is considered as a key factor not only in the early stages of a relationship development (Dwyer et al., 1987), but also is regarded as a substantial factor influencing the continuity of long term relationships (Anderson and Weitz, 1989). Madhok (1995) contends that trust is a necessary condition for the sustained continuation of a relationship. Trust shapes the

dynamics of interactions in exchanges between people. Williamson (1985) suggests that business relationships characterized by high trust can “survive greater stress and display greater adaptability” (p. 241). If trust exists in substantial levels between partners, they are more willing to make investment in the relationship and strengthen their organizational ties. High levels of mutual trust facilitate the effective exchange and enhance relationship satisfaction and performance (Bianchi and Saleh, 2010; Payan et al., 2010).

Long-term orientation is one of the key characteristics of relationship quality (Lee and Dawes, 2005). Both buyer and supplier can achieve competitive advantages from long-term relationships with their partners (Ganesan, 1994). Due to its role in shifting the focus to future conditions, it is suggested that trust is a necessary antecedent of long-term orientation (Doney and Cannon, 1997). When the level of trust is high, the buyer will be more induced to continue the relationship into the future.

The satisfaction with a business relationship is defined most frequently as “the appraisal of all aspects of a firm's working relationship with another firm” (Anderson and Narus, 1984, p. 66). The central practical consequence of satisfaction is that it increases long-term orientation as well as willingness for relationship continuity. Trust is a major antecedent of satisfaction. Where high levels of trust exist, the buyer tends to be satisfied with the relationship because of the strong belief that actions of the supplier will lead to positive outcomes for both parties (Andaleeb, 1996). In contrast, low trust stimulates less favorable attitudes (Dwyer et al., 1987).

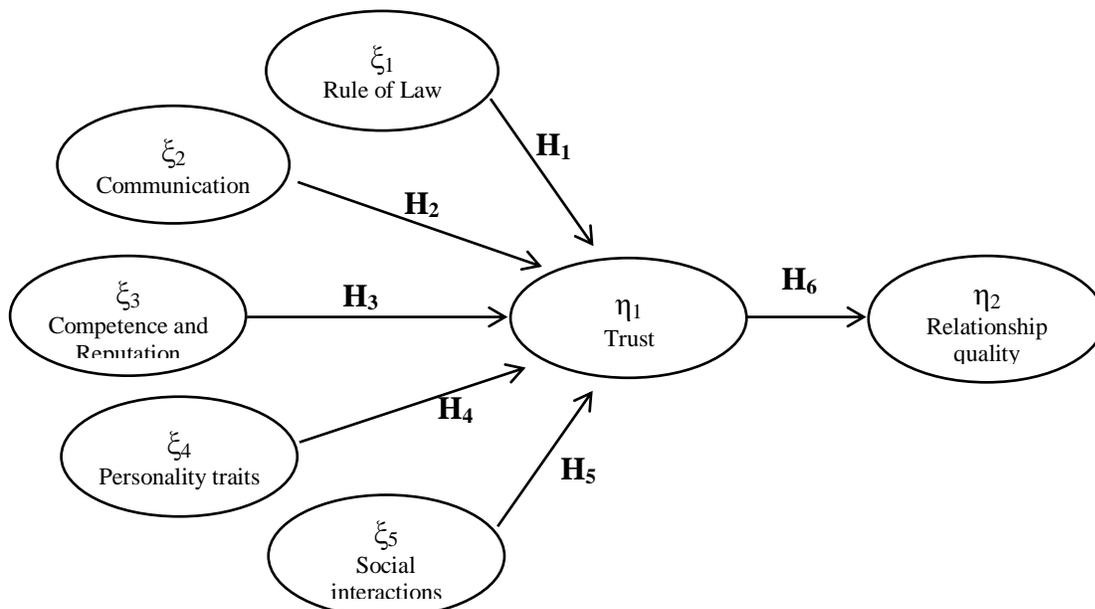
Thus, based on the above findings, the last hypothesis is advanced as:

H6: Relationship quality is positively influenced by trust.

Research Methodology

In order to evaluate the critical factors influencing trust and their respective importance, a survey was developed and conducted. The conceptual definitions of construct were adopted from the literature survey presented in the sections above. A multi-item scale was developed to operationalize each construct in the study involving trust in supply chain relationships. Each item related to “trust” context and “relationship quality” was rated on a five-point scale, where 1 expresses a very negative point of view and 5 expresses a very positive one.

Figure 1: The hypothesized model



The constructs of the model are unobservable (latent) variables indirectly described by a block of observable variables, which are called manifest variables or indicators. The constructs and their observable items are given in Table 1. The use of multiple questions for each construct increases the precision of the estimate, compared to an approach of using a single question.

Table 1: Latent and manifest variables

Latent Variables	Manifest variables
Rule of law (ξ_1)	ROL1: prefer to use signed agreements with business partners
	ROL2: prefer to resolve disputes with partners through rule of law
	ROL3: believe that stronger laws lead to better business environment
Communication (ξ_2)	COM1: good communication with business partner
	COM2: communication as conflict resolution mean
	COM3: communication is an important part of business relationships
Competence and reputation (ξ_3)	CR1: high professionalism exhibited
	CR2: good reputation in business
	CR3: high levels of expertise
Personality traits (ξ_4)	PT1: partner's trustworthiness
	PT2: partner's personal commitment
	PT3: likeability of the business partner
Social interaction (ξ_5)	SI1: personal relations with business partner
	SI2: common acquaintances with business partner
	SI3: informal information on business partner
	SI4: information on new potential business partners
Trust (η_1)	TR1: reliance on business partners
	TR2: reduced business uncertainty
	TR3: inter-firm adaption
Relationship Quality (η_2)	RQ1: long-term orientation
	RQ2: satisfaction
	RQ3: perceived obtained value from relationship

The sample of respondents was drawn from the total of businesses operating in these regions of Albania: Elbasan, Tirana, Durres, Korça, Vlora and Shkodra . In order to ensure the reliability of the data, a face-to-face survey method was implemented. 162 business owners or managers were contacted in order to empirically test the theoretical model of the study. Table 2 presents a summary of numbers of companies contacted according to industry profile.

Table 2: Sample's characteristics

Industry sector	Frequency	Percentage
Retailing	33	20.37
Food Processing	15	9.26
Construction	25	15.43
Tourism & hospitality	37	22.84
Clothing	8	4.94

Wood Processing	11	6.80
Other	33	20.37
TOTAL	162	100
Years of activity		
1 to 5 years	37	23
5 to 10 years	53	33
10 to 15 years	42	26
More than 15 years	30	18
TOTAL	162	100

Data Analysis and Research Results

Structural Equations Modeling (SEM) is a comprehensive statistical approach for testing hypotheses about relations between observed and latent variables. It combines features of factor analysis and multiple regressions for studying both the measurement and the structural properties of theoretical models. The proper selection of Structural Equation Modeling is a crucial part of the research study (Davis, 1996; Stevens, 2002). According to Stevens, (2002) SEM allows for the testing of models with varying degrees of dependent variables, while measuring model error to bridge the gap between the latent variable.

SEM is formally defined by two sets of linear equations called the inner model and the outer model. The inner model specifies the relationships between unobserved or latent variables, and the outer model specifies the relationships between latent variables and their associated observed or manifest variables (Gefen et al., 2000).

Originally developed for econometrics, Partial Least Squares (PLS) first gained widespread application in chemometric research and has more recently been adopted in research in business, education, and social sciences. PLS regression aims at producing a model that transforms a set of correlated explanatory variables into a new set of uncorrelated variables (Tenenhaus, 1998; Umetri AB, 1998). The parameter coefficients in a PLS regression are derived from the direct correlations between the predictor variables and the criterion variable. This procedure uses two-stage estimation algorithms to obtain weights, loadings, and path estimates (Wold, 1985).

The latent variables and their related observable variables, together with respective inner and outer equations used in the structural model of trust, are given in Table 3. The detailed hypothesized model is presented in Figure 2.

The unidimensionality of each construct in the proposed model (rule of law, communication, competence and reputation, personality traits, social interaction, trust, and relationship quality) was checked. Unidimensionality check is necessary when the manifest variables are connected to their latent variables in a reflective way (Tenenhaus et al., 2005). A construct is essentially unidimensional if the first eigenvalue of the correlation matrix of the block manifest variables is larger than 1 and the second one smaller than 1, or at least very far from the first one. After conducting the principal component analysis, the first eigenvalue resulted greater than 1 and second eigenvalue less than 1, for each block.

The results lead to confirming the unidimensionality for all the blocks.

Table 3: Variables of the model, parameters, and their relations

Latent variables and inner model equations	Manifest variables	Outer model equations
ξ_1 Rule of law (ROL)	x ₁₁ ROL1 x ₁₂ ROL2 x ₁₃ ROL3	$x_{1i} = \lambda_{x1i} \xi_1 + \delta_{1i}$
ξ_2 Communication (COM)	x ₂₁ COM1 x ₂₂ COM2 x ₂₃ COM3	$x_{2i} = \lambda_{x2i} \xi_2 + \delta_{2i}$
ξ_3 Competence and reputation (CR)	x ₃₁ CR1 x ₃₂ CR2 x ₃₃ CR3	$x_{3i} = \lambda_{x3i} \xi_3 + \delta_{3i}$
ξ_4 Personality traits (PT)	x ₄₁ PT1 x ₄₂ PT2 x ₄₃ PT3	$x_{4i} = \lambda_{x4i} \xi_4 + \delta_{4i}$
ξ_5 Social interaction (SI)	x ₅₁ SI1 x ₅₂ SI2 x ₅₃ SI3 x ₅₄ SI4	$x_{5i} = \lambda_{x5i} \xi_5 + \delta_{5i}$
Trust (TR) $\eta_1 = \gamma_1 \xi_1 + \gamma_2 \xi_2 + \gamma_3 \xi_3 + \gamma_4 \xi_4 + \gamma_5 \xi_5 + \zeta_1$	y ₁₁ TR1 y ₁₂ TR2 y ₁₃ TR3	$y_{1i} = \lambda_{y1i} \eta_1 + \varepsilon_{1i}$
Relationship quality (RQ) $\eta_2 = \beta_1 \eta_1 + \zeta_2$	y ₂₁ RQ1 y ₂₂ RQ2 y ₂₃ RQ3	$y_{2i} = \lambda_{y2i} \eta_2 + \varepsilon_{2i}$

Table 4: Constructs and Variables in the PLS model

Type	Description of constructs or variables
Latent constructs	The ξ 's (<i>Greek ksi</i>) are latent exogenous variables: ROL; COM; CR; PT and SI. The η 's (<i>Greek eta</i>) are latent endogenous variables: TR and RQ.
Manifest variables	They are actual measures or scores of latent constructs and are put in square boxes: The x 's are indicators of latent exogenous variables (e.g. ROL1, ROL2 and ROL3 are indicators of ROL variable). The y 's are indicators of latent endogenous variables (e.g. TR1, TR2 and TR3 are indicators of RL variable).
Coefficient parameters	The γ 's (<i>Greek gamma</i>) are structural parameters (regression coefficients or path coefficients) relating the endogenous constructs to the exogenous constructs. The β 's (<i>Greek beta</i>) are structural parameters (regression coefficients) relating the endogenous constructs to other endogenous constructs. The λ 's (<i>Greek lambda</i>) are loading of indicators of endogenous variables.
Error parameters	The δ 's (<i>Greek delta</i>) are measurement errors for indicators of exogenous variables. The ε 's (<i>Greek epsilon</i>) are measurement errors for indicators of endogenous variables. The ζ 's (<i>Greek zeta</i>) are random disturbance terms. They play a role analogous to the error in a single-equation regression model

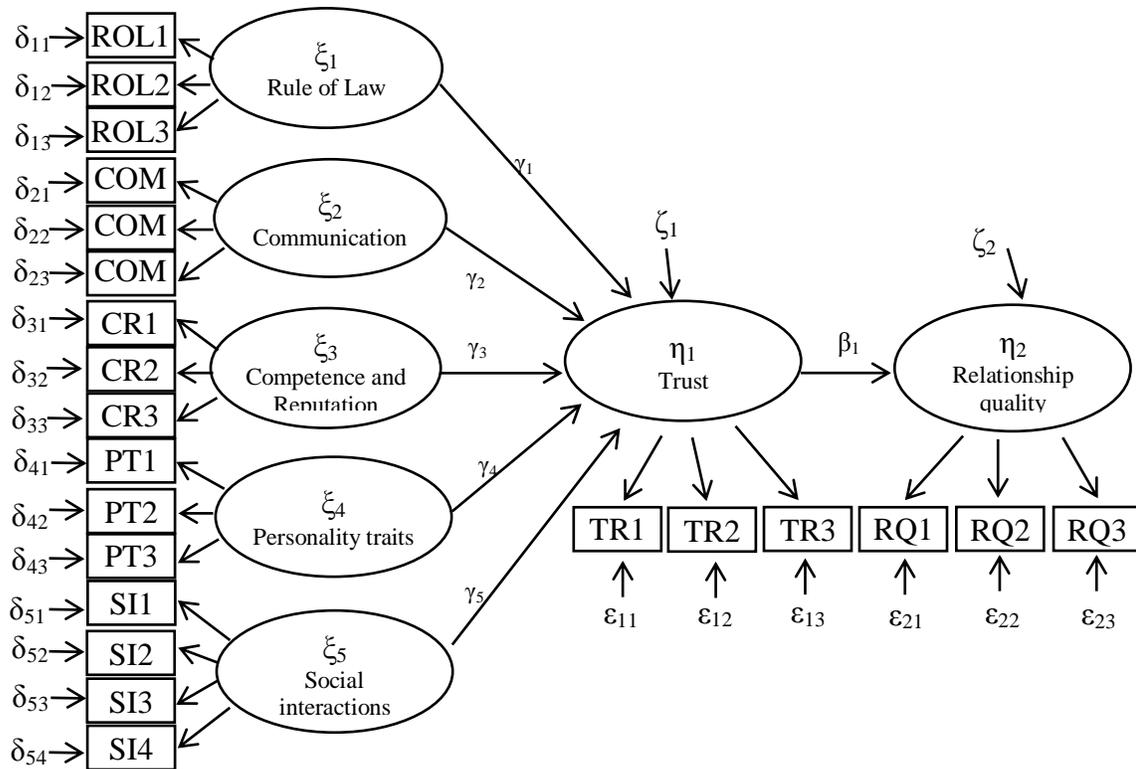


Figure: 2 Hypothesized model of Relationships among Key Variables

Individual item reliability is considered sufficient when an item has a factor loading greater than 0.7 on its respective construct. This implies that there is more shared variance between the construct and its measures than error variance (Carmines and Zeller, 1979, pp. 29-32). Since loadings are correlations, this implies that more than 50 per cent (i.e. loading square) of the variance in the indicator is shared with the construct. The cross loadings among variables are presented in Table 5. The model’s variables’ loadings are all greater than 0.70, which led to the conclusion that model’s manifest variables are good measure of their latent variables.

Convergent validity of the reflective constructs can be examined by its average communality (Average Variance Extracted – AVE) (Fornell and Larcker, 1981). This measure quantifies the amount of variance that a construct captures from its manifest variables or indicators relative to the amount due to measurement error (Chin, 1998). A construct’s average communality should be, at least, higher than 50 percent to guarantee more valid variance explained than error in its measurement (Fornell, 1992). The average communality scores (or average variance extracted – AVE) of ROL, COM, CR, PT, SI, TR and RQ are 0.62, 0.62, 0.68, 0.65, 0.73, 0.61 and 0.86, respectively (Table 6). Thus, all scores are considered acceptable.

Table 5: Cross loadings among variables

	Item	ROL	COM	CR	PT	SI	TR	RQ
Rule of law (ROL)	ROL1	0.8147	0.2760	0.3587	0.4220	0.0534	0.2364	0.3214
	ROL2	0.7941	0.3011	0.2568	0.3021	0.3754	0.0142	0.0254
	ROL3	0.8854	0.4519	0.3584	0.4216	0.3313	0.3254	0.0369

Communication (COM)	COM1	0.1524	<i>0.8458</i>	0.0254	0.0299	0.1176	0.4251	0.2547
	COM2	0.1124	<i>0.8167</i>	0.1247	0.1467	0.0364	0.3571	0.0147
	COM3	0.2847	<i>0.9103</i>	0.2369	0.2787	0.3719	0.2689	0.3249
Competence and reputation (PR)	CR1	0.0147	0.2135	<i>0.9157</i>	0.0244	0.2535	0.2547	0.3214
	CR2	0.0867	0.1795	<i>0.7925</i>	0.1287	0.2964	0.3654	0.2145
	CR3	0.5014	0.4596	<i>0.7736</i>	0.2764	0.3021	0.2369	0.1236
Personality traits (PT)	PT1	0.3524	0.3230	0.2746	<i>0.8412</i>	0.2614	0.0147	0.3214
	PT2	0.2647	0.5426	0.0542	<i>0.8010</i>	0.2548	0.2514	0.0354
	PT3	0.1472	0.4349	0.2662	<i>0.8368</i>	0.2457	0.2365	0.2140
Social interaction (SI)	SI1	0.2342	0.1147	0.1552	0.4274	<i>0.8625</i>	0.3415	0.1265
	SI2	0.2710	0.2484	0.4067	0.2141	<i>0.9167</i>	0.4296	0.3654
	SI3	0.3214	0.2946	0.2760	0.3251	<i>0.9225</i>	0.2687	0.4152
	SI4	0.0387	0.0355	0.3211	0.1040	<i>0.8641</i>	0.2149	0.3652
Trust (TR)	TR1	0.0971	0.2890	0.1274	0.2547	0.2681	<i>0.7952</i>	0.2047
	TR2	0.4320	0.3660	0.0394	0.3211	0.2857	<i>0.7785</i>	0.2144
	TR3	0.1524	0.1397	0.3273	0.1824	0.2681	<i>0.8657</i>	0.3213
Relationship quality (RQ)	RQ1	0.2614	0.2396	0.4029	0.2714	0.1920	0.3258	<i>0.8425</i>
	RQ2	0.0641	0.0488	0.2832	0.2354	0.3380	0.2581	<i>0.8657</i>
	RQ3	0.3241	0.2471	0.3589	0.2547	0.2478	0.2351	<i>0.9167</i>

Notes: Outer/factor loadings are shown in italics; all other values are cross-loadings

Discriminant validity represents the extent to which measures of a given construct differ from measures of other constructs in the same model, or the extent to which measures designed to assess different constructs are, in fact, distinct from one another. Following Fornell and Larcker's (1981) recommendation that the square root of average variance extracted (AVE) for each construct should exceed the bivariate correlations between that construct and all other constructs, discriminant validity was assessed. Table 6 presents the square root of variance shared between the constructs and their measures, or average communalities (the values in diagonal) and correlations among constructs (the values off-diagonal). As it can be seen, the average communalities measures of each construct are greater than the variance shared with other constructs, demonstrating that the discriminant validity of all scales is adequate. Overall, the measurement results are satisfactory and suggest that it is appropriate to proceed with the evaluation of the structural model.

Construct reliability was assessed using composite reliability (ρ) (Werts et al., 1974). Composite reliability is recommended to be larger than 0.7 (Barclay et al., 1995; Fornell and Larcker, 1981). Table 6 shows the composite reliability values resulted from the data analysis: they all exceed the value of 0.81, suggesting that each item has excellent reliability.

Table 6: Discriminant validity: Intercorrelations of the latent variables

	Composite reliability	ROL	COM	CR	PT	SI	TR	RQ
ROL	0.9251	0.6229						
COM	0.8254	0.2145	0.6273					
CR	0.8112	0.3457	0.1897	0.6795				
PT	0.8244	0.4158	0.2160	0.2985	0.6572			
SI	0.8985	0.2784	0.2268	0.4578	0.1803	0.7295		
TR	0.9528	0.3895	0.1205	0.4182	0.3365	0.1470	0.6161	
RQ	0.8569	0.1971	0.1578	0.2261	0.2879	0.3168	0.3369	0.8680

Table 7 presents the simple/multiple regression coefficients for each endogenous latent variable, p -values, t -values and R^2 .

Table 7: Structural model results

Endogenous constructs	Exogenous constructs	Regression coefficient	Correlation	Contribution to R^2 (%)	t -value	p -value
Trust	R^2		0.6175			
	Rule of law	0.1652	0.5257	14.0637	1.2598	0.0059
	Communication	0.2218	0.6782	24.3596	2.5985	0.0015
	Competence and Reputation	0.2063	0.6287	21.0036	3.5214	0.0457
	Personality Traits	0.1578	0.6723	17.1799	2.6587	0.0041
	Social interactions	0.2367	0.6103	23.3933	2.6924	0.0057
Relationship Quality	R^2		0.5750			
	TRUST	0.7583	0.7583	100.0000	10.5248	0.0003

The results of the data analysis concluded in positive relationships between latent variables. Thus, for each regression model, an increase in the value of an independent latent variable will also increase the value of related dependent latent variable. Factors of trust explain about 61 per cent of the variation in trust, whilst trust explains about 57 per cent of relationship quality. All the hypotheses comprising the model presented in the study are confirmed.

Discussion and Managerial Implications

The objective of the study is to determine the critical factors that influence trust between partners in supply chain relationships and find the impact of trust in relationship quality. Trust construct contains five main factors, namely rule of law, communication, competence and reputation, personality traits and social interaction.

“Social interactions” was found to be the most important factor influencing trust, with the value of its standardized regression weight being 0.2367 ($p < 0.01$). This result is consistent with the findings of Doney et al (2007) and Boyd and Spekman (2004). Social interactions provide a basis for reducing the perceptions of risk toward business partner and building a solid trust. Informal meetings in a social setting help in better understanding each partner’s needs and in increasing the benevolent intentions of the relationship. This is especially true in Albanian environment, where social interactions and informal meetings are strongly evaluated and used in the process of dealing with business partners.

“Communication” was found to be the second most important factor influencing trust. Communication has a significant effect ($\beta = 0.2163$; $p < 0.01$) on trust. Supply chain partners who share information between them achieve the better collaboration and better planning of internal operations activities. These findings are in concordance with studies of Wilson and Nielson (2000), and Handfield and Bechtel (2002). Good communication is considered as a key aspect of a relationship, as communication help in understanding partners’ need and building mutual trust.

“Competence and reputation” was found to be the third important construct that affect trust. ($\beta = 0.2063$; $p < 0.05$). This result supports the study of Moorman et. al (1992) and of Anderson and Weitz (1989). Businesses that consider their partners to be with a good reputation

and high competency tend to exert high levels of trust toward them. Companies who enjoy good reputation inspire trust to parties that collaborate with them. Professionalism, expressed by salespersons or employees or by other means, is a good basis for building trust, especially in the first stages of a relationship.

“Rule of law” was the fourth important factor related to trust, in concordance with the findings of Pavlou and Gefen (2004). Institutions can and must facilitate the supply chain relationship, acting as safeguard toward uncertainty and negative consequences of a relationship. This is especially important in a developing country such as Albania, where the rule of law still is not a guarantee of business relationships. This explains the relatively low importance of this factor at influencing trust in supply chain relationships.

“Personality traits” was found to be the least important criteria related to trust between supply chain partners. This result is consistent with the study of Doney and Cannon (1997). Representatives of partnering businesses are individuals who tend to build mutual trust on personality traits, among other things. Such traits are honesty, integrity, virtue, scrupulosity, righteousness, etc. Personality traits are discovered step by step, as a relationship deepens and proliferate. The more partners exert such positive personality traits, the more they inspire trust between each-other.

The findings also show that there is a positive linear relationship between trust and relationship quality, where relationship quality is expressed in the terms of long-term orientation, satisfaction and perceived obtained value from the relationship. This result was expected because, as previous researchers have concluded, trust is a very important factor in determining relationship quality between business partners.

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