

Effects of Relational Norms on Business Uncertainty and Performance: A Case of Small Enterprises in Sri Lanka

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Transaction Cost Economics (TCE) explains that Transaction Cost (TC) of a business firm increases with the increase of business uncertainty. In comparison to large firms, Small Enterprises (SEs) have higher business uncertainty due to lack of information, resources and knowledge to predict future circumstances. Some scholars highlight that mutual understanding generated from strong business relationships between exchange parties facilitates to enhance business performance, mitigating uncertainty. However, the lack of empirical evidence regarding the relative efficacy of relational norms on business performance mitigating uncertainty particularly SEs represents a significant gap in literature. Therefore, this study attempts to understand the effects of relational norms on business uncertainty and performance particularly in the SEs in Sri Lanka. A survey was conducted to collect primary data from SEs in the *Uva* Province. The study selected 118 SEs using stratified sampling method. A pre-tested structural questionnaire was administered using face-to-face interviews. Data was analysed by applying Partial Least Square - Structural Equation Modelling using SmartPLS software.

Empirical results revealed that relational norms i.e. information exchange, solidarity, flexibility, role integrity, and reciprocity, between SEs and their exchange partners have a significant impact on improving performance mitigating uncertainty. The study tested six hypothetical relationships and 5 hypothetical relationships were accepted. Path coefficients of information exchange ($\beta = -0.201$), solidarity ($\beta = -0.351$), reciprocity ($\beta = -0.277$), and role of integrity ($\beta = -0.139$) have negative significant relationship with business uncertainty. The study further revealed that uncertainty has strong negative significant relationship with business performance

($\beta = -0.927$). Thus, the study concludes that relational norms have a positive impact on mitigating business uncertainty and thereby improving performance of SEs by changing behaviour of exchange parties in the long-term transaction relationship. Accordingly, the study provides valuable insights for SEs to minimize business uncertainty developing relational norms by strengthening relationship with exchange partners in order to improve business performance.

Key words: *Relational Norms, Small Enterprises, Transaction Costs, Uncertainty.*