The Effect of Interpersonal Norms on Business Performance of Retail Traders in Gampaha District, Sri Lanka: Mediating Role of Transaction Costs

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Abstract

Scholars highlighted that interpersonal norms are essential to promoting social bonds that work as substitutes for legal bonds among exchange partners. Interpersonal norms encourage informal and unwritten agreements between business parties that influence the minimization of transaction costs among exchange partners, thereby enhancing their business performance. However, there is no sufficient empirical evidence in the context of Sri Lankan retail traders and how interpersonal norms affect the transaction costs, and thereby business performance. The current study attempts to address this empirical gap employing a quantitative method. Primary data was collected from 255 retail traders through pre-tested structured questionnaires with face-to-face interviews. Data was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). Results revealed that there is a significant positive relationship between interpersonal norms and business performance of retail traders, together with a significant negative effect between interpersonal norms and transaction costs, and business performance. Results further exhibit that transaction cost has a partial mediating role in the relationship between interpersonal norms and business performance. Thus, the study statistically confirmed the existing empirical understandings of the extensive influence of interpersonal norms on the business performance of retail traders by mitigating transaction costs. Eventually, the findings emphasize that strong interpersonal norms among exchange partners can enhance business performance through the decrease of transaction costs.

Keywords: Business Performance, Interpersonal Norms, Retail Traders, Transaction Costs.

INTRODUCTION

As one of the fastest-growing service sectors, the retail trade performs as the most powerful trading intermediary in the world (Noland et al., 2012). Retailing commenced its evolution from the ancient period with the emergence of the barter system, it's begun to spread widely around the nations since the 20th century (Tiwari, 2009). Today, it has contributed more to creating jobs, helping supply chain activities, and providing high-quality final products or services for end customers (Akanbi et al., 2024). The retail sector is generally comprised of two categories, such as organized and unorganized industries (Hameli, 2018). Organized retail traders are the license holders who registered for sales tax and income tax, and they maintain businesses largely and bear the largest retail chains (Akanbi et al., 2024). Unorganized retail traders comprise shops and general stores, which follow conventional low-cost retailing, contributing to different levels (Hameli, 2018). Accordingly, the global retail sector has witnessed substantial growth over the years. This significantly contributes to the world economy (Llop, 2023).

The retail traders are extremely connected to the relational contract with exchange partners since it is one of the most substantial sectors involves to the people (Martadisastra & Faisal, 2021). The long-term informal exchange relationship among exchange partners is known as a Relational Contract (RC) (MacNeil, 1985). It contains exact mechanisms that cannot be enforced by a third party, such as court, and certain absolute elements that make it impossible for third parties to confirm whether the parties have fulfilled their obligations under the contract (Baker et al., 2002). According to Gibbons (2005); Mouzas and Blois (2008), a relational contract (RC) is a self-enforcing agreement that is fixed within the exchange parties in specific circumstances. Empirical findings recognized the four main dimensions in the RC as 1) interpersonal trust (Moorman et al., 1992; Morgan & Hunt, 1994) 2)Relational norms (MacNeil, 1985) 3)Cognitive capital (Choi et al., 2012), and strength of ties (Han et al., 1993), which boost the mutual relationships of exchange parties. Among the dimensions, relational norms that encourage collaboration while raising businesses with repeated transactions, and these norms increase understanding, planning, communication, and problem-solving. However, as a core aspect in the RC, interpersonal norms support the expansion of the business's performance in the long-term environment

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(Poppo & Zenger, 2002) while mitigating the transaction cost (Yousef, 2017). Williamson (1979) described transaction costs as the expenses related to the operation of the economic system of enterprises in the Transaction Cost Theory (TCT). Most retail traders in the market depend completely on relational agreements with their exchange partners to maintain extremely high standards of performance in their business satisfaction (Dwyer et al., 1987; Mohr & Spekman, 1994). Mysen et al. (2011) highlighted how norms influence and how long-term commercial partnerships develop in terms of quality. The development of the quality of continuing commercial partnerships is influenced by norms. Samouel (2007) showed more evidence of the positive relationship between norms and business performance by highlighting the fact that relational norms encourage business dealers to establish long-term commercial partnerships in the world scenario. Different scholars such as Achrol and Gundlach (1999); Paswan and Young (1999) observed and highlighted the indirect impact in between interpersonal norms and transaction cost through the studies and highlighted the indirect impact of interpersonal norms on transaction costs in the world context. Furthermore, Gamage and Priyanath (2019) underlined the intervention of interpersonal norms to enhance the commercial success of the gem dealers while mitigating opportunism over integrating communication, cooperation, and trust among partners. In addition, norms promote the performance of small and medium-sized businesses and reduce transaction costs (Priyanath & Habaragamuwa, 2023; Priyanath & Hathella, 2022).

Sri Lanka's retail sector is a significant economic contributor, accounting for about 14% of GDP and employing over 15% of the workforce in 2023. A significant portion of the Sri Lankan retail industry operates within the informal sector. Some retail activities of Sri Lanka are mainly administered by the relationship-dominated arrangement where personal connection and repeated transactions play a fundamental role in smoothing the exchanges (Gamage & Priyanath, 2019). Conventionally, the retail industry has expanded without a set of standard regulations and written contracts in Sri Lanka. Thus, RC of retail traders avoids the need for legal agreement (Priyanath & Hathella, 2022), assisting in minimizing the costs of transactions to promote their businesses for success. Under these circumstances, retail traders are willing to comply with the regulations set forth by their business partners under the shared knowledge and understanding that ensures the security of their transactions above cost reduction for the improvement of their businesses (Isharyani et al., 2023). In the global context, studies such as Anderson and Narus (1990) and Singh et al. (2025) shown that the positive impact of interpersonal norms on business performance. However, there were lack of empirical evidence to recognize how interpersonal norms impact transaction cost and business performance predominantly in the retail sector in Sri Lanka. Thus, existing study objects to explore the effect of interpersonal norms on transaction cost and business performance in Sri Lanka. Also, this study separately discovers the effect of interpersonal norms on transaction costs and company performance and the indirect effects of transaction costs on the relationship between interpersonal norms and business performance. Moreover, this study contributes to minimizing the empirical research gap by emphasizing the influence of sociological theory on economic decision-making through the integration of three theories: economic theory (transaction cost), management theory (business performance), and sociological theory (interpersonal norms).

LITERATURE REVIEW

This section mainly aims to deliver the theoretical background of interpersonal norms, transaction cost and business performance. Further, this examines the empirical evidence to justify hypotheses.

Interpersonal norms: MacNeil (1980) originally proposed the theory of interpersonal norms, which is defined as how a group of decision-makers partly shared the behavioral expectations (Gibbs, 1981; Thibaut & Kelley, 1959), and further, it described the level of knowledge of the exchange partners about their legal agreement, which they see as the strategies for proper and satisfactory behaviors, creating bounds (MacNeil, 1980). Further, MacNeil (1980) emphasized that exchange participants can fulfil both inner values and economic aspects if they are well-read in the existing set of transactional and relational norms because it effectively facilitates carrying on exchange actions among parties (Cannon et al. 2000). Interpersonal norms described beyond this general definition, researchers reveal how norms would be observed and thought in different respects (Axelrod, 1986; Bettenhausen & Murnighan, 1985). An individual or parties adapt main set of attitudes and behaviours in their exchange process (Doucette, 1996) and establish all values over a long-term procedure (Dwyer et al., 1987; Scanzoni, 1979).

In the individual context, individuals are supposed to remain autonomous in an exchange structure following self-governing strategies as well as goals. Relational norms are 'Tactic knowledge' and 'explicit knowledge' are the popular classifications of knowledge (Darvish & Nikbakhsh, 2010). Explicit is the knowledge which can be voiced, systemized and stored in a certain place. Conversely, tactic knowledge is another kind of knowledge which is complicated to transfer to any other form, in means of writing down or verbalizing (Darvish & Nikbakhsh, 2010). Chow and Chan (2008) further emphasized that knowledge sharing provides incentive rewards such as trust and relationship, etc., concerning the other side, which is improving the relationship through long - term bilateral policies and shared interests (Gundlach et al., 1995; Heide & John, 1992).

Further, MacNeil (1980) highlighted norms as predominant to set the governance mechanism of exchange interaction. Both individual organizations and groups of individuals apply interpersonal norms in various levels (Dornbusch & Scott, 1975; Gouldner, 1960). Ehrhart and Naumann (2004) stated that parties with lesser interaction are less likely to be directed by norms. Nevertheless, those with higher interaction will be guided by norms and will carefully detect their behaviours. Relational norms are identified by different scholars as a major construct of relational exchanges. Thus, the most popular ten dimensions of relational norms recognized in this study are; flexibility (Kaufmann & Stern, 1988), integrity (Kaufmann & Dant, 1992; MacNeil, 1985), solidarity (Heide & John, 1992; Kaufmann & Dant, 1992; MacNeil, 1985; Noordewier et al., 1990) and information exchange (Heide & John, 1992).

Flexibility is a requirement for the solidity of the relationship, a means for each party to continue to play the role it

was assigned in the relationship, and a means for parties to resolve their relational conflicts that may be caused by unforeseeable events. Flexibility is a prerequisite for the solidity of the relationship (Zhu et al., 2021). A need demanded by the relation's broader social matrix; a component of consent and the construction of power when parties shift their priorities within the relationship and demand a reorientation of the substance of their or their counterparty's promises in light of a shift in the relation's parameters. The parties also assume that it is fair and appropriate to be able to alter the content of the relation in accordance with uncertainties, and they anticipate that their counterparties will continue to exert effort toward accomplishing flexibility (Barron & Powell, 2019).

According to Medlin and Quester (2001), solidarity is linked to commitment, which is an important component that plays a substantial part in contributing to the achievement of a construction partnership. It is possible that a crucial predictor of the possibility of a long-term partnership within the construction industry is the presence of solidarity in supply chain ties within the construction industry. The concept of solidarity contracts with relative importance linked, belief, and future supportive purposes as opposed to arm's length and enforcement in the preservation of the transaction process (Dant & Schul, 1992; Kaufmann & Stern, 1988). This refers to the degree to which an exchange connection is dominated by the sense of unity or fellowship that results from having obligations and interests in common (Gundlach et al., 1995; Kaufmann & Dant, 1992). To put it another way, it is the maintenance of the partnership, especially when one of the partners is in a difficult situation (Ivens, 2004). It manifests itself via actions, which provide a direct contribution to the preservation of relationships (Heide & John, 1992; MacNeil, 1980).

The concept of integrity has been examined not only in literature on ethics but also in the disciplines of organizational behavior, psychology, human resource management, and theories of leadership (Trevinyo & Rodriguez, 2007). Integrity demonstrated by actions and commitment to work that are shaped by the advice of others (Calhoun, 1995). This originates once we operate in accordance with our values, ideals, and beliefs. Integrity is therefore a dynamic factor that may be formed via social communication, mutual accommodation, and is hence independent of any one person (Trevinyo & Rodriguez, 2007). Since integrity is naturally enclosed by human, it is easy to reflect the disciplines as a fundamental basis for personal behavioral characteristics. However, this concept is the result that is obtained when both spouses fulfil their own roles. It is related to the intricacy of the trading relationship, which goes beyond the scope of individual transactions (Kaufmann & Dant, 1992). According to the relational exchange theory, parties involved in the exchange processes have particular responsibilities that they need to fulfil (Ivens, 2004).

Information exchange, which is also known as sharing knowledge, refers to the expectation shared by both parties that they would proactively provide information that is helpful to the other (Heide & John, 1992). It is anticipated that both parties will convey a wide variety of information that is seen as being significant for the development of the business relationship. Knowledge is the benefits obtain by the individual who is willing to work with information (Darvish &

Nikbakhsh, 2010). Information sharing has been recognized as a relational standard by a number of scholars, as stated by Bleeke and Ernst (1993). 'Tactic knowledge' and 'explicit knowledge' are the popular classifications of knowledge (Darvish & Nikbakhsh, 2010). Explicit is the knowledge which can be voiced, systemized and stored in a certain place. Conversely, tactic knowledge is another kind of knowledge which is complicated to transfer to any other form, in means of writing down or verbalizing (Darvish & Nikbakhsh, 2010).

Transaction Cost: The term "transaction cost economics" refers to different ways of arranging governance structures of transactions, such as markets, hybrids, businesses, and bureaucracies that aim to reduce the amount of money that is lost due to transaction fees (Williamson, 1979). According to the Theory of Transaction Cost developed by Williamson in the 1970s, the optimal administrative structure is one that maximises economic efficiency while reducing transaction costs to the absolute minimum. According to this interpretation of the theory, the coordination costs connected with monitoring, regulating, and managing transactions are produced by each different kind of contract. Williamson (1979) has provided a wide definition of transaction costs as the expenses associated with the operation of the economic system of enterprises. He has claimed that these costs should be differentiated from production costs, and that a decision-maker may choose whether or not to employ a firm structure or source from the market by comparing transaction costs with the costs of producing goods or services internally. Consequently, cost is the key factor that plays a role in such a selection. Nevertheless, in the real world, businesses organize themselves into hierarchies and use their power to distribute resources in the most effective way possible. On the other hand, markets make use of the bargaining power of their participants in order to distribute resources. Due to constrained rationality and imperfect knowledge, the TCE theory asserts that hierarchies are able to more effectively and efficiently distribute resources than markets.

The concept of transaction costs has been the subject of research in a wide variety of fields, including but not limited to economics, organization theory, and contract law, amongst others (Williamson, 2007). The TC theory is a flexible instrument that may be used in the management of subcontractors. It encompasses monetary, behavioral, and organizational considerations, respectively. However, there are significant holes in the TC theory, the most notable of which is the absence of a supply chain broad perspective. Studies on trade and commerce often investigate bilateral relationships (Wever et al., 2012). However, since subcontracting is increasingly becoming an important aspect of doing business in the manufacturing sector, there is a pressing need to conduct research that covers the whole of the supply chain or the entire network. According to (Häkkinen, 2011), the transaction costs associated with the subcontracting business may be very variable from one instance to the next. In this study, we want to investigate these causes in depth, taking into consideration the many different parties that make up the subcontractor network.

Business Performance: According to (Michel & Barony, 1998), performance is characterized as a set of multidimensional constructions that include contract formulation, planning, supervision, and support (Schneider, 1986). Improved businesses generate money, accumulate surpluses within,

and support the growth rate necessary for continued success in the market on outside forces (Rizal et al., 2017). Thus, performance is defined as a collection of multidimensional constructs (Michel & Barony, 1998) that comprises the functions of contract formation, planning, supervision, and assistance (Schneider, 1986). Better performing companies derive profits, gain surplus internally, and contribute to the growth rate surviving in the market externally (Rizal et al. 2017). Accordingly, Smith and Reece (1999) pointed out "business performance" as an organization's managerial activities that are carried out to achieve its objectives and targets. The same metrics used to assess an organization's profitability, earnings per share, and sales growth are also used to determine if it is successful or unsuccessful (Venkatraman & Ramanujam, 1986). Nonetheless, Keltner (2012) emphasized the importance of using both non-financial and financial variables as indicators for evaluating the validity of this concept. Financial criteria are used to calculate non-monetary long-period growth and to assess the short-period progress of the entire organization (Moers, 2000), financial outcomes. However, based on Carton and Hofer (2006), financial performance directly connects with the amount of money we generate. According to (Boniface et al., 2012), non-financial performance responds to mutual understanding, trust, and contract satisfaction.

Conceptual framework: Conventional theories of economics point out the rational behavior of economic actors, and they assume that producers always attempt to maximize their own profits while minimizing costs. On the other hand, consumers make an effort to maximize their utility (Feldman & Serrano, 2005). As the theory states, rational people always try to maximize their gains (Jensen, 2000) in any situation while steadily trying to minimize their losses. However, Figure 1 illustrates three types of direct relationships between variables and two indirect relationships. There are three effects among interpersonal norms: transaction cost and business performance, while transaction cost mediates the impact of transaction cost on the relationship between interpersonal norms and business performance. The vertical relationship among the business partners stabilizes the self-enforcing safeguard for business success (MacNeil, 1978). Interpersonal norms provide a specific guarantee to confirm the long-term interrelationship among buyers and sellers of the relational contract, which provides access to reduce transaction costs and ultimately enhance the performance of businesses (Jeffries & Reed, 2000).

Figure 1: Conceptual Framework of the Study
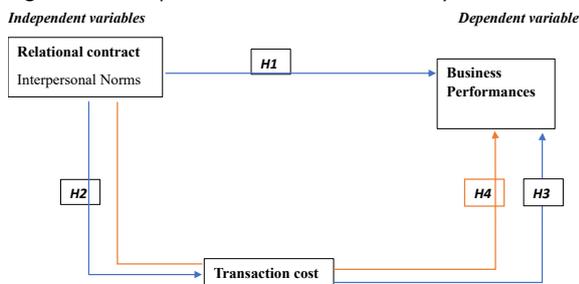
Source: Developed by the Author, 2025.

Hypotheses

Inter-personal Norms and Business Performance: Inter-personal norms are recognized by the business organizations for the better development of the business relationship life circle model (Dwyer et al., 1987; Scanzoni, 1979). Business parties develop mutual understanding with a strong business relationship among them to improve the performance of the business, mitigating uncertainty (Priyanath, et al., 2016). Basically, norms describe the behavioral expectations among parties involved in the exchange. On the other hand, relational norms represent a kind of endogenous procedure controlled by relational values on the relationship rather than controlled by incentives or finance (Ting et al., 2007). Exchange parties develop norms as long-term procedures through collective behaviors and attitudes (Doucette, 1996; Thibaut & Kelley, 1959) in the governance mechanism (MacNeil, 1980). Accordingly, Kim and Choi (1994) observed the importance of the systematically developed norms framework to evaluate the real interaction between buyers and sellers, solving governance issues, thus enhancing business performance. Exchange partners are able to achieve unique cultural norms and expectations by minimizing conflict behaviors (Kaufmann & Dant, 1992; MacNeil, 1980) while enhancing the mutual accommodation and performance of business. Exchange partners do not have any fear about future problems that may occur because the mutual relationship they have is in line with the concept of solidarity, as individuals share much more flexible and reliable information than other partners, and working with them is quite easy. Inter-personal norms grow synergetic problem-solving processes, and adjusting the responsibilities with requirements between exchange partners (Boyle et al., 1992) will affect the performance of the business. Both contractual and social safeguards are created between exchange partners when contracting parties' ties with relational norms are in harmony in the long term (Vázquez et al., 2007), and that leads to increased profit ratios and overall performance of business entities. Therefore, the study assumes that;

H1; Interpersonal norms have a positive effect on the business performance of retail traders in Gampaha District, Sri Lanka.

Inter-personal Norms and Transaction Cost: Different scholars, such as Achrol and Gundlach, (1999); Doucette, (1996); Paswan and Young, (1999) observed and highlighted the indirect impact of interpersonal norms and transaction cost through their studies. Honest behavior among the exchange partners creates strong commitment in order to sustain an accommodative and supportive long-term relationship (Dant & Schul, 1992). A long-term continuous relationship makes relational norms with an improved mindset between exchange partners (Rokkan et al., 2003). Opportunistic behaviors and uncertainty among actors that emerge through information asymmetry are curtailed by the interpersonal norms (Heide & John, 1992) and eventually help to reduce the transaction cost (Heide & John, 1992) as well. However, transaction costs among exchange partners increase with numerous barriers to obtaining more reliable information, which is called opportunism. On the other side, parties are unable to forecast dynamic changes that occur in the external environment, which is called uncertainty (Abdi & Aulakh, 2014), which has happened in the situation of information asymmetry (Xinyan et al., 2013) cause a rise in transaction cost. The cost of transaction diminishes with long-term mutual understanding among partners and strong agreements (Priyanath, et al., 2016). Accordingly, interpersonal norms demonstrate an alternative safe protector

against opportunism, uncertainty, and the cost of transaction (Tuusjärvi & Möller, 2009). Transaction cost goes down with a fair and common understanding between parties because it lowers the monitoring cost (Kaufmann & Stern, 1988). Further, Kaufmann and Stern (1988) highlighted the importance of reducing disputes between the partners. Lowest dispute and disagreement, encouraging the partners towards informal, honest agreement rather than legal procedures by minimizing enforcement costs. Thus, this study assumes that there is a negative relationship between interpersonal norms and the cost of transaction.

H2; Interpersonal norms have a negative effect on the transaction cost of retail traders in Gampaha District, Sri Lanka.

Transaction Cost and Business Performance: Organizational performance is the dedication of a company towards its stakeholders and consumers, necessary for successful job management (Wu & Zhao, 2008). Conversely, the level of income that the business organization generates within a specific time frame can be utilized for the theory of firms and the transaction cost theory (Rauch et al., 2004). The main characteristics of the transaction cost have a significant impact on the business's performance. Small businesses usually have to incur significant search costs for discovering knowledgeable employees, customers, sellers, and other partners in order to identify reliable transactions, minimize exchange risk, and improve overall organizational performance (Carmel, 2005). However, the success of the organization lies with the extent of exchange parties' confidence (Kaufmann & Stern, 1988). Less confidence among partners generates huge enforcement costs and thereby less organizational success. Carmel (2005) discovered that search costs and business performance have a negative association. Organizations incur costs in order to monitor their exchange partners to diminish unethical practices, which are able to bring negative results towards business, to keep their wellness (Nooteboom, 1993). Accordingly, the parties engage in retail trading activities, bear various kinds of costs in the process of transaction. Transaction depends basically on trustworthiness, commitment among each other, the extent of access to more reliable information among members in the retail industry, while considering the cost of the transaction. The importance of the lowest searching cost for an efficient business performance has been recognized by Dyer and Chu (1997). There is a lack of trust between the parties involved in transaction operations, and as a result, performance inside any business is declining (Dyer, 1997). The important correlation between supplier performance and business performance has been demonstrated by Ntayi et al. (2010). An organization's supply chain performance is directly affected by factors such as late delivery, inadequate delivery speeds, unreliable delivery, and the level of quality of goods and services provided across exchange partners (Ntayi et al., 2010). Companies are responsible for the monitoring of their exchange partners in order to prevent unethical behavior that could harm their business while sustaining their well-being (Nooteboom, 1993). Therefore, the study predicts that;

H3; Transaction cost has a negative effect on the performance of retail traders in Gampaha District, Sri Lanka

The mediating role of Inter-personal Norms: MacNeil (2000) found that interpersonal norms, which include solidarity, flexibility, role of integrity, reciprocity, and information sharing, have a significant inverse relationship with transaction costs. In addition, Achrol and Gundlach (1999), Doucette (1996), and Paswan and Young (1999) have observed and highlighted the indirect impact of interpersonal norms on transaction costs through their studies. According to Dant and Schul (1992), honest behavior among exchange partners creates a strong commitment to sustaining an accommodative and supportive long-term relationship. This long-term relationship makes relational norms with an improved mindset between exchange partners (Rokkan et al., 2003). Kaufmann and Stern (1988) highlighted the importance of reducing disputes between partners to lower monitoring and enforcement costs. Lowest disputes and disagreements encourage partners towards informal, honest agreements rather than legal procedures, thus minimizing enforcement costs. In addition, norms provide a positive mindset and opportunity for exchange partners to make specific adjustments to agreements once they fall into uncertain situations (Heide & John, 1992), thereby reducing enforcement costs as a dimension of transaction costs. According to Misztal (1996), transaction costs are minimized by honest and authentic behaviors of both parties, which can keep their sturdy association without the intervention of a third party. Therefore, there is no need to bear the cost of finding new partners. Thus, this study assumes that an indirect negative association between interpersonal norms and transaction costs creates a positive impact on the performance of the retail industry.

H4; Transaction cost has a mediated role in the relationship between interpersonal norms and BP of retail traders in Gampaha District, Sri Lanka.

METHODOLOGY

Since all of the variables are derived from established theories, the study methodology is identified as deductive, and the philosophy is positivism. Retail traders in this study are recognized as the unit of analysis. Since the study's target respondent group comprised Sri Lankan retail traders, the population included retail traders from all around the country. The study's sample was selected by a multistage cluster sampling method. First, out of all 25 districts, the Gampaha district was selected using simple random sampling. The Gampaha district comprises 13 secretariat divisions, and one village from each and every secretariat division in the Gampaha district was selected based on the cluster sampling. Every retail trader in selected villages was taken to the sample. Accordingly, data were gathered from 255 retail traders using the standardized structured questionnaires. A structured questionnaire was utilized in the study's quantitative approach for collecting primary data to assess the conceptual model. A 10-point percentage scale was used to assess each question. In the questionnaire, separate questions were asked to collect the data on independent, dependent, and mediating variables such as interpersonal norms, business performance, and transaction costs.

Interpersonal norms are measured using four dimensions, including integrity, flexibility, sharing information, and solidarity (Mayer et al., 1999). Based on the previous studies carried out by Kim and Choi (1994), Lumpkin and Dess, (1996), Moers (2000), and Zahra and Covin (1993), the de-

pendent variable of this study was determined over two dimensions: financial performance and non-financial performance. Four dimensions: researching costs, negotiation costs, monitoring costs, and enforcement costs, were used to determine the transaction cost. These categories were adopted by Kim and Choi (1994), Moers (2000) and Sako (1992).

In order to investigate hypothetical relationships, partial least squares structural equation modeling (PLS-SEM) was used as a significant statistical analytical method to evaluate the relationship between independent and dependent variables using SmartPLS (version 04). PLS-SEM assessed the validity and reliability of each construct over a measurement model prior to the structural model. The multicollinearity test, path coefficient analysis, R-squire (R^2), effect size (f^2), and predictive relevance analysis were tested over the structural model.

RESULTS AND DISCUSSION

This descriptive analysis was constructed on 255 retail traders in the Gampaha district, and it was found that the majority of the retail traders are in the age 40-49 category. In addition, 217 respondents in the survey were mail retail traders. This study further realized that 65% of the respondents were married in the sample, 98 respondents had completed their education up to A/L, and 60 respondents obtained a certificate of technical and vocational education. In terms of selling product categories, 78 percent of respondents sell grocery items, including food and beverages, while 39 percent sell motor vehicles and parts. 77 respondents out of the total recorded had 4-6 family members, which is basically an implied nuclear type of family. Moreover, this sample high-lighted the information that the highest number of respondents (117) were independent retailers, 72 respondents reported being part of a family business, 54 respondents reported running a home-based business, and 12 respondents described being subcontractors. Finally, this study revealed that the majority (88 respondents) fell into the monthly income range of 65,001–85,000.

Reliability and validity: The indicator reliability and the internal consistency of the reliability of the questionnaire items were studied in this analysis. Outer loading values and T-statistics are used to observe indicator reliability. Cronbach's alpha (CA) and Composite Reliability (CR) values are used to evaluate the internal consistency of reliability. On the other hand, the Average Variance Extracted (AVE) approach is used to establish Convergent Validity (CV) under construct validity. Discriminant validity is established using the Fornell-Lacker criterion, which is alternatively referred to as the square root of AVE in each latent variable suggested by Fornell (1981).

Table 1 shows that internal consistency reliability, and it is recommended that all components of the questionnaire relating to the independent variables and mediator variables have established indicator reliability if the outer loading value is 0.7 or above. Table 1 further demonstrates that all questionnaire items had outer loading values more than 0.7, indicating that all constructs included in the first-order analysis have indicator reliability and that no items were left out of the model. However, the constructs' T-statistic values are extremely high (all over 1.96), indicating that the constructs are entirely significant at a 95% significance level.

Table 1: Reliability and Validity of Constructs of First-Order Analysis.

	Construct	Indicator reliability		Internal consistency reliability		Convergent validity
		Loading	t-statistics	CR	CA	AVE
1.	**Inter-personal norms**					
1.1	**Integrity**			0.988	0.985	0.942
	1)I have never had to wonder whether this person will stick to his/her word.	0.964	196.283			
	2) This person has a strong sense of justice	0.973	282.259			
	3) I believed that they were honest	0.968	305.632			
	4) I'm sure that he always works honestly with me.	0.977	335.172			
	5) I am sure that he will not violate any of the conspiracies that exist between us.	0.970	266.726			
1.2	**Flexibility**			0.987	0.983	0.951
	1). In my dealings, it's very flexible in solving my problems with my business partner.	0.972	271.093			
	2) In the face of various emergency situations, he willingly changes the terms we previously agreed to for my good.	0.973	265.778			
	3) They do not hesitate to take into account my proposals and carry out important purchases and sales based on them.	0.977	314.300			

	4). In the course of my changing behaviors, they will continue this partnership with a better understanding.	0.979	384.579			
1.3	**Information Exchange**			**0.981**	**0.971**	**0.945**
	1). They provide me all the information that will help to make important decisions about this Joint Partner deals.	0.969	177.201			
	2). Information are being shared early between us, before any events or changes that affect each party taken place.	0.979	420.363			
	3) He will provide me with all the known knowledge of the risks or disadvantages that may affect me in future.	0.968	223.192			
1.4	**Solidarity**			**0.988**	**0.985**	**0.945**
	1) Even if I had a debt that I owe him, he does not pay much attention to it in doing a new deal with me.	0.973	327.187			
	2) We resolve the issues on transitions with amiability.	0.977	226.205			
	3) He thinks that, it is his duty to carry out the agreement between us in the same manner as we agree.	0.967	286.588			
	4) When I make decisions, he obeys them and works honestly with me.	0.970	300.326			
	5) He thinks that they have to maintain long-term trading relationships between us.	0.971	284.850			
2.	**Transaction cost (mediator variable)**					
2.1	**Searching cost**			**0.971**	**0.956**	**0.919**
	1) We incur costs to search for new buyers and suppliers	0.941	92.917			
	2) There is a labor cost to handle advertising activities	0.976	344.880			
	3) There is a traveling cost to handle advertising activities	0.958	154.876			
2.2	**Negotiation cost**			**0.982**	**0.973**	**0.948**
	1) There is a labor cost to handle legal matters and negotiate with exchange.	0.968	187.268			
	2) There is travelling cost to handle legal matters	0.978	380.554			
	3) There is Communication cost to handle legal matters and negotiate with exchange partners	0.975	260.945			
2.3	**Monitoring cost**			**0.986**	**0.981**	**0.946**
	1) There is a Cost for monitoring the transaction activities whether they are undertaken according to the agreements	0.968	193.402			
	2) There is a Labour cost for monitoring the transaction activities whether they are undertaken according to the agreements	0.983	435.523			
	3) There is a Travelling cost for monitoring the transaction activities whether they are undertaken according to the agreements.	0.976	420.714			

4) There is a communication cost for monitoring the transaction activities whether they are undertaken according to the agreements	0.962	183.196	
2.4 **Enforcement cost**			**0.984** **0.979** **0.940**
1) There is a cost to resolve transaction disputes,	0.957	154.186	
2) There is a Labour cost to resolve transaction disputes	0.976	290.000	
3) There is a Travelling cost to resolve transaction disputes,	0.974	276.285	
4) There is a communication cost to resolve transaction disputes,	0.971	220.828	

Source: Survey Data, 2025.

Table 1 shows that the outer loading values of each indicator are above 0.7. This indicates that no questionnaire questions were left out of the model and that all generated outer loading values supported the indicator reliability under second-order analysis and at the 95% significance level, and this t-statistic value exhibits total significance and comparatively higher values. Therefore, this study confirmed the indicator reliability of constructs of questionnaires under second-order analysis. Further, all values of CA and CR of this study were greater than 0.9, showing greater internal consistency in the final model, representing a higher association between indicators and their variables in the model. Table 01 represents higher AVE values for the variables, which are greater than 0.8, representing the convergent validity of all constructs of the questionnaire under second-order analysis.

The bolded figures in Table 2 represent the square root of AVE for each first order constructs of independent variables. Non-bold figures represent the other correlation values of the constructs. If non-bold values lying under the $\sqrt{AVE}$ value in the table are lower compared to the manually calculated square root of AVE, the Discriminant validity of the constructs can be established ($\sqrt{AVE}$ > Correlation of other variables). Accordingly, this study confirmed the discriminant validity of all constructs of independent variables under the first-order model, while all those indicators are significant at 99% significance level. (Sig.val < 0.01).

Table 2: Discriminant Validity of Constructs of First-Order Analysis.

	AVE	IPN-F	IPN-I	IPN-IE	IPN-S	TC EC	TC MC	TC NC	TC SC
Flexibility	**0.951**	**0.975**							
Integrity	0.942	0.927	**0.970**						
Information Exchange	0.945	0.943	0.906	**0.972**					
Solidarity	0.945	0.931	0.909	0.947	**0.972**				
Enforcement Cost	0.948	0.962	-0.773	0.962	-0.819	**0.974**			
Monitoring Cost	0.946	-0.780	-0.789	-0.775	-0.808	0.960	**0.973**		
Negotiation Cost	0.948	-0.801	-0.767	-0.765	-0.807	0.900	0.914	**0.973**	
Searching Cost	0.919	-0.788	-0.764	-0.760	-0.807	0.816	0.834	0.851	**0.959**

Source; Survey Data, (2025).

Second-order analysis: Second-order analysis looked at the relations among indicators and latent variables that correspond to construct reliability, including outer loading statistics (indicator reliability), composite reliability, and Cronbach's alpha (internal consistency reliability). Convergent validity (AVE) and discriminant validity (Fornell-Lacker criterion), on the other hand, take into account the validity of conceptions.

Table 3 underlines that indicator reliability under second-order analysis as each indicator's outer loading values are more than 0.7. Further, these t-statistic values show full significance and comparatively greater values because all constructs' t-statistic values are greater than 1.96. At a 95% significance level. Moreover, this study checks the internal consistency and reliability for the main variables over the CA and CR Accordingly, all values of CA and CR were greater than 0.9, showing greater internal consistency in the final model. AVE value is tested to confirm the Convergent validity, and it is recognized that all AVE values exceed 0.8, demonstrating the convergent validity of all questionnaire constructs under the second-order analysis.

Table 3: Reliability and Validity of Constructs of Second-Order Analysis.

	Construct	Loadings	t-statistic	CR	CA	AVE
1.	Inter-personal norms			0.986	0.981	0.945
	Integrity	0.962	82.060			

	Flexibility	0.977	303.261		
	Information Exchange	0.976	236.263		
	Solidarity	0.974	220.022		
2.	Transaction cost			**0.976**	**0.967**	**0.910**
	Searching costs	0.957	72.684		
	Negotiating costs	0.976	160.294		
	Monitoring costs	0.974	236.663		
	Enforcement costs	0.971	177.246		
4.	Business Performance			**0.981**	**0.977**	**0.879**
	I can earn an income that is enough for my better living and success from this business.	0.899	39.130		
	I have the ability to buy high price commodity	0.903	68.998		
	made it possible to earn more profits / profits.	0.946	116.159		
	There are some important buyers and sellers around me.	0.956	165.621		
	Due to business activities, my lands / buildings / vehicles ownerships have increased.	0.937	96.717		
	My reputation has increased with this business.	0.963	175.214		
	From this point onwards, I am pleased with the position in my business.	0.959	105.188		

Source; Survey Data, 2025.

Each latent variable's square root of AVE is utilized for establishing discriminant validity (Fornell, 1981). According to the concept, if $\sqrt{AVE}$ is greater than the correlation values of other variables, then the variables are said to have discriminant validity. In this second-order analysis, all of the AVE values' square roots exceed the other correlation values. Therefore, all variables are significant at the 0.05 significance level, and this study confirms discriminant validity under second-order analysis.

Table 4: Discriminant Validity of Constructs of Second-Order Analysis.

	BP	IPN	TC
BP	0.938		
IPN	0.924	0.972	
TC	-0.834	-0.847	0.954

Source; Survey Data, 2025.

Structural Model: The structural model mainly evaluates hypothesized causal relationships between exogenous (independent) and endogenous (dependent) latent variables. This assessment will be done based on the five-step guidelines, such as 1) Collinearity test, 2) path coefficient analysis, 3). Coefficient of determination, 4). effect size, and 5). assess the predictive relevance (Hair et al., 2014).

VIF values of 0.787 indicate less effect of multicollinearity between interpersonal norms and BP, whereas VIF values of 0.2729 indicate less effective multicollinearity between transaction cost and BP. This implies that the independent and dependent variables, as well as the mediating and dependent variables, are less multicollinear. Additionally, Table 5 shows that there is reduced multicollinearity across independent and mediating factors, with a VIF value of 4.731 between transaction cost and interpersonal norms.

Table 5: Multicollinearity Test of the Inner Model.

	BP		TC	
	Tolerance	VIF	Tolerance	VIF
Inter-personal norms	0.3588	2.787	0.2113	4.731
Transaction cost	0.2729	3.664		

Source; Survey Data, 2025.

Additionally, this study's adjusted R^2 value for the BP was 90.3%. This figure indicates that the independent variable of relational contract accounts for 90.3% of the variation in the BP. Additionally, the study's adjusted R^2 value for transaction cost is 72.5%. This indicates that the study's independent variables account for 72.5% of the variation in transaction costs.

Also, this study's Table No. 6 found a small effect size (f2) between interpersonal norms and BP of over 0.019, and a similar small effect size across interpersonal norms and transaction costs of 0.085.

Table 6: Value of the Effect Size of Variables.

	BP	Effect size (f²)	TC	Effect size (f²)
IPN	0.019	small	0.085	small
TC	0.034	medium		

Source; Survey Data, 2025.

Additionally, this study's Table No. 6 found a small effect size (f2) between interpersonal norms and BP of over 0.019, and a similar small effect size across interpersonal norms and transaction costs of 0.085.

There are four (4) hypotheses that are the focus of this study. The first three (3) hypotheses among them examine the direct impact of the connection between independent, dependent, and mediating variables, which has been proposed. The suggested connection is shown in Table 7.

Table 7: Path Coefficient and T-Statistic Among Constructs.

Hypothesis	Relationship	Path coefficient	t-statistic	P values	Decision
H1	Interpersonal Norms and Business Performance	0.155	2.250	0.024	Accepted
H2	Interpersonal Norms and Transaction Cost	-0.523	4.427	0.000	Accepted
H3	Transaction Cost and Business Performance	-0.109	2.723	0.006	Accepted
H4	IPN -> TC -> BP	0.057	2.129	0.033	**Partial Mediation**

Source; Survey Data, 2025.

DISCUSSION

The path coefficient value between interpersonal norms and business performance is +0.155, as shown in Table 7, indicating a positive correlation between the two. In other words, business performance increases by 0.155 units for each unit rise in relational norms. Furthermore, at a 95% significance level, the t-statistic value is 2.250, confirming the significance of this relationship. This suggests that the exchange of various levels of norms among retailers can significantly improve the performance of retail business operations. Therefore, H1, which states that interpersonal norms have a favorable effect on retail traders' business success, is supported by this study. Paulin et al. (1997) have empirically confirmed how relational norms affect business performance with supported and rewarded maintenance of effective relationships.

The negative correlation between transaction costs and interpersonal norms is also present in Table 7, showing a -0.523 β value and a 4.427 t-stat value at the 0.05 significance level. Priyanath, et al., (2016) and Rokkan et al. (2003) proved the negative association between norms and transaction costs through their studies. Parties are able to reduce the cost of the exchange with fair rules and standards they follow towards business partners through honest understanding, flexibility in decision-making, and sensitive attention towards other partners when partners fall into business trouble, which improves the effectiveness of the market (Bies et al., 2007; Chou & Ramser, 2021). Paulin et al. (1997) further reveal the importance of interpersonal norms for the reduction of transaction costs. Thus, researchers can clearly provide evidence for the H2 hypothesis based on this study.

Moreover, this study observed the negative relationship between transaction cost and business performance (the path coefficient value is -0.109). This underlines how business performance improves once transaction costs decrease. This relationship is confirmed by a t-statistic value of 2.729, which corresponds to a 95% confidence level. Retailers can allocate scare resource more effectively when transaction costs are lower, and this impact minimizes the unnecessary expenditure, boosting operational flexibility. Accordingly, minimizing transaction costs becomes a critical factor in sustaining competitive advantage and improving profitability. These findings validate H3, which posits that transaction costs negatively influence business performance.

The last hypothesis of this study is the H4 hypothesis, which supports another indirect and mediating impact of transaction cost on the relationship between interpersonal norms and BP. Norms are another key indicator that shows a negative relationship with transaction cost; therefore, a positive relationship represents the performance of the organization. This idea is disclosed by former researchers such as Achrol and Gundlach (1999), Doucette (1996), and Paswan and Young (1999), who explain how the performance of the organization can maximize cost over minimizing cost and how norms contribute to maximizing performance through the transaction cost concept. Whenever economic activities among the exchange parties are filled with norms, fair rules, and diverse standards, the organization automatically makes a bridge, bringing various pools of resources and profits (Rus & Iglič, 2005). Further, Williamson (1996) expressed that organizations can enhance cooperation and opportunities for mutual gains over the indirect effects of trust and norms, reducing transaction costs, and governance mechanisms (Williamson, 1996) act as an effective mechanism to keep organizational transactions running smoothly. Therefore, empirical evidence proves the hypothesis developed by H4 in this study.

CONCLUSION

This study demonstrated how interpersonal norms significantly improve business performance and reduce the transaction costs of the retail traders with special reference to the Gampaha district. Four hypotheses were tested employing PLS-SEM, and the results revealed that there is a significant positive relationship between interpersonal norms and business performance. The second hypothesis revealed that there is a negative relationship between interpersonal norms and transaction costs. Further, these findings showed how transaction cost negatively influences on business performance, while it finally confirmed the mediating role of transaction cost in the relationship between interpersonal norms and business performance. These conclusions align with relational contract theory, suggesting that shared norms are essential for minimizing uncertainty and boosting efficiency in retail traders. Retail traders who are involved in constructing strong interpersonal networks can expect not only upgraded collaboration but also concrete economic benefits through cost reduction and performance enhancement. Thus, this study supports the new theoretical framework over the multidisciplinary approach among economics, sociology, and managerial theories. Thus, this current study provides a preliminary understanding of how interpersonal norms, as a social dimension, affect transaction costs and the business performance of the organization while evaluating how to mediate the role of the transaction cost effect on the relationship between interpersonal norms and business performance, minimizing the empirical gap by addressing retailers in the Gampaha district, Sri Lanka.

However, the evidence here is that across a broad range of different buyers' and suppliers' relationships, gaining the trust and norms of opposite exchange parties is the key element in their participation in cooperative business activities, as well as for long-term better business interactions to a greater extent. Constructs of the transaction cost, which is evidence about the impact of characteristics of a strong relational bond between two parties on the BP, play a mediating role between interpersonal norms and transaction cost. Further, they demonstrate that they are fair and honest and work with solidarity at all times, and they express that they are likely to share knowledge with their business partners. These qualities of business partners result in a higher level of income, maintaining the performance of the business. Finally, SL is one of the developing countries in the world market, and the majority of retail traders have no legal boundaries to secure their transactions and cannot spend to gain the popularity of the business. Thus, the development of social attitudes towards business enhancement would be the most appropriate method for SL to maximize profit while minimizing transaction costs. Retail traders can form formal business associations to share information and have flexible agreements with each other to earn a profit. Further, the government should regulate policies to provide an ideal and peaceful environment with better progress in the country. Through the growth of decent social attitudes without being heavily based on price mechanisms and laws. Such a concept can greatly reduce the large amount of legal expenses associated with the transaction, giving businesses a new outlook for sound performance. Accordingly, it is recommended that this kind of local business association benefits from developing reliable associations with different exchange partners, and it creates a bridge to share business information with others.

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