

## **DETERMINANTS OF BUSINESS SUCCESS: TRUST OR BUSINESS POLICY?**

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### **ABSTRACT**

Most times businesses prefer to trust their business partners and customers in achieving success than keeping to the rules and regulations guiding the business activities. Experience has also shown that many businesses claimed to rely on trust to achieve business success, however, business policy seems to play more significant and effective role in achieving business success and keeping the business going. Therefore, the issue of whether trust determines business success better than business policy called for an urgent attention as many businesses relied on trust rather than business policy. In view of this, the paper examines which among one of these factors better determine business success. It examined trust and business policy based on credit and loans perspective. Based on the literature and previous business experience, it was argued that businesses could make better success and prevent the business from death by sticking on their business policy rather than mere business trust which could be injured.

**Keywords:** Determinants, business, success, trust, business policy, bankruptcy

## **INTRODUCTION:**

There is no doubt that the major purpose of setting up a business is to make profit, achieve success and ensure the continuous existence. Therefore, a successful business is one that produces a very acceptable return on the assets employed. It is that which is positioned to keep on running well without depending on the owner to be in daily attendance (Changing Minds, 2012). In this regard, the success of any business is therefore, very paramount to the owner (s) and on the other hand, the owners' joy is as a result of the success of the business. However, a business does not just achieve success; certain factors would have played very significant function. Therefore, businesses must identify which factors best influence their business success in order to capitalise on such factors especially in this present global competitive environment where businesses are struggling to achieve success at all cost. More often than not, most businesses around the globe relied highly on trust as their determinant success factor. However, relying on trust could be very devastating as many businesses have gone down the drain as a result of their trust on the customers as well as the business partners (Changing Minds, 2012). On the other hand, keeping to the rule of the game (business policy) could be better in achieving success than trust as business policy would guide the business to the right path and prevent the business from taking wrong decisions that could cause its death.

With respect to above, this paper raises an argument on which of these two determinants (trust and business policy) best determines business success. Therefore, the question of which of these determinants poses to be a better business success determinant is of great concern to this study. For example, experience has also shown that many businesses claimed to rely on trust to achieve business success, however, business policy seems to play more significant and effective role in achieving business success. Therefore, the issue of whether trust determines business success better than business policy called for an urgent attention as many businesses have misconstrued this by preferring trust to business policy.

Although extensive studies have been conducted on business success determinants (e.g Lucky and Minai, 2012; Lucky, 2011; Lucky, 2012; Man et al., 2002), however, certain determinants have not been considered (Jasra, Khan, Hunjra, Rehman, and Azam, 2011). For instance, factors such as trust and business policy which authors have noted to play significant roles in business success are yet to be considered in determining the business success. Apart from this, Lucky and Minai (2011); Man, Lau and Chan (2002) have argued that investigation on success factors still deserve further attention particularly in the study of business management. Secondly, the arguments on the most influential factors that determine business success as well as performance is still ongoing as authors are yet to draw a conclusion (Lucky et al. 2011; Man et al., 2002). This situation highlighted above suggests that further examination on the determinants of business success is needed in order to address this argument. In this view, this paper examines which among one of these factors (trust and business policy) better determine business success. It argues that businesses could make better success by sticking on to their business policy rather than mere business trust which could be injured.

## **LITERATURE REVIEW:**

### **DETERMINANTS OF BUSINESS SUCCESS:**

A critical view of business success would reveal that there is no right or wrong when it comes to how businesses define their overall business success. However, their measures should try to focus on what they can control. In this one cannot rule out success when talking about business since the business is often evaluated or measured by the amount of success achieved (Lucky & Minai, 2011). Business success is defined as the ability of the business to achieve its stated objective. It is the achievement of the business with regards to its business goals. It is having set goals and achieving them. According to Lucky (2011), business success tends to provide information on efficiency, growth, profit, size, liquidity, success/failure, market share and leverage. It supplies information about the business' growth, success/failure and most predominantly, the profitability of the business. Therefore, business success indicates that the business is profitable, effective, efficient, successful, etc.

A business does not just achieve success; certain factors have to play significant functions. In this regard, studies on business success have listed several factors which tend to determine business success (Jasra, Khan, Hunjra, Rehman, and Azam, 2011; Ugwushi, 2009; Alarape, 2007). The studies by Ugwushi (2009); William, (2009); Okpara and Wynn (2007); Ogunde (2007); Ogunde (2007) and Alarape (2007) found that factors such as inadequate infrastructure, poor management, corruption, inadequate capital, poor record keeping, financial resources, management experience, corruption, strategic, operating, administrative and managerial skills determine business success. Similarly, Ogunde (2007); Aderemi, (2007); Okpara et al. (2007); Kolawole and Torimiro (2005) affirmed that social status, personal experience, infrastructural functionality, educational advantage, economic prowess, institutional influence and, information and project type, social-cultural, ecological, managerial, educational, developmental, experiential, technological, structural and ethics contribute

to business success. Accordingly, the study by Lucky and Minai (2011); Rebecca et al.

(2009) and Arowomole (2000) asserted that individual characteristics, culture, location, external factors, innovative, training and development and competence determine business success. Most recently, the study conducted by Jasra et al. (2011) found that factors such as environment, financial resources, technology resources, equipment, government support, market strategy, information access and entrepreneurial skill determine business success. They asserted that these factors play a vital role in determining the success of the business.

From all indications, authors have found all the above mentioned factors to have connection with business success. However, despite this abundant list, it is surprising that some factors are not supported by these studies, even the most recent empirical study conducted by Jasra et al., (2011). Factors such as trust and business policy seem to be missing in these studies highlighted above. Hence, they are not being mentioned by authors. This is the more reason why this study takes this direction in order to consider these determinants. Therefore, this paper examines the determinant of business success from the perspective of two key determinants; trust and business policy.

### **BUSINESS TRUST:**

Generally, trust can be defined in different context depending on what the author wants to achieve. Therefore, in this context, the authors examine trust in the business perspective. There is no doubt that almost all businesses and commercial transactions involve an element of trust (Huang and Wilkinson, 2006). This trust is often built over a period of time between the business and its customers including its business partners. According to Huang et al., (2006) trust is what is needed when there is a situation of uncertainty where parties are interdependent. It involves a situation whereby one party relies on another party to act in an expected way. The study by Rotter (1967) on classical view of trust defined trust as a general expectancy an individual holds that the word of another individual can be relied upon. Morgan and Hunt (1994) regard trust as existing in a situation when one party is confident of its exchange partner's reliability and integrity. The definition by Huang et al., (2006) noted that trust is a party belief in the reliability of an exchange partner and its readiness to behave in the same manner.

According to one expert on trust, Dr. Duane C. Tway, Jr., trust is defined as, "the state of readiness for unguarded interaction with someone or something" (Changing Minds, 2012). He developed a model of trust that includes three components. He called trust a construct because it is "constructed" of these three components: "the capacity for trusting, the perception of competence, and the perception of intentions." In an attempt to define trust, The Great Place to Work Institute found that trust is in three characteristics, "first, trust grows out of the ability to perceive others as credible that what they say is true, that their actions are consistent with their words, and that they will be ethical in their business practices" (Lyman, 2003, p. 4). Trust has also been defined in four dimensions of predictability, value exchange, delayed reciprocity and exposed vulnerabilities (Changing Minds, 2012). As predictability, trust means being able to predict what other people will do and what situations will occur. According to this statement, it implies that when one encircles himself with trusted people, then he can create a safe present and an even better future. As a value exchange, it means making an exchange with someone when you do not have full knowledge about them, their intent and the things they are offering to you while as delayed reciprocity, it means giving something now with an expectation that it will be repaid, possibly in some unspecified way at some unspecified time in the future. Finally, as exposed vulnerabilities, trust means enabling other people to take advantage of your vulnerabilities—but expecting that they will not do this. In organizations, trust can be best defined as the ability to believe your employees as well as your business partners without doubting them. It is the ability to perceive others (employees and business partners) as being credible. However, due to the authors' previous experiences in business and other areas of our lives, we came to a conclusion that trust is best defined as a "risk". Hence, trust is a risk. It is a 50:50 thing.

The importance of trust cannot be quantified in every aspect of human endeavour. In human relationship, trust is needed to sustain it. In organizations and workplaces, experts have noted that trust is very important in getting the employees to work and contribute significantly to the organizational performance (Changing Minds, 2012). In business, trust plays a key role in sustaining and keeping the business going, not only that but also contributes to the success of the business. Because trust is a risk, there is tendency that people may one time or the other abuse trust in the course of business transactions, therefore, making trust 100% unreliable. A business based on trust is at risk and the business might not realize that until the trust is abused. For example, even in business organization in which trust is a priority, things happen daily that can injure trust. A communication is misunderstood; a customer order is misdirected and no one questions an obvious mistake. After all, businesses that went bankrupt trusted the intentions of other partners, and thus was severely injured in the eyes of the

people as explained by Tway's trust model (Changing Minds, 2012).

Spekman (1988) noted that trust is very important and crucial in business. That is the much reason the author called it "the cornerstone of strategic partnership". He noted that trust will reduce both customers and partner's commitment which then affects business success. The study by Morgan et al. (1994) found that trust is a major

determinant in relationship commitment that leads to success. Dyer (1996) argued that trust is a prerequisite to the successful involvement of customers and mutual levels that leads to success. Kwon and Suh (2004) argued that unless trust is actionable, business success or gain will be very difficult to achieve. They noted that a successful business performance is based on a high level of trust among business partners. The research framework offered by Huang and Wilkinson (2006) showed that trust affect business relations as well as business success. Similarly, the most recent study conducted by Fracaro (2008) on employee trust found that employees' trust in their managers is vital to the success of every business. Therefore, trust is an indispensable determinant of business success.

### **BUSINESS POLICY:**

Generally, policy is a guideline that provides a direction to the business. Business policy therefore, tends to define the scope within which decisions can be taken by anybody in the business. Lucky (2011) describes business policy as that which assigns boundary to decision making. It provides power to anybody in the business to take a decision without consulting the top management. Business policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. It also deals with acquisition of resources with which organizational goals can be achieved. It is equally, the study of the roles and responsibilities of top level management, the significant issues affecting organizational success and the decisions affecting organizations in the long-run. It can equally be defined as the blueprint of the business activities of the organization which are repetitive/routine in nature. It deals with what needs to be done and what is not to be done. Policy is concerned with both thought and actions. It involves all the routine/daily activities essential for effective and efficient running of the business. Business policy also includes essential business rules, such as credit allowance, business ethics, practices etc.

Because business policy is concerned with the daily operations of the business, therefore, any unnecessary shift or mistake will affect the success of the business. In the study conducted by Laning (1983) on the effect of business policies on the methods of obtaining new business found that business policy is a key success factor that determines the success or failure of a contract proposal. A critical observation and experience have shown that business that conform their business activities to their policy is likely to achieve better success than those which do not do so.

### **TRUST VERSUS BUSINESS POLICY:**

**Abuse of trust:** Although trust has been found to determine the success of any business, however, trust being seen as a risk could be abused by any of the parties involved. The abuse of trust could cause the death of any business involved. According to Dr. Tway, things happen daily that can injure trust. Trust which is ever changing concept is noted to be constantly affecting business and being affected by most activities in business transactions. Because trust does not guide decisions and neither is it based on policy, there is bound to be a serious mistake which could plunge the business to death. Therefore, to ensure business success and continuous existence, business decisions should be based on business policies and not trust, basing decisions on the later will be disastrous as it could lead to the death of the business. For example, credit extensions to customers should be based on the business policy rather than trust. Experience has shown that many business owners sometimes prefer to grant credit to customers based on the trust they have on them yet we must agree that trust being a risk is uncertain and therefore, the other party might decide not to behave as expected (Huang et al., 2006).

**Immeasurability of trust:** the question is how does a business measure trust of their customers? How can one party measure the trust of another party? Honestly, there are no parameters or indicators to measure trust. This is the more reason we defined trust as a risk. A 50:50 thing. If this is the situation, why then would a business prefer to take huge risks that could drive it into business failure. In the course of business transaction, the seller asked the buyer for his full payment which the buyer declined. The seller then asked don't you trust me and the buyer quickly replied him trust is a risk. He was perplexed and then said, that is interesting. The buyer then told him, I am sorry but this is my policy. I can only complete the payment when all papers concerning this business are properly signed in the appropriate authorities. The buyer said this because he was unable to measure the

sellers' trust, although, a friend to the seller to an extent but the buyer was not sure of getting the seller with him to sign the papers if he succeeded in getting his full payment yet he did not want to offend the seller. Therefore, the issue of business policy comes in and that solves the problem at once.

In the case of business policy, it helps the business to limit their decision to those areas they are not sure of. In an uncertain situation, and situations involving friends, relatives and others, policy will balance it and prevent you from taking such a dangerous risk that could set your business on fire. Consider a thing like this, although in as much as we would like to do business with you, we are sorry our policy does not allow us to extend credit to you. This is business policy. However, given the same credit situation, trust will say, because you are my friend or relative, we will grant you credit but please make sure you pay as expected. For instance, if after the expected time, he does not pay; what next? Experience has shown situations where the business-owner paid from his pocket money in order to avoid given credit to his friends or relatives and keep the business policy effective. After all, they say "*business succeeds when friends and relatives pay*". Tway contended that many businesses went to bankrupt even though trust was their top priority. He noted that things happen daily that can injure trust and as such policy would be in better position to guild the business in profitability path.

### **CONCLUSION:**

The paper examined the determinants of business success. It presents an argument on which factor best determines business success: Trust or business policy? The paper examined this issue purely on credit and loans perspective of the trust and business policy. In this regard, trust was defined as a risk, a 50:50 thing, while business policy was defined as guidelines developed by the business to govern its actions. The paper noted that although, all business transactions involve a certain level of trust or the other yet trust could be abused, thus making trust a risk which could affect businesses in a negative way. It acknowledged that trust plays huge roles in business success; however, the risk seems to be very high as many businesses have been affected as a result of their trust on their customers as well as their business partners. Therefore, trust may not guarantee business success to a large extent. On business policy, the paper argued that it determines business success to a greater extent since it provides guidelines upon which day-to-day running and operations of the business are being conducted. It prevents owners and the business from going beyond their boundary with regards to business decisions. Therefore, it is argued that business policy will sustain the success of the business more than trust; as trust could be abused by any of the parties involved which could result to business failure. Thus, business owners should always allow policy to prevail over trust. However, they can also try to blend trust with policy in order to appease the long time customers of the business who have built a strong relationship with the business. This paper contributes to the existing literature in this domain by examining these determinants which other studies may have neglected. Finally, based on the arguments presented in this paper, it is suggested that an empirical study should be conducted to provide empirical evidence on the argument between trust and business policy. Again, the issue of trust and business policy was examined strictly on credit and loans perspective, therefore, further studies in this domain can replicate this study by looking at other perspectives.

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