

External growth strategies and organizational performance in emerging markets

The mediating role of inter-organizational trust

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Abstract

Purpose – Inter-organizational trust has a vital role in any external trade relationship. However, there are not many studies relating to growth strategies and inter-organizational trust in firms in emerging markets. The purpose of this paper is to identify and compare the effect of external growth strategies on the organizational performance of companies and to examine the mediating role of inter-organizational trust between growth strategies and organizational performance.

Design/methodology/approach – Data were collected from 240 senior managers from public listed companies (PLCs) in Malaysia and were analyzed using analysis of a moment structures.

Findings – The findings indicate that growth strategies have a significant effect on organizational performance. Strategic alliances and acquisitions also have significant effects on organizational performance. Moreover, inter-organizational trust fully mediates the effect of growth strategies on organizational performance.

Research limitations/implications – As purposive sampling was used, selecting only managers with experience of the issues concerned, any common findings are likely to be generalizable to managers in similar situations.

Practical implications – Building inter-organizational trust among companies and relying on strategic alliance and acquisition, rather than merger, will sharpen their competitiveness and enable them to survive and thrive.

Social implications – The increase in organizational performance of PLCs will have a significant effect on employment and on gross domestic product (GDP), which will have a beneficial effect on citizens.

Originality/value – Studies that are related to these variables in emerging economies are still in their infancy. This study compared the effect of external growth strategies and contributed to the literature in the area of trust and external growth strategies.

Keywords Acquisition, Merger, Inter-organizational trust, Strategic alliance, Public listed companies, External growth strategies

Paper type Research paper



1. Introduction

The increase in uncertainty and the emerging shifts in the principles of competition in global markets (Cavusgil *et al.*, 2014; Zainal *et al.*, 2009) require firms to constantly review the growth potential and change in the marketplace to stay competitive. In response to these challenges in the business environment, choosing the focus and direction of growth strategy has become a critical decision that involves a high degree of risk in determining the company's competitive position (Masiero *et al.*, 2017; Rexhepi *et al.*, 2017). For this reason,

companies assume growth as their central strategic paradigm (Gümüş and Apak, 2011), and a company must use its ability to grow in its environment (Prahalad and Hamel, 1990).

Evidence from the literature refers to the growing importance of growth strategies in the emerging economies and the need to compete on the international level. This is because of the liberalization of the economic sectors (Rammal and Rose, 2014) and the need to achieve economic growth that leads to the prosperity of citizens and increases the standard of living as well as allowing the development of health services and use of technologies. For this reason, the focus on growth in emerging economies is essential for governments, business companies and the public (Mohy ul din *et al.*, 2017). Economic growth creates jobs (Soto, 2009) and attracts foreign direct investment (FDI) (Mun *et al.*, 2009).

Growth can be achieved either by internal or external strategies (Ortiz-de-Urbina-Criado *et al.*, 2014). The internal option is slow, while the external is preferable because it leads to faster results (İşoraité, 2009). External growth is usually achieved by engaging in merger and acquisition (M&A) or strategic alliance (Ömür *et al.*, 2012). External growth strategies foster the growth of businesses and enhance their access to technology, knowledge transfer, financial capital and market capabilities (Cassia and Minola, 2012; Lechner and Dowling, 2003; Pook *et al.*, 2017).

Companies benefit greatly from alliances and M&A for reducing costs and increasing the efficiency of distribution networks (Qiu, 2010). However, the literature reveals that researchers focused either on the effect of M&A (Aik *et al.*, 2015; Shanmugam and Nair, 2004) or on strategic alliance (Abdullah and Zainal, 2011; Sambasivan *et al.*, 2011, 2013), with the majority of studies using secondary data approach (Brekalo *et al.*, 2016; Chen and Chang, 2016; López-Duarte *et al.*, 2016; Min and Joo, 2016). Only a few studies have investigated the effect of strategic alliance, M&A using a survey approach, and the majority of them did not differentiate between M&A. This led Correia *et al.* (2013) to call for future researchers to address these two types of growth strategies separately. This study responds to their call.

Establishing successful external growth strategies requires involved parties to be honest, reliable and competent, with a high degree of accountability and integrity and care for the benefit of all parties involved (Zainal *et al.*, 2014). Researchers refer to inter-organizational trust (trust) as trust that exists between a company and its joint venture partner, customers and suppliers (Huff and Kelley, 2005). Trust between organizations is largely dependent on managers and boundary role individuals who interact with each other (Ingenhoff and Sommer, 2010). Trust is important to enhance manufacturer–retailer relationships (Seppänen *et al.*, 2007), marketing channels (Delbufalo, 2015), joint venture partnerships (Ertug *et al.*, 2013) and international cooperative alliances (Costa e Silva *et al.*, 2012).

The accumulated evidence for a positive effect of trust on alliance performance (Kale *et al.*, 2009) indicates the importance and legitimacy of research on trust in the inter-organizational context (Wang *et al.*, 2014). Trust is an emerging variable in the context of management (Wang *et al.*, 2014). In relation to this, Zaheer *et al.* (1998) pointed out that trust will reduce transaction costs and increase performance. McEvily and Zaheer (2006) argue that the positive outcomes of trust fall into three categories, namely, transaction costs, relational governance and transaction value. Meanwhile, Huff and Kelley (2005) compared trust among the US and Asian managers and found that the US managers showed higher levels of trust than Asian managers, including Malaysian managers.

In Malaysia, the economic planning unit (EPU) indicated that the gross domestic product (GDP) of the country had increased from RM1,106bn in 2014 to RM1,230bn in 2016. However, the real growth of GDP decreased from 6 to 4.2 per cent in the same period (EPU, 2017). The World Bank classified Malaysia as an upper-middle-income nation in 2017 (The World Bank, 2017), and the country strives to achieve the vision of 2020 to become a

high-income nation. Public listed companies (PLCs) are the main drivers of economic growth in the country (Alaarij *et al.*, 2017). However, recently, the performance of Malaysian PLCs has dropped. In studies conducted on 100 PLCs, using secondary data, it was found that less than 20 per cent of PLCs are performing well, with most showing serious inefficiency and decreasing returns (Mohamad and Said, 2010, 2013). On the regional level, a report of Grant Thornton International Business (GTIB) in 2016 indicated that business optimism in Malaysia fell to net –36 per cent (compared with Indonesia 88 per cent, Thailand 16 per cent and Singapore –28 per cent), and this has been attributed to weak economic growth and expansion of companies (GTIB, 2017). On the international level, the annual reports of Forbes Largest Global 2,000 PLCs showed that the number of Malaysian PLCs included in the list dropped by 25 per cent between 2013 and 2016 (Forbes, 2016).

Emerging economies are competing to attract more investment and FDI. According to Bloomberg, in 2018, Mexico was the most attractive emerging economy, followed by Turkey, Poland, Czech Republic and Malaysia (The Star, 2018). This indicates that the Malaysian PLCs are facing several challenges, such as severe competition from regional and international companies. The Malaysian Government has signed several agreements to join international partnerships, such as Trans-Pacific Partnership (TPP) and the Association of Southeast Asian Nations (ASEAN). These agreements reduced tariffs and entitled foreign companies to enter the Malaysian market and compete with local businesses. Experts warn that Malaysian PLCs are facing challenges, and they must focus on growth opportunities to increase their competitiveness (The Malay Mail Online, 2013).

According to the Malaysian Merger and Acquisition Association (MMAA), the value of M&A increased from \$16bn in 2010 to \$30bn in 2014 (MMAA, 2016). This value will continue to increase owing to competition in the country and the region, as well as because of the involvement in partnerships such as TPP. The report on M&A produced by Global Legal Insight (GLI) in 2012 indicated that the volume and value of M&A in Malaysia stems mainly from government initiatives that encourage economic growth in certain sectors. Mainly, the initiatives include:

- the Economic Transformation Programme (ETP), which is the catalyst for the transformation needed for Malaysia to achieve the status of a developed nation by 2020, as targeted under the Malaysian new economic model; and
- the cooperation and understanding within ASEAN, which encourages the member countries to synergize (GLI, 2014).

The Star newspaper indicated that insurance companies conducted most M&A (The Star, 2014), while banks and other financial institutions are increasingly involved in strategic alliances. For example, in 2015, four banks established strategic alliances to develop a multi-bank platform (Bank Islam, 2015).

The trend for M&A as well as for strategic alliance is increasing among companies in Malaysia. This paper investigates only inter-organizational trust as it is a part of external growth strategies. Researchers have divided trust into a relationship component and a task component (Zainal *et al.*, 2014) or goodwill trust and competence trust (Jiang *et al.*, 2013). In this study, the trust components of the former are adopted. The motive of this study is to contribute to the literature related to trust and growth strategies by investigating Malaysia as a case that represents the emerging economies, and accordingly, it investigates and compares the effect of growth strategies on the organizational performance of PLCs in Malaysia. It also aims to test the mediating role of inter-organizational trust between growth strategy and organizational performance. This paper next discusses the literature review and hypotheses development, methodology, findings, discussion, limitations and future works.

2. Literature review and hypotheses development

This section covers specifically three topics, namely, organizational performance, external growth and inter-organizational trust, leading to the formulation of related hypotheses.

2.1 Organizational performance

Organizational performance has been one of the most highly investigated dependent variables in the context of management (Abdullah *et al.*, 2009; Zainal *et al.*, 2009; Alaarj *et al.*, 2015). It is defined as a set of financial and non-financial indicators, which offer information on the degree of achievement of objectives and results (Lebas and Euske, 2007). Previous studies related to growth strategies focused mainly on using financial indicators that are extracted from the annual reports of companies (Klarner and Raisch, 2013; Aik *et al.*, 2015; Kuriakose and Paul, 2016). In regard to this, balanced scorecard criticized the use of financial indicators and proposed to measure organizational performance using assessments of financial indicator, customers, internal process and learning and growth (Kaplan and Norton, 1992). Kaplan and Norton (1992) pointed out the possibility of having used misleading indicators of continuous improvement and innovation if only financial accounting measures are used to evaluate performance. Researchers referred to customers, internal process and learning and growth as non-financial indicators (Ayoub *et al.*, 2013; Chen and Liang, 2011). Additionally, researchers also pointed out the difficulty of measuring organizational performance without including variables such as intangible values, which include partnerships, competences, knowledge and external relationships (Cotora, 2007). Therefore, this study measures organizational performance using both financial and non-financial indicators, which have been used by many researchers (Alaarj *et al.*, 2016; Holsapple and Wu, 2011; Tseng and Lee, 2014).

2.2 External growth strategy

Strategy has been one of the major topics that received constant attention from researchers. It is defined as concern with integrating company activities and allocating resources, so that the present objective can be met (Zainal *et al.*, 2014). Businesses adjust their strategies to survive and grow in rapidly changing environments. Company growth can be divided into internal growth and external growth. Internal growth is a strategy to grow through accumulating profits by management rationalization, such as expanding investment, increasing production and improving sales, while external growth is a strategy to grow by acquiring some or all of the assets of another company. M&A and strategic alliance are major approaches to external growth (Ömür *et al.*, 2012; Yoo *et al.*, 2013).

Strategic choices and performance in emerging economies have been under-researched (Yuliansyah *et al.*, 2016). Therefore, this paper focuses on external growth strategies because they foster the growth of businesses and enhance access to technology, knowledge, financial capital and market capabilities (Cassia and Minola, 2012; Lechner and Dowling, 2003). Evidence from the literature refers to the growing importance of external growth strategies. In a related study, Chang and Wang (2007) investigated the effect of product diversification strategies on the relationship between international diversification and firm performance. The findings indicated that the numbers of M&A and strategic alliances are positively related to performance. Similarly, Qiu (2010) found that a large number of cross-border strategic alliances are marketing and distribution alliances that reduce distribution costs for the allied companies. Cross-border M&A are often found to be motivated by taking advantages of each other's distribution networks. Ortiz-de-Urbina-Criado *et al.* (2014) found that external growth has a strong effect on organizational performance when the involved parties seek to diversify their businesses. Thus, the first hypothesis of this study is:

H1. External growth strategies have a significant effect on organizational performance.

Supporters of resource-based view theory point out that organizations can use their own resources and capabilities to achieve competitive advantage and superior performance (Barney, 1991). In particular, building inter-organizational relationships is a strategic capability that companies can use to establish networks with partners in the form of M&A or strategic alliance. Strategic alliance is an important method for companies to achieve sustainable competitive advantages (Sambasivan *et al.*, 2013). Previous studies tested the effect of strategic alliance and found that it has positive implications for the organizational performance of involved parties (Das, 1998). Jiang and Li (2008) commented that having a strategic alliance can improve organizational learning and performance. Similarly, Khalid and Larimo (2012) found a significant effect of alliance entrepreneurship on performance. Accordingly, it is expected that:

H1a. Strategic alliance has a significant effect on organizational performance.

M&A have become a global phenomenon and a popular strategic choice for companies pursuing growth and expansion (Deng and Yang, 2015; Ömür *et al.*, 2012). The literature shows that M&A are investigated intensively by researchers from different disciplines, but the majority focus on banks' M&A (Aik *et al.*, 2015; Kuriakose and Paul, 2016). M&A are effective tools in the hands of the management to achieve greater efficiency by exploiting synergies and growth opportunities (Ghosh and Dutta, 2014). They are important vehicles for companies' business, product and geographic strategies, and they have become major strategic tools for multinational corporations' growth (Vaara and Tienari, 2011).

M&A have a significant impact on companies' performance (Laamanen and Keil, 2008), and they hold long-term consequences for the company (Capron and Pistre, 2002). Rani *et al.* (2015) found that M&A in India had resulted in significant improvement in the profitability of acquiring companies. In contrast, Aik *et al.* (2015) found that mergers are driven by managerial self-interest to create market power and that non-merging rival organizations in Malaysia have significantly higher productivity. By the same token, Kuriakose and Paul (2016) suggest that dissimilarity between merging partners has led to weak and adverse impacts on performance. Aghimien *et al.* (2016) advise banks not to be involved in M&A activities because that will not lead to an increase in the banks' output.

Correia *et al.* (2013) studied M&A separately and investigated their effect on the organizational performance of 32 European companies, using quantitative data gathered from 6,768 managers. The findings indicated that acquisition has a positive impact, while merger has a negative impact on organizational performance. Kumar and Suhas (2010) found that there was no evidence that mergers improve performance. Similarly, the findings of Pervan *et al.* (2015) indicated that there was no significant effect on performance before and after mergers.

Despite the negative findings mentioned in the previous paragraph, in this paper, it is expected that M&A have significant effect on organizational performance. Thus, it is hypothesized that:

H1b. Acquisition has a significant effect on the organizational performance of PLCs.

H1c. Merger has a significant effect on the organizational performance of PLCs.

2.3 Inter-organizational trust

Trust has emerged as an important factor that can affect the entire performance of the parties that are involved in inter-relationships. Trust is defined as the degree to which

parties are willing to act on the words, actions and decisions of others (McAllister, 1995). Jiang *et al.* (2013) investigated the effect of trust and contract on knowledge leakage in strategic alliances. Trust was divided into “goodwill trust” and “competence trust”. The findings indicate that competence trust is the most effective safeguard against knowledge leakage, whereas formal contracts are not an effective mechanism. Seppänen *et al.* (2007) suggested further studies should be focused on inter-organizational trust to derive the benefits of both empirical and theoretical generalizations in this emerging field. Zainal *et al.* (2014) point out that the need for trust has arisen because of the expansion strategies of companies when they look for growth opportunities with partners, outsourcing from new suppliers or have to deal with different cultures. Sambasivan *et al.* (2011) emphasized the importance of including trust as a major component in relationship capital and strategic alliances.

In a related study, Pesämaa *et al.* (2013) investigated the role of inter-organizational trust in commitment. The findings reveal that trust and reciprocity are related to inter-organizational commitment. Similarly, a study conducted by Lusch *et al.* (2003) to investigate the inter-organizational trust between suppliers and retailers before and after conducting strategic changes, shows that higher levels of trust in the pre-change organization by the retailer results in higher support for the change. They concluded that trust from business partners is important for initiating a collective action to gain support for a strategically changed organization.

Zainal *et al.* (2014) divided trust into complementary components, namely, “relationship” and “task”. This is because relationship alone is not enough and must be supported by tasks, actions and competence (McAllister, 1995; Jiang *et al.*, 2013). According to Zainal *et al.* (2014), the relationship component of trust is dealt with by the staff involved, who interact and create the relationship. The relationship increases the communication level and this, in turn, helps in solving problems. Wong *et al.* (2005) emphasized the relationship component of trust by pointing out that, in all forms of strategic alliance, members of the organizations need to collaborate and work together. The theory of relationship states that commitment will develop as a result of direct and mediating variables of trust; only then will commitment influence successful relational exchanges (Morgan and Hunt, 1994).

For the task component of trust, Zainal *et al.* (2014) considered that the staff who are involved in the relationship component must be consistent and competent in performing their work. In addition, a team involved with the task component must have integrity, competence, reliability and accountability. The study of Jiang *et al.* (2013) identified the competence of trust as the most effective safeguard against knowledge leakage between partners.

It can be seen that inter-organizational trust is an important factor that enhances the relationship and the effectiveness of business partners. Previous studies found that trust could play a mediating role between knowledge management processes and organizational performance (Alaarij *et al.*, 2016). For instance, Lui *et al.* (2006) found that inter-organizational trust played a full mediating role between the relationships of firm similarity and partner reputation with coercive strategy. Perrone *et al.* (2003) also found that inter-organizational trust mediates the relationship between an individual firm’s clan culture and the trust placed in that firm by other boundary spanners. In this paper, it is expected that:

- H2. Inter-organizational trust mediates the effect of external growth strategies on organizational performance.

3. Research methodology

A quantitative approach of analysis was selected to look into these issues. This is because a survey approach was considered to be the most effective data collection method, as it allows large amounts of data to be collected in a short period of time (Sekaran and Bougie, 2013). In addition, previous studies are dominated by event studies where secondary data were collected, and thus, there is a need for a quantitative approach surveying managers and senior management (Pervan *et al.*, 2015).

The population of this study is the PLCs in Malaysia. A purposive sampling technique was deployed because the study collects data from only those who have knowledge regarding external growth strategies and usually those knowledgeable individuals are the top management of the companies (Mills and Smith, 2011). A question was asked to the respondents if they have been involved in or experienced external growth strategies. If the answer was “Yes”, the respondents would be requested to proceed, and if the answer was “No”, the respondents were asked to refrain from answering the questionnaire. The sample thus includes senior managers who were chosen because of their awareness of the growth strategies and the relationship with business partners, as well as the organizational performance of their companies.

The instrument of this study is an online questionnaire. The questionnaire was reviewed and approved by a supervisory committee. The invitation letter assured respondents that their answers would be treated with high confidentiality and their information will be anonymous. In addition, the respondents were informed that they are free to participate or to withdraw from answering the questionnaire at any stage. The invitation letter also clearly stated the purpose of this study and enclosed together with it was the consent form. The questionnaire included the background information of the respondents, along with questions related to the variables of the study. The measures of strategic alliance (7 items), acquisition (7 items) and merger (5 items) were self-developed. The measures of inter-organizational trust relationship (4 items) and task (4 items) were adopted and adjusted by Zainal *et al.* (2014). Financial and non-financial performance measures were adopted and adjusted from Tseng and Lee (2014). A Likert scale ranging from (1), indicating strongly disagree, to (10), indicating strongly agree, was deployed to measure the questions.

Hair *et al.* (2006) suggested that validity and reliability tests need to be conducted in all research, as they are necessary to ensure that the instruments used are not questionable. In this study, two professors in strategic management were invited to validate the measurement. The comments and feedback were addressed accordingly. Next, the instrument was checked for reliability. A total of 31 PhD students participated in a pilot study, after which all the Cronbach's alpha (CA) values obtained were greater than 0.70 indicating that the measurements were reliable.

Field data collection was conducted by inviting 813 respondents via emails, social media including LinkedIn and Facebook and through network referral by asking respondents to forward the questionnaire to individuals who match the inclusion criteria. In addition, the websites of the companies and other websites, such as www.zotia.com/Malaysia/, were used to extract the contact details of the companies. Data collection took place between June 2016 and March 2017. A total of 251 completed questionnaires were returned. Data were examined for univariate and multivariate outliers. As a result, 11 responses were removed. This made the final number of complete and usable responses 240, with a response rate of about 29.5 per cent. Kline (2013) considered 200 as a typical and acceptable sample size for structural equation modeling (SEM). Thus, it was appropriate to use analysis of a moment structures in this study.

After removing the outliers, the normality of the data was checked. The values of kurtosis and skewness were within the recommended range of less than absolute two. Thus,

the assumption of normality was achieved. Multicollinearity was also checked, and it was found that the variance inflation factor (VIF) was less than 5.3, and the value of tolerance was less than 0.19, thus confirming its absence (Hair *et al.*, 2006). Exploratory factor analysis was also conducted. Some items were deleted because of low factor loading. Seven components were identified that were based on the Eigenvalue (>1), the Kaiser–Meyer–Olkin (KMO) of 0.921 with 496 degrees of freedom (df) and sig value of <0.05 .

4. Data analysis

A brief descriptive analysis of the profile of the 240 respondents noted that their ages ranged between 28 and 54, with a mean of 38.04 years. The majority were males (60 per cent) with bachelor degrees (59.2 per cent) and working experience ranging from 3 to 29 years, with a mean of 11.67 years.

4.1 Measurement model

Confirmatory factor analysis (CFA) was used to estimate the subscales of growth strategies, organizational performance and inter-organizational trust. The analysis deployed the maximum likelihood estimation as a method and the most important indices, such as goodness of fit index (GFI), root mean square error of approximation (RMSEA), comparative fit index (CFI), incremental fit index (IFI) and chi square used to assess the model fit (Awang, 2014; Hair *et al.*, 2006). Variables with factor loading of less than 0.60 were removed, until all the indices were achieved. CFA for growth strategies showed that the construct has three components, namely, strategic alliance, acquisition and merger. For the other two constructs, the CFA indicated that organizational performance has two components (financial and non-financial performance) and inter-organizational trust has two components (relationship and task component).

The measurement model was performed with all constructs included. Factor loading of items and components of the construct were all greater than 0.60 and the model fit indices were achieved (IFI = 0.94, RMSEA = 0.065, GFI = 0.83, CFI = 0.94 and chi square = 2.008) except GFI. However, Hair *et al.* (2006) recommended that analysis could continue further when at least three of the indices meet the threshold requirement.

4.2 Convergent and discriminant validity

Four criteria were examined to achieve the convergent validity of the model. The factor loadings of all items were greater than 0.60. However, items with low factor loading were removed. Additionally, the CA as well as the composite reliability (CR) were achieved scoring greater than 0.70. More importantly, the average variance extracted (AVE) was greater than 0.50 indicating the achievement of the convergent validity (Hair *et al.*, 2006). On the other hand, the discriminant validity is achieved when the root square of AVE (as shown in Table I) is greater than the cross loading (Hair *et al.*, 2006) as in the case of this study. Based on these criteria, all the indices can be accepted.

4.3 Hypotheses testing

This study developed direct and indirect hypotheses. Figure 1 shows the structural model of this study. All the factor loadings are greater than 0.60 with indices achieved except GFI. However, Hair *et al.* (2006) suggested researchers should continue with the analysis if three of the indices were achieved. The R -square (R^2) is 0.65, which indicates that the growth strategies and inter-organizational trust were able to explain 65 per cent of the variation of organizational performance.

Table I.
Convergent and
discriminant validity

4.3.1 Direct effect. The direct effect of growth strategies on organizational performance was tested using the structural model. The result of the analysis is given in [Table II](#). As shown in [Table II](#), *H1* is supported. The direct effect of growth strategies is significant ($\beta = 0.336, p = 0.001$). *H1a* ($\beta = 0.184, p = 0.003$) and *H1b* ($\beta = 0.133, p = 0.034$) are also supported, indicating that strategic alliance and acquisition have significant effects on organizational performance. Meanwhile, merger has no significant effect ($\beta = 0.048, p > 0.05$) on organizational performance. Thus, *H1c* is not supported.

Variable	CR > 70	AVE > 0.50	CA > 0.70	TC	SA	AQ	MG	NFP	FP	RC
TC	0.925	0.754	0.923	0.868						
SA	0.944	0.770	0.942	0.496	0.878					
AQ	0.914	0.681	0.912	0.413	0.645	0.825				
MG	0.962x	0.864	0.961	0.534	0.722	0.524	0.930			
NFP	0.875	0.541	0.871	0.416	0.406	0.408	0.312	0.736		
FP	0.919	0.740	0.911	0.457	0.464	0.354	0.409	0.448	0.860	
RC	0.871	0.772	0.871	0.692	0.604	0.505	0.575	0.510	0.364	0.879

Notes: TC: task component; SA: strategic alliance; AQ: acquisition; MG: merger; NFP: non-financial performance; FP: financial performance; RC: relationship component

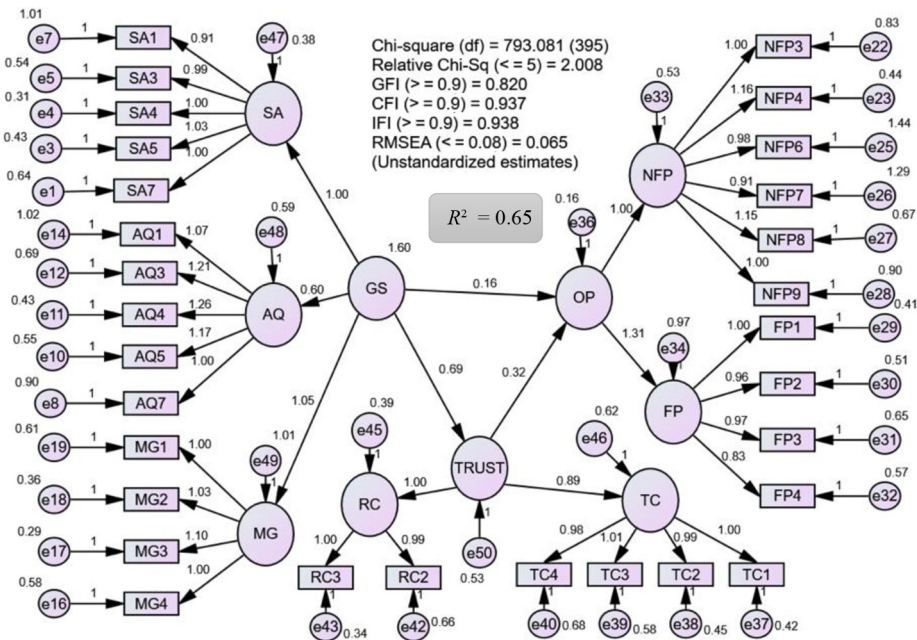


Figure 1.
Research structural
model

Notes: TC: task component; SA: strategic alliance; AQ: acquisition; MG: merger; NFP: non-financial performance; FP: financial performance; RC: relationship component; OP: organizational performance; GS: growth strategies

4.3.2 *Indirect effect.* Table III presents the results of testing inter-organizational trust as mediator between external growth strategies and organizational performance.

In conducting a comparison between Tables II and III, it can be seen that the direct effect of growth strategies on organizational performance is reduced from $p = 0.001$ (before entering the mediator) to $p = 0.054$ (after entering the mediator). This shows that the mediation exists. However, the direct effect is insignificant ($\beta = 0.158, p > 0.05$), which indicates that the mediation is full. This leads to the acceptance of $H2$.

5. Discussion

The findings of this study showed that external growth strategies are important drivers for the organizational performance. Engagement in growth strategies will lead companies to achieve better organizational performance. More specifically, strategic alliance is vital for organizational performance and it has the highest effect, followed by acquisition. Merger, on the other hand, has no effect on organizational performance. A possible explanation for the high significance of strategic alliance, compared with acquisition and merger, is the fact that creating and maintaining a strategic alliance is less costly compared with acquiring or merging with another company. Thus, investing in a strategic alliance does not cost the company the same as acquisition and keeps each company independent from each other, while in the case of a merger, the two companies are merged into one, which might create synergy issues.

Previous findings are in agreement with the outcome of this study; researchers have agreed that external growth could foster the development and performance of an organization (Cassia and Minola, 2012). In addition, strategic alliance has a strong effect on reducing costs (Qiu, 2010), and similarly, acquisition is important for achieving an advantage in the distribution network. In contrast, this study found that the effect of merger on organizational performance is insignificant, contrasting with most studies in the literature, which found merger to have a significant effect on organizational performance. However, in agreement with the finding of this study, Aik et al. (2015) and Kuriakose and Paul (2016) related the weak performance of companies after merger to managerial self-interest and dissimilarity between the merged partners.

The findings indicate that inter-organizational trust is an essential variable and it plays a full mediating role. Inter-organizational trust is critical in explaining the effect of growth strategies on organizational performance. Trust could reduce transaction costs and the cost of

H*	Path	Estimate (β)	S.E.	C.R.	p	Label
H1	Organizational performance $\leftarrow$ growth strategies	0.336	0.058	5.801	0.001	Sig**
H1a	Organizational performance $\leftarrow$ strategic alliance	0.184	0.061	2.999	0.003	Sig**
H1b	Organizational performance $\leftarrow$ acquisition	0.133	0.063	2.123	0.034	Sig**
H1c	Organizational performance $\leftarrow$ merger	0.048	0.043	1.115	0.265	Not sig

Notes: H*: Hypothesis, sig **: significant; $p < 0.05$; $N = 240$; S.E: standard error; C.R: critical ratio; p : p -value

Table II.
Result of direct effect

Path	Estimate (β)	S.E.	C.R.	p	Label
Inter-organizational Trust $\leftarrow$ Growth strategies	0.688	0.074	9.324	0.001	Sig
Organizational performance $\leftarrow$ Growth strategies	0.158	0.082	1.923	0.054	Not sig
Organizational performance $\leftarrow$ Trust	0.324	0.100	3.229	0.001	Sig

Table III.
Result of mediation
testing

writing detailed contracts. It also promotes knowledge-sharing among partners. The existence of trust reduces anxiety and promotes more opportunity for future deals between partners. This finding is in accordance with the literature (Lui *et al.*, 2006; Perrone *et al.*, 2003). The task component and the relationship component are confirmed to work together as complementary components of inter-organizational trust.

This study was mainly based on the resource-based view (RBV) of companies. The study contributes to the literature by confirming the applicability of the RBV in the context of external growth strategies and organizational performance. In particular, the study contributes to the literature by examining the effect of three types of external growth strategies and comparing their effects. Further, few studies investigate growth strategies using primary data approach; this study contributes to the literature by examining these effects using a survey approach.

Furthermore, the study examined the mediating role of inter-organizational trust in the context of external growth strategies and organizational performance. Few researchers have examined such effects. The study also responded to the call to investigate M&A as separate organizational changes. More importantly, the study deployed financial and non-financial indicators to measure organizational performance, while the majority of previous studies has merely relied on financial indicators, such as return on investment (ROI), return on capital employed (ROCE) and return on equity (ROE).

The findings of this study reveal the importance of having growth strategies, such as alliance and acquisition. The findings indicate that external growth strategies are important drivers for organizational performance, and thus, decision-makers in PLCs have to focus on the role that these strategies can play in increasing the organizational performance of their companies. However, decision-makers are advised to rely on strategic alliance and acquisition, rather than merger. Strategic alliances among PLCs or with other companies will contribute to the reduction of operational costs and increase the ROI. Relying on strategic alliances will help companies to acquire new technology and to secure their market share during high uncertainty. Building strategic alliances will help companies to speed the process of developing new products and services and to reach new markets. Therefore, in the context of Malaysian PLCs, strategic alliances have relatively less cost than M&A, and this reduces the financial risk to PLCs. Moreover, because of cultural considerations, Malaysian PLCs are recommended to have strategic alliances with local or regional companies, because the culture and norms are to some extent similar.

Acquisition is also an important driver to increase organizational performance. Although strategic alliance precedes acquisition, decision-makers have to deploy the capabilities of acquiring companies that synergize with their culture and complete their value chain, so that they can have a more vertically integrated structure that helps in sharpening their competitiveness and increases their capabilities to develop new products and services.

Trust, as a new and emerging variable in the context of management, is critical for the success of strategic alliances as well as acquisitions. Creating a trust culture between business partners and being accountable for promises will lead to better external relationships and the capability of fully reflecting the effect of growth strategies on organizational performance. Managers at PLCs are advised to select partners who are trustworthy and invest in relationships that are based on trust.

Having the right growth strategies will lead to better organizational performance of PLCs, and this will have a major impact on GDP, FDI and employment in the country. Therefore, deploying the findings of this study has implications not only for PLCs but also for the government, employees and public. This is because this study managed to explain 65 per cent of the variation in organizational performance and capitalizing on this, companies can improve

their performance, ultimately leading to improvement in the quality of life of employees, as well as all the citizens, through the increase in the GDP and employment opportunities.

6. Limitations and future studies

The findings of this study must be interpreted in the light of several limitations, which should be addressed in the future research. An inherent limitation of this study pertains to its sampling technique. Because of the lack of information regarding the growth strategies of the population of this study, the sample was collected based on a non-probability sampling technique. As purposive sampling was used, selecting only managers with experience of the issues concerned and any common findings are likely to be generalizable to managers in similar situations. Additionally, this study focuses on PLCs involved in external growth strategies actively. The findings of this study were derived from these types of companies. Thus, the findings may not be generalized to other types such as small and medium enterprise (SMEs). Finally, the findings of this study were based on the experience of senior management executives, and thus, the findings are limited to their perceptions.

In light of the limitations of this study, future research is recommended to deploy a probability sampling technique such as simple random sampling so that the findings of their studies can be generalized to the whole population. Future studies are recommended to obtain the data from informative populations such as manufacturing companies or service companies. As all the economic sectors of Malaysia have participated in this study, future studies are recommended to replicate the findings on the service sector, which constitutes more than 50 per cent of GDP. In addition, it is recommended to replicate this study for future work using different samples, such as SMEs or family-owned businesses and social enterprises. It is also recommended for future work to conduct a comparison with companies which have not engaged in external growth.

Studies dedicated to examining growth strategies and inter-organizational trust in emerging economies are still in their infancy. It is recommended for future work to investigate more the effect of organizational and inter-organizational trust under environmental uncertainty. Future studies are also recommended to investigate the type of strategic alliance as moderator. Because of the disappearing border and global IT networking, strategic alliances are going to predominate; these strategic alliances could include local alliance, regional alliance and international alliance. This study investigated the mediating role of inter-organizational trust, and future studies are recommended to further investigate the role of inter-organizational trust as a moderator between growth strategies and organizational performance.

7. Conclusion

This study was conducted to examine the effect of growth strategies on the organizational performance of Malaysian PLCs. The study also sought to test the mediating role of inter-organizational trust between the variables. A total of 240 senior managers participated in this study. The findings indicated that growth strategies have a significant effect on organizational performance. More importantly, strategic alliance is comparatively the best strategic growth option among the surveyed companies, followed by acquisition. In contrast, the study found the effect of mergers to be insignificant. The findings also showed that inter-organizational trust fully mediated the effect of growth strategies on organizational performance. Therefore, decision-makers have to focus on establishing external growth strategies that are based on trust to maximize their organizational performance and reduce the risk and cost of operations.

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