

## Value and Transaction Costs in Explaining Entrepreneurial Growth

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**Key Words:** firm growth, process, value, transaction cost

### Abstract

**Type of Paper:** Refereed

**Objectives:** The paper aims to explain the process of entrepreneurial growth in terms of its motives, rationale, mechanisms and modes, based on the integration of the resource-based view (RBV) and transaction cost theory (TCT).

**Prior work:** The paper subscribes to the emerging stream of research in firm growth, namely the one focused on the process of growth. This stream intends to explain how growth is achieved, and it complements the earlier streams of studies on growth measures and determinants and on managing the company, which increased its size. Theoretical and research frameworks of the paper are based on the RBV and TCT as alternative perspectives on firm scope and size.

**Approach:** The research is comparative in nature and it applies a multi-case study method of 19 Polish growth companies, demonstrating size, age, technological and industrial variety. The process of growth is an explorative theme, which justifies case study method. At the same time, the RBV and TCT are established theoretical approaches, which enables the use of a specific form of case study, i.e. prospective case study for deductive testing of these two theories as to growth process. Mixed approach to the development of case studies was adopted, including structured interviews with entrepreneurs, participant observation and secondary data analysis. Analytical methods included qualitative comparative analysis (QCA), as a general method, as well as content analysis and Kendall's coefficient of concordance as specific methods.

**Results:** According to cross-case study analysis, trust is a major entrepreneurial motivation in the process of firm growth with moderating effects from the perceived opportunism of the exchange partners. Development of capabilities and increasing value are a major economic rationale in the process of growth. The mechanism of growth is based on aligning transaction characteristics and capability characteristics with the governance - internal, acquisitive or hybrid modes of expansion. Based on within-case study analysis and QCA, four patterns of growth process were identified.

**Implications:** The results can guide entrepreneurial decisions as to motives, rationale, mechanisms and modes of growth. They are based on falsification test typical of case study method, therefore they should further be tested in quantitative studies.

**Value:** The paper contributes by 1) formulating conclusions as to entrepreneurial decisional rules and choices in the process of expansion, 2) proposing theoretical and empirical research frameworks for studying firm expansion with the use of the integrated RBV-TCT approach, 3) extending the integrative RBV-TCT studies by the inclusion of growth phenomenon as a specific type of firm's boundary problem.

### Introduction

The paper aims to explain the process of entrepreneurial growth in terms of its motives, rationale, mechanisms and modes, based on the integration of the resource-based view (RBV) and transaction cost theory (TCT). We address this aim by applying the integrated RBV-TCT theoretical framework to the analysis of 19 case studies of Polish growth firms, of which 17 are SMEs. The paper subscribes to the emerging stream of research in firm growth, namely the one focused on the process of growth (Davidsson et al., 2006; Leitch, Hill & Neergaard, 2010; McKelvie & Wiklund, 2010; Levie & Lichtenstein, 2010; Stam, 2010; Wright & Stigliani, 2013; Koryak, Mole *et al.* (2015)). This stream intends to explain how growth is achieved, and it

complements the earlier two streams of studies on growth measures and determinants and on managing the company, which increased its size (Davidsson et al., 2006; McKelvie & Wiklund, 2010).

Contemporary research on entrepreneurial growth has been prevalently directed at the identification of features and factors specific to fast-growing firms, in order to treat these variables as determinants and predictors of expansion (McKelvie & Wiklund, 2010). The achievements in this area demonstrate, however, some unresolved problems.

*Firstly*, the knowledge of growth as a process – in terms of its motives, rationale, mechanisms and modes - is not adequately developed (Garnsey, Stam & Heffernan, 2006; Dobbs & Hamilton, 2007; McKelvie & Wiklund, 2010; Wright & Stigliani, 2013). We intend to explain growth process, i.e. the way growth is realized, instead of identifying growth predictors, which has dominated in to-date studies. *The input into this developing stream of research by formulating conclusions as to entrepreneurial decisional rules and choices in the process of expansion is the first contribution of the article.*

*Secondly*, the meaning and importance of some growth factors identified in the empirical research are often ambiguous, which is attributed to methodological differences (Achtenhagen, Naldi & Melin, 2010; Shepherd & Wiklund, 2009). Methodological variety, in turn, is a consequence of largely inductive approach to theory building in to-date studies, which were directed at developing a theory of high growth based on the empirical evidence rather than on deductive reasoning upon the extant theories to empirically challenge their assumptions. The major theoretical perspective on firm growth is the resource-based view of the firm (the RBV), however, recently the need for opening the research on company growth to varied theoretical perspectives has been suggested (McKelvie and Wiklund, 2010; Dobbs and Hamilton, 2006). At the same time, inductive and explorative approach to building the theory of entrepreneurial growth process is emphasized (Hansen and Hamilton, 2007; Wright, Stigliani, 2013). In spite of the currently increasing interest in the process of entrepreneurial expansion, it is not entirely an explorative area of study. There are well-established theoretical approaches to firm scope and size (boundary) decisions, where growth is implied as one of the options, including such prominent perspectives as the RBV and TCT. Therefore, we treat growth as a phenomenon and concept that belongs to a wider research on company boundaries and we attempt to explain it by integrating the two theories and thus adopting deductive approach to theory building. *Proposing theoretical and empirical research frameworks for studying firm expansion with the use of the integrated RBV-TCT approach is the second contribution of the paper.* Following this deductive framework would potentially provide for increasing methodological consistency in further research and for limiting the ambiguity of findings on growth determinants.

*Thirdly*, the resource-based view and transaction cost theory demonstrate competing assumptions as to firm size and scope (David & Han, 2004; Carter & Hodgson, 2006; Mayer & Salomon, 2006; Pitelis & Teece, 2009; Tsang, 2000; Tsang, 2006; Williamson, 1999). Within this literature, growth is considered as either expanding the firm hierarchy by vertical integration, diversification and market penetration and development, or it assumes hybrid modes, such as franchising, joint ventures or licensing. The hybrid governance of growth represents the modes that are specifically relevant for contemporary organizations (McKelvie and Wiklund, 2010). The RBV explains growth as value creation that is achieved by adequate orchestration of internal resources (Tsang, 2000; Wright & Stigliani, 2013). Transaction cost theory is a prominent perspective in the studies on governance modes and firm boundaries, however, it is much less exploited in investigating entrepreneurial growth, except for the notable example of Chandler, McKelvie and Davidsson (2009). TCT is criticized for its excessive emphasis on cost rationale, but it is acknowledged for relevant insights into the choice of growth modes, specifically its hybrid forms, which are considered a contemporary alternative to organic and external expansion (Coad, 2007; McKelvie & Wiklund, 2010). There are important advancements in the development and application of these alternative theories, specifically the efforts to combine them on both theoretical and empirical grounds (Argyres & Zenger, 2012). However, to-date attempts in this regard do not address directly the phenomenon of high growth. *Our third contribution consists in extending these integrative RBV-TCT studies by the inclusion of growth phenomenon as a specific type of firm's boundary problem.*

The process of growth is an explorative, complex and multivariate theme, which justifies case study method (Yin, 2003; Silverman, 2005; Eisenhardt/Graebner, 2007). At the same time, the RBV and TCT are established theoretical approaches to firm scope and size, which enables the use of a specific form of case study, i.e. prospective case study for deductive testing of these two theories as to growth process. Prospective case study provides a systematic way of addressing empirical phenomena based on the existing theory and to-date empirical verifications (Bitektine, 2008). We apply this methodology to investigate 19 case studies of Polish growth firms.

The paper is structured into five sections. The second section proposes the integrated RBV-TCT theoretical framework of growth process in the form of three hypotheses. In the third section, a research framework, method and a research sample were described, while the fourth section includes results of the study. Discussion and conclusions follow in the fifth section.

## 1. The integrated RBV-TCT perspective on the process of firm growth

The process of growth can be described by responding to the questions of 'why' and 'how' to grow (Davidsson et al., 2006; Garnsey, Stam, Heffernan, 2006; McKelvie & Wiklund, 2010; Stam, 2010; Wright & Stigliani, 2013). These general questions can further be specified with the use of some structural elements of this process, such as motives and economic rationale for 'why' to grow, and mechanisms and modes for 'how' to grow (Gancarczyk, 2015). The motives refer to behavioural assumptions on the attitudes of entrepreneurs and other economic agents in making decisions (Wright & Stigliani, 2013). The growth rationale consists of economic reasons and goals for enlarging company size. The growth modes denote different governance structures of achieving growth in terms of hierarchy expansion (internal/organic or external/acquisitive mode) or hybrid expansion (franchising, joint venture or licensing) (McKelvie & Wiklund, 2010). The mechanisms involve interdependencies and cause-effect relationships among factors leading to increasing size and to the choice of a specific mode of growth. The nature of these structural components is dependent on entrepreneurial cognition and perceptions, and consequently, specific growth decisions emerge from these individual perceptions (Garnsey et al., 2006; Wright & Stigliani, 2013).

The RBV and TCT share interest in firm's resources as important variables in the process of growth and they share assumption of bounded rationality. However, they offer prevalently competing insights into the structural elements of growth process, i.e. its motives, rationale, mechanism and modes. The RBV holds that growth rationale is optimal utilization of indivisible, valuable and core-specific assets and value creation, while motives, in terms of behavioural assumptions, are trust and mutuality (Tsang, 2000; Barney, 1991; Hamel & Prahalad, 1990; Kogut & Zander, 1992; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984). TCT posits that rationale is economizing on excessive costs of market transactions relative to implementing these transactions within the company or in hybrid governance structures, while opportunism is the motive of economic agents (Coase, 1937; Williamson, 1975, 1989, 1991, 1998, 1999, 2002, 2005). In the view of the RBV, the major growth mechanism consists in exploitation, i.e. novel uses of the existing resource base, which are matched with market opportunity by entrepreneurial vision (Penrose, 1959). From the TCT perspective, growth mechanism is aligning a specific transaction with optimal governance structure – the firm or a hybrid, based on comparative transaction cost analysis (Williamson 1999, 1991, 2005). The RBV assumes organic and acquisitive modes of growth (Penrose, 1959) dependent on the existing core competence (Hamel & Prahalad, 1990), including managerial competence, while TCT identifies additional mode, namely hybrids, contingent on asset specificity and associated uncertainty of the contract (Williamson, 1975). TCT emphasizes transaction specific resources and external (environmental) perspective, while the RBV is focused on firm-specific and internal factors.

The theories received support from empirical research, which further stimulated efforts to build a new theoretical framework that would draw both upon TCT and the RBV. The findings of empirical research in the RBV demonstrate the influence of company capabilities and access to external resources on decisions about scope and size (Combs, Ketchen, Crook & Roth, 2011; Newbert, 2007). The RBV logic, in terms of its focus on internal characteristics of the entrepreneur and the company, is applied in the majority of studies on growth determinants mentioned earlier. Their achievement is identification of the resource-based factors, characterizing the entrepreneur, the firm and its strategy, that proved significant in the majority of findings (Barringer & Neubaum, 2005; Coad, 2007, 2009; Gilbert, McDougall & Audretsch, 2006; Macpherson & Holt, 2007; Storey, 1994). However, as mentioned earlier, interpretations of the influence of specific factors are sometimes ambiguous (Achtenhagen et al., 2010), often due to differing methodologies (McKelvie & Wiklund, 2010; Shepherd & Wiklund, 2009). It should also be noted that the research on growth determinants does not mostly apply the core theoretical assumptions and variables of the RBV but it investigates different aspects of the internal characteristics of fast growing firms.

The empirical studies testing TCT assumptions generally confirmed validity of those assumptions as to relevance of asset specificity and uncertainty, specifically opportunism, in entrepreneurial decisions on the scope of the firm with the implication for its size (Combs et al., 2011; Lafontaine & Slade, 2007; Macher & Richman 2008; Rindfleisch, Antia, Bercovitz, Brown & Cannon, 2010). However, detailed findings are not fully conclusive (David & Han 2004). Specifically, it is argued that differing levels of company resources and competences may influence the predictive power of TCT and that the resource-based perspective should be included into TCT analysis (Argyres & Zenger, 2012; Carter & Hodgson, 2006; Williamson, 1999).

To-date studies integrating RBV and TCT to explain boundary decisions do not directly address the issue of fast growth, but they focus on the phenomena which imply hierarchy (internal or external) expansion, such as vertical integration vs outsourcing, diversification, and the entrance into the international markets, or hybrid expansion, such as franchising, licensing or strategic alliances, including joint ventures. Based on the systematic review of these theoretical and empirical studies, we have identified the logics of integrating the theories that enabled generating our theoretical framework in the form of research hypotheses (Gancarczyk, 2015).

*One logic of integration* applied in theoretical studies consists in establishing a division of roles between the RBV and TCT in responding to specific problems of firm boundaries (Williamson, 1999). The

RBV offers the explanation of why specific strategy is chosen, in terms of value and competitive advantage, and what motives drive behaviours economic agents (Ireland, Hitt & Vaidyarath, 2002). TCT highlights mechanisms and modes for this phenomenon by proposing the discriminating alignment hypothesis and determinants of governance choice, accordingly (Leiblein, 2003; Pitelis & Teece, 2009; Argyres & Zenger, 2012). When applying decision rules of either of the theories, the factors of alternative theory should be taken into account as moderators. Namely, transaction costs act as moderators of prospective value and competitive advantage (Conner & Prahalad, 1996; Madhok, 1997; Foss & Foss, 2005; Pitelis & Teece, 2009; Meyer, Wright & Pruthi, 2009). On the other hand, capabilities moderate the influence of transaction costs on the choice of governance (Kim & Mahoney, 2006; Conner & Prahalad, 1996; Madhok, 1997; Foss & Foss, 2005; Pitelis & Teece, 2009; Meyer, Wright & Pruthi, 2009).

In response to 'why' to grow problem, a number of empirical studies highlight value, competitive advantage and performance issues and state the importance or even primacy of the RBV in explaining the choice of strategy and its expected outcomes (Brewer, Ashenbaum & Carter, 2014; Ceccagnoli, 2010; Gulati, Lawrence & Puranam, 2005; Jacobides & Hitt, 2005; Lo et al., 2012; Poppo & Zenger, 1995; Silverman, 1999; Schilling & Steensma, 2002). The empirical articles that undertake the problem of 'how' governance is established acknowledge the role of TCT or report its better predictive capacity in this regard (Brahm & Tarzijan, 2014; Brewer et al., 2014; Ceccagnoli & Salamon, 2006; Chen & Chen, 2002; Díez-Vial, 2007; Fabrizio, 2012; Gulati et al., 2005; Jacobides & Hitt, 2005; Leiblein & Miller, 2003; Mayer & Salomon, 2006; Ordanini & Silvestri, 2008; Poppo & Zenger, 1995; Ray et al., 2013; Safizadeh, Joy, Field & Ritzman, 2008; Tseng & Chen, 2013; Ray et al., 2013; Schilling & Steensma, 2002; Steensma & Corley, 2001). However, when dominating in the 'why' or in the 'how' phase of the process of shaping firm scope, each theory is also moderated by the impact of its counterpart. We observe that either capabilities act as moderators of the impact of TCT determinants (Tseng & Chen, 2013; Ray et al., 2013; Steensma & Corley, 2001) or TCT determinants act as moderators of the impact of the RBV variables (Fabrizio, 2012; Jacobides & Hitt, 2005).

The above deliberations lead us to the following hypotheses as to the RBV-TCT explanations of the process of firm growth:

**Hypothesis 1.** *The entrepreneurial decisions on 'why' to grow are explained by the tenets of the resource-based view of the firm, with moderating effects from the transaction cost perspective, namely:*

**1.1.** *Trust and mutuality are the major motives in the process of growth with moderating effect from the perceived opportunism.*

**1.2.** *Value and development of capabilities for competitive advantage are the major rationale for growth with moderating effect from the transaction cost considerations.*

**Hypothesis 2.** *The entrepreneurial decisions on 'how' to grow are explained by the tenets of transaction cost theory, with moderating effects from the resource-based view of the firm. Namely, the mechanism of growth will be based on aligning transaction characteristics and governance mode, with moderating effect from capability characteristics.*

We can assume that the two approaches interact differently depending on the 'why' and 'how' problems to be addressed. The RBV is relatively more valid in shaping the motives and establishing the rationale than TCT, i.e. trust and value considerations are primary determinants, with moderating effect from behavioural uncertainty and transaction costs. TCT has a primary importance for establishing mechanisms and modes of growth according to the aligning logic, however this logic is not only based on transaction characteristics (asset specificity, frequency), but also moderated by the capability characteristics, such as its core-related nature.

*Another logic of integration* found in theoretical studies is based on combining the main variables of the two theories into one research scheme and on convergence of some concepts and notions. In the theoretical studies, the RBV core concepts such as value creation and capabilities are discussed jointly with the main conceptions of TCT such as transaction costs and uncertainty (Conner & Prahalad, 1996; Holcomb & Hitt, 2007). This resulted in a number of methodological proposals of matrix analyses, that utilize both kinds of variables in order to identify modes of employment (Lepak & Snell, 1999; Kulkarni & Ramamoorthy, 2005) or governance modes, including outsourcing (McIvor, 2009). We can observe some convergence of notions, such recognizing the importance of transaction costs, however, with tacit knowledge instead of opportunism as their determinant (Conner & Prahalad, 1996; Madhok, 1997; Mahoney, 2001). Another example is governance choice, when it is proposed that specific modes are aligned with firm capabilities not with transaction characteristics as originally stated in TCT (Kulkarni & Ramamoorthy, 2005; Meyer, Wright & Pruthi, 2009).

Majority of empirical studies we analysed attribute similar predictive power to the RBV and to TCT factors (Brahm & Tarzijan, 2014; Ceccagnoli et al., 2010; Chen & Chen, 2002; Fabrizio, 2012; Gulati, et al., 2005; Leiblein & Miller, 2003; Lo et al., 2012; Mayer & Salomon, 2006; Ordanini & Silvestri, 2008; Ray et al., 2013; Silverman, 1999; Steensma & Corley, 2001; Safizadeh et al., 2008; Schilling and Steensma; 2002; Tseng & Chen, 2013). There are also interdependencies or convergences among TCT and the RBV notions and variables, such as firm specificity (firm specific, complementary and interdependent, core-related assets) and transaction specificity (transaction specific assets), which are often, and at least to some extent, understood as synonymous and having similar impact on company scope (Poppo & Zenger, 1995; Schilling & Steensma, 2002).

The above analysis of theoretical and empirical studies leads as to the following hypotheses as to the main tenets of entrepreneurial decisions in the process of firm growth.

**Hypothesis 3.** *The entrepreneurial decisions on 'why' to grow are jointly determined by the assumptions of the resource-based view of the firm and transaction cost theory, namely:*

**3.1.** *The entrepreneurial motivations in the process of growth are based on the assessment of trust relative to perceived opportunism in business relationships.*

**3.2.** *The entrepreneurial rationale for growth is based on the assessment of prospective value relative to transaction costs associated with expansion.*

The above propositions do not strictly divide the roles of the two theories as the earlier propositions. The second logic does not determine the explanatory power of TCT and the RBV relative to specific elements of firm growth, but it presents them as a boundary/framework for entrepreneurial decisions, in which main variables (factors, determinants) of TCT and the RBV interact and are jointly considered.

### **3. Methodology and a research sample**

The process of growth is an explorative theme, which justifies case study method (Yin, 2003; Silverman, 2005; Eisenhardt and Graebner, 2007). At the same time, there are established theoretical approaches to firm scope and size such as the RBV and TCT, which supports the idea of the case-based, qualitative deductive testing (Yin 2003). Our approach differentiates by adopting an innovative case study design, recently proposed as prospective case study (Bitektine, 2008). Prospective case study provides a structured way of addressing empirical phenomena based on the existing theory and to-date empirical verifications. It represents the integration and refinement of to-date qualitative and case-based deductive theory testing, namely, the pattern-matching approach and alternative theoretical template strategy (Langley, 1999; Lee, 1989). The pattern matching approach involves comparing the expected, theory-based outcomes with the real-life phenomena (Campbell, 1966; Trochim, 1989; Yin, 2003). Alternative template approach confronts the competing theories to prune (reduce) the theoretical landscape (Langley, 1999; Leavitt et al. 2010). Prospective case study design consists in 1) systematic formulating hypotheses based on the extant theory and 2) verifying them in the case study to achieve analytical generalization. Analytical generalization will enable confirming the extant theory or rejecting it, based on a falsification test (Eisenhardt, 1989). Falsification test consists in rejecting theories, which are not capable of explaining empirical observations, or sustaining and sometimes combining them into one theoretical framework (Popper 1968). As such, it does not have capacity to confirm the existing theories by proof, but only to reject, sustain, expand or combine them upon the evidence from the case study. Prospective case study design allows to avoid the shortcomings of to-date qualitative deductive testing, such as ambiguity of hypotheses derived from testing extant theories and selective bias of the researcher (Bitektine, 2008). In the traditional, case-based analyses, hypotheses are the outcomes of empirical analysis, however, case study analysis often results in ambiguous hypotheses, i.e. more than one hypothesis can be derived from the findings. In the prospective case study design, hypotheses are derived from the theory and then exposed to qualitative testing. Selective bias of the researcher consists in her or his awareness of the qualitative outcomes at the start of the analysis and in binding results to the assumptions or vice-versa. In the prospective case study, hypothesis are formulated at the start, before the analysis was undertaken, which helps to avoid biased selection. A possible bias of deductive theory testing, when applied to an individual case study, is adjusting the empirical observations and conclusions to the existing theory. In the current research this bias is avoided by applying a multi-case study approach and by combining two theoretical perspectives instead of relying upon only one theory. This helps to expand the options of interpreting the phenomena and, in the presence of some competing theoretical assumptions, it makes the researcher resolve contradictory statements of the theories by observing the real processes in a number of studies, instead of sticking to only one approach.

The current research is comparative in nature and it applies a multi-case study method of 19 Polish growth companies. The companies were listed in the ranking of Polish gazelles 2013, a contest with 10-year history, run every year by an economic weekly *The Pulse of Business*. Three-year sales are the basis for the ranking and the 2013 edition covered the years 2010-2012. Enterprises participate in the ranking on a voluntary basis and the data provided by them (industry, employment in 2012, as well as sales, equity and gross and net profit in the years 2010-2012) are validated by an independent consulting company. Databases of gazelles from country-wide or international contests were also utilized in other research studies, an example of which is the study by Barringer, Jones & Neubam (2005). The sampling process was directed at size, age, technological and industrial variety in the sample (Table 1). Finally, 17 high-growth entrepreneurs with aggregate sales increase of at least 70% responded positively to our enquiry, either directly or they were additionally addressed by some trustful business organisations and other entrepreneurs. Moreover, we approached two medium-growers (aggregate sales increase of 30%-40%) to act as control group. We did not intend to match growers with non-growers, as our focus was on the actual process of growth, thus non-growers characteristics do not inform this phenomenon. Matching high-growers and non-growers is required when the aim is to explore growth determinants – to explain why some firms expand while others do not. A mixed-method approach was adopted, including direct and structured interviews with entrepreneurs, participant observation and secondary data analysis. The interviews were held from August to December 2015, each lasting from 2,5 to 3,5 hours. Analytical methods included qualitative comparative analysis (QCA), as a general method, as well as content analysis and Kendall's coefficient of concordance as specific methods. We utilized QCA version 3,5 and Statistica softwares for coding, structuring and processing information, including text mining. Two independent researchers were engaged in coding and processing information, and in synthesizing and calibrating data from the interviews.

**Table 1. Characteristics of the research sample**

<b>Characteristic</b>	<b>Characteristic's distribution</b>			
<b>Sales growth 2010-2012</b>	>100%		>70%-100%	30%-40%
<i>Number of firms</i>	14		3	2
<b>Employment growth 2010-2012</b>	>60%		>20-60%	0-20%
<i>Number of firms</i>	4		4	11
<b>Industry technology</b>	High technology and knowledge-intensive services	Medium-high technology products	Medium-low technology products	Low technology products and less knowledge intensive services
<i>Number of firms</i>	7	4	3	5
<b>Sector</b>	Manufacturing		Services	
<i>Number of firms</i>	7		12	
<b>Firm age in 2010</b>	Up to 3,5 years	3,5-10 years	11-20 years	>20 years
<i>Number of firms</i>	6	4	8	1
<b>Firm size according to employment</b>	Micro	Small	Medium	Large
<i>Number of firms</i>	5	6	6	2

Our empirical research framework is built upon three elements of firm growth in terms of motives, rationale, mechanism and modes. All the elements are subjects of entrepreneurial decision-making and each of them was described with the use of the constructs of the two theories to follow alternative template approach, as indicated in Table 2. Moreover, Table 2 presents the links between specific elements of growth process, the constructs and the hypotheses to be tested.

**Table 2. Empirical research framework – elements of growth, their alternative determinants**

<b>Elements of growth process</b>	<b>TCT constructs</b>	<b>The RBV constructs</b>	<b>Hypotheses tested</b>
<b>Motives</b>	Opportunism as part of behavioural uncertainty	Trust and mutuality	1.1, 3.1
<b>Rationale</b>	Transaction costs	Value	1.2, 3.2.
<b>Mechanisms and modes</b>	Aligning transaction characteristics with governance - growth within hierarchy or hybrid mode of growth	Exploitation of existing capabilities and internal growth mode; exploration of new capabilities and external (acquisitive) growth mode	2

Within the elements of growth, the constructs of TCT and the RBV were operationalised into research variables.

### **Motives**

The motives denote behavioural assumptions on the attitudes of entrepreneurs and other economic agents in making decisions (Wright & Stigliani, 2013). The two alternative motives represented by TCT and the RBV were opportunism and trust, accordingly. The resource-based view posits the motives of trust and mutuality in the relationships within the company and with external partners (Barney, 1991; Tsang, 2000). Bounded rationality in the RBV is independent of the assumption of opportunism of economic agents. Trust is a willingness to rely on the actions of another party and to abandon control over the actions performed by the trustee. It means the acceptance of uncertainty and expectations instead of safeguards and control and it is a conviction about reliability of the trustee (Mayer, Davis, Shoorman, 1995). In TCT, opportunism represents behavioural uncertainty and it denotes self-interest seeking with a guile, directed at short-term maximization of quasi-rent at the cost of the partner (Williamson, 1975). Opportunism should be controlled by adequate safeguards, such as contract terms, however contracts are unavoidably incomplete leading to opportunistic behaviours after they are signed. During the interviews, the entrepreneurs were confronted with a set of five statements reflecting these competing attitudes of trust vs opportunism.

In order to obtain a deeper understanding of the results, we analysed the context for these subjective and direct opinions of the entrepreneurs. The specific questions investigated the level of asset specificity and dependence in transactions with suppliers and buyers, types of safeguards applied, as well as possible changes in these characteristics over the period of growth. Additional highlights were obtained by investigating the opinions about barriers and success factors of growth, among which the perceived role of trustworthiness or evidence of opportunism were the options. The attitude towards trust and opportunism was researched in different decisional contexts in order to control for the entrepreneurs' subjectivity and for the bias caused by the respondents normally reluctant to openly reveal their opinions on opportunism (Wathne, Heide, 2000; Levi, 2000).

### **Rationale**

Growth rationale consists of economic reasons and goals for enlarging company size. According to the RBV, the *rationale for growth* are economies from indivisible excess resources and eventually value creation from new combinations of the existing resources (Penrose, 1959). The exploitation of excess capacity in indivisible resources leads to economies of scale and scope as well as to economies of experience (Chandler, 1992; Nooteboom, 1992). Resources or capabilities are differentiated among the companies, which results in their heterogeneity and varying competitive positions. Value is then considered both as better exploitation and development of capabilities and strengthening of competitive position based on the development of capabilities. In TCT the rationale for expanding the company are excessive costs of market transactions relative to implementing these transactions within the company (Williamson, 1999; Williamson, 1989, p. 142). Williamson's methodology of transaction costs reasoning is called reduced form model, i.e. it does not provide direct measurement of transaction costs, but treats them as given, reference category, that governs managerial choices (Masten, Meehan & Snyder, 1991). Moreover, due to difficulties in separating transaction costs from production costs, it is proposed that total costs of exchange is investigated, including both production and transaction costs (Benham & Benham, 2000). Our empirical analysis focused on transaction costs as perceived total costs of exchange, which are determined by customers' and buyers' bargaining position and behavioural uncertainty leading to excessive exchange costs.

The main research question to investigate the rationale for expansion was composed of eight options of which four were to denote value and capability considerations (profit increase, better exploitation of the existing resource and scale economies, utilizing market opportunities, business success and personal satisfaction). The remaining four options acted as proxies for transaction cost savings implied by the bargaining position (reducing market uncertainty on the part of buyers and suppliers, increase of market power relative to buyers and suppliers, reducing dependence from suppliers and buyers, decreasing costs of purchasing goods). The entrepreneurs were to select relevant options and rank them according to the hierarchy of importance. Additional highlights about growth rationale were obtained by investigating the connections between asset specificity and perceived dependence from customers. The level of perceived dependence approximated the uncertainty from the behaviour of business partners leading to transaction costs. The evaluation of the levels of asset specificity and dependence was done twice, for the situation before and after growth occurred, to control for possible changes.

### **Mechanisms and modes of growth**

The mechanisms and modes of growth explain how growth is implemented. The mechanisms involve interdependencies among factors (cause-effect relationships) leading to increasing size and to the choice of a specific mode of growth. Growth modes denote different governance structures of achieving growth in terms of hierarchy expansion (internal/organic/ or external/acquisitive/ modes) or hybrid expansion (joint venture, franchising, licensing) adopted (McKelvie & Wiklund, 2010). *According to the RBV, the major mechanism of*

*growth* is exploitation, i.e. novel uses of existing resource base, leading to organic (internal) mode of growth. The company pursues resource exploitation by developing these products and services that are consistent with its core competence (Hamel & Prahalad, 1990), which results in related diversification. Underutilization of indivisibilities stimulates growth up to the limits that arise from entrepreneurial and managerial competence. The limits of organic growth are thus imposed by managerial competence base in coordinating the existing and launching new products or activities in new markets. This is because the manager-entrepreneur makes choices in the conditions of bounded rationality that leads to path dependent exploitation of the current stock of knowledge into adjacent activities. The limits to organic growth, as set up by the extant routines, practices and path dependent knowledge, can be overcome by *another mechanism of growth* - exploration, i.e. launching the areas of activity, which are not related to the existing core competence (unrelated diversification) (Gancarzyk, 2014). Exploration is often achieved through the acquisitive mode of growth (acquisitions and mergers) as a mode alternative to the organic one. As pointed out, in the Penrosian theory of expansion, two *modes of growth* are discussed, namely the organic and acquisitive modes, and the trade-off between them is conditioned by the existing core competence.

In TCT, the mechanism of growth emerges from Williamson's discriminating alignment hypothesis, which states that transaction costs can be optimized by aligning an individual transaction with the most appropriate governance structure (Williamson, 1991). The *mechanism of growth* is experimenting in aligning transactions, which differ in their attributes, with governance structures, which differ in their costs and benefits (Williamson, 1991, 2005). Consequently, the firm expands when comparative transaction costs associated with implementing a specific transaction internally or in hybrid structures are lower than the costs of implementing it on the market. The RBV assumes organic and acquisitive modes of growth dependent on the existing core competence, including managerial competence, while TCT identifies additional mode, namely hybrids, contingent on asset specificity and frequency of the contract. TCT differentiates between internalization within hierarchy, in the case of high asset specificity and high or medium frequency of transacting or medium asset specificity and high frequency, or hybrids, in the case of medium asset specificity and medium frequency or low asset specificity and high frequency (Williamson, 1975). However, it does not provide criteria to discriminate between internal and external growth, which is the merit of the RBV.

In order to explore mechanisms of growth, it is instrumental to learn about the sources of growth. The questionnaire options included the following sources of growth: product, process and marketing innovation, penetration of the existing or development of new local or international markets, finding a new customer, discovering a market niche. The entrepreneurs were asked to select the appropriate option from Discriminating alignment hypothesis as a basis for hypothesis 2, was to be reflected in growth mode adherence to transaction characteristics. The alignment logic requires that growth starts with a recognition of asset specificity and frequency required by the buyer, which further leads either to internalization of transaction (firm growth) or to hybrid structures (joint ventures, licensing, franchising). In hypothesis 2 it was assumed that the choice of governance is supported with capability characteristics, according to the RBV logic of resource exploitation or exploration, leading to internal or external growth, accordingly. The RBV insight was necessary to discriminate between internal and external modes of growth. On the other hand, the RBV perspective on mechanisms of growth does not provide criteria for differentiating firm (hierarchy) growth from hybrid growth. The exploitation/exploration mechanism was identified based on the consistency or inconsistency of growth activities with the core competence, and based on sources of new competence, when required. The level of relatedness to core competence was identified as adherence to the existing industry, market, competition and firm competence. In the case of lacking resource to implement growth, the respondents were additionally asked to indicate sources of new competence, including purchase of technology, joint venture, merger or acquisition, employing new personnel or developing new competence internally.

## 4. Results

### 4.1. Results of cross-case study analysis

#### Motives

The entrepreneurs were supposed to declare their level of agreement with the opposing statements about opportunism and trust in business relationships according to 5-point Likert scale, where ranks 4 and 5 reflected agreement, and ranks 1 and 2 - disagreement. The findings reveal considerable and significant concordance coefficient for the five statements (Table 3).

Table 3. The statements of opinions about the role of trust and opportunism in business relationships rated according to 5-point Likert scale - Friedmans' ANOVA and Kendall's coefficient of concordance.

Statement	Mean rank	Rank sum	Mean	St dv
1. Trust and mutuality are a basis for business relationships.	4,26	81,00	4,74	0,45



2. Trust in business relationships is limited and should be supported with adequate safeguards.	4,11	78,00	4,21	1,03
3. Each party in business relationships demonstrates opportunism (self-interest seeking with a guile).	2,21	42,00	2,74	1,24
4. Opportunism is present before signing a contract, but its influence is specifically evident after signing a contract ( <i>ex post</i> ).	1,89	36,00	2,32	1,06
5. <i>Ex-post</i> opportunism is caused by incomplete contracts, as after they are signed dependency of partners exists and the incomplete terms encourage rent seeking at the cost of the partner.	2,53	48,00	2,74	1,49

Chi square ANOVA (N = 19 , df 4 ) =44,38 p ,00000; concordance coefficient = ,58 r mean ranks = ,56

Statement 1 reflecting the RBV view on the importance of trust and mutuality, was supported by the entrepreneurs. On the other hand, they also emphasized the role of safeguards due to limited trust in business relationships, which is in accordance with the TCT assumptions. Other three statements about the opportunistic attitudes of contracting parties and the presence of ex-post opportunism stimulated by incomplete contracts were not supported by the respondents, which can be interpreted as contrary to the TCT decisional rules and in favour of the RBV validity in this regard. The respondents stressed the importance of mutual interests and of negotiations as current most important regulators of business exchange in the case of disagreement. In 11 cases, the explanation was given, that currently, due to the strengthened bargaining position, the entrepreneurs can choose among customers and exclude those unreliable. After transforming the ranks attributed to each statement to the scale ranging from 0 to 1 (the closer the average score to 1, the higher the level of agreement with the RBV) we found 11 cases confirming hypothesis 1.1, that trust and mutuality demonstrate higher explanatory power about motives in the process of growth with moderating effect from opportunism. Three cases attributed similar explanatory power to the RBV and TCT factors (0,5 average score). Four cases revealed higher explanatory power of TCT, putting stress on opportunistic behaviours (scores below 0,5 to 0,2). Applying the logic of Popper's falsification test, we can state that according to 11 cases hypothesis 1.1 cannot be rejected, and in 8 cases this hypothesis should be rejected. In all the 19 cases the entrepreneur's opinions about motives of economic agents are supportive of hypothesis 3.1, that the assumptions of TCT and the RBV jointly determine entrepreneurial perceptions of motives of economic agents, namely the entrepreneurs assess trust and mutuality vs perceived opportunism in their business relationships.

We also investigated possible evidence of the role of trust vs opportunism in other decisional contexts, such as tailoring assets to customer requirements (asset specificity) and resultant dependence, safeguards applied and perceived barriers to growth. Most of the companies (15 cases) devote assets of at least medium-level specificity into transactions with long-term customers and they experience at least medium-level dependence (10 cases) or mutual dependence (5 cases) in such relationships. Long-term contracts are not common as safeguards to possible opportunism (8 cases) as companies rely upon relational contracts, based on repetitive commissions (15 cases including 5 which combine relational and long-term contracts). Other safeguards include standard terms in short-term contracts (commissions) and threat of losing reputation or terminating relational contracts, however they are not considered major determinants of cooperation. Even in the situation of perceived danger of opportunism and dependence on customers, SMEs are not able to apply these instruments, due to relatively lower bargaining power. These classical enforcement tools prove much less effective than superior product or service they offer, thus proving the importance of value and capability considerations in business relationships. On the other hand, when pointing to barriers to growth, among nine options, the entrepreneurs selected opportunism on the second place (8 cases) just after non-transparency and fuzziness of regulatory environment (10 cases), proving the actual importance of the former factor. We can sum up that in order to implement growth, the entrepreneurs had to assume trust in business relationships and accept the existence of opportunism at the same time. Trust functions as a desired state of affairs and a condition to act in the situation of incomplete contracts, however the entrepreneurs are both aware of limits to trust and they experienced incidences of partner opportunism.

Moreover, we controlled for the possible change in the level of asset specificity, dependence and safeguards applied before and after the growth occurred. The results do not reveal any considerable shifts in this regard as a result of the companies' growth. On the other hand, as earlier mentioned, 11 respondents indicated increase in bargaining position that enabled terminating exchange with opportunistic partners when commenting on their disagreement about perceived opportunism. However, they referred to the cooperation history earlier than the growth period considered.

## Rationale

The findings reveal the explanatory power of value factors, being selected as the most important factor in 17 cases and listed as three most important factors in 13 cases vs transaction cost factors listed as the most important factor only twice and never appearing as three most important determinants. By computing weighted average scores of factors according to their ranks (from 1 as the least important to 5 as the most important) we found 12 cases supporting exclusively the RBV rationale (including 2 cases of moderate growers), 1 case balancing the RBV and TCT and 6 cases in which the prevailing rationale came from the RBV with moderating effect from TCT. The latter six cases support hypothesis 1.2 asserting that the RBV demonstrates higher explanatory power as to rationale for growth with moderating effect from transaction cost perspective. On the other hand, the remaining 13 cases provide for the rejection of hypothesis 1.2.. Seven cases are in accordance with hypothesis 3.2 and 12 remaining cases provide for the rejection of hypothesis 3.2, upon falsification test. Consequently, they deny joint explanatory power of the two theories and entrepreneurial decision making based on the assessment of value from growth relative to transaction cost of growth, putting stress on value and associated capability development for competitive advantage.

Other decisional contexts traced in the questionnaire provide additional highlights to understanding the above results. The TCT rationale of reducing transaction costs would be justified by the strong evidence of asset specificity and dependence from long-term suppliers and buyers. High level of asset specificity in transactions with long-term buyers was declared in 4 cases (medium level in 10 cases) and high dependence from long-term buyers in 3 cases only (medium level in 7 cases, mutual dependence in 5 cases). Medium levels of asset specificity and dependence justify long-term relationships, which we observed in these cases. The TCT rationale associates with at least medium dependence from customers in 5 out of 6 cases and with at least medium asset specificity in 4 out of 6 cases that reveal the TCT component in growth rationale. Overall, we observe a moderate connection between asset specificity, perceived dependence and growth rationale in this limited fraction of the sample. Similar characteristics of asset specificity and dependence are also present in a number of cases declaring the RBV rationale, which may suggest that these entrepreneurs accept moderate levels of asset specificity and dependence due to market power of long term buyers or suppliers, being prevaillingly large companies relative to our, in majority, SME respondents.

Moreover, we controlled for the possible change in the rationale and levels of asset specificity and dependence before and after the growth occurred. The entrepreneurs were asked to declare the rationale before and after the growth incidence and they were asked to indicate any changes in the levels of asset specificity and dependence that might have happened due to growth. The results did not reveal any considerable shifts in this regard.

### Mechanisms and modes of growth

Majority of the companies (13 cases) acknowledged the introduction of new product or service as the major source of growth. At the same time, most companies indicated medium (10 cases) or high (4 cases) level of asset specificity with medium-high level frequency, as transactions referred to long-term buyers. The connections between customer-tailored innovations leading to medium or high asset specificity and transaction frequency comply with TCT rules about enlarging firm size in 14 case studies. All cases revealed relatedness (exploitation mechanism) at the level of industry and market at least. There were 4 cases when personnel competence was not related to the new activity and in 2 cases this fact was connected with assuming external growth through mergers, which complies to the RBV rules. In the remaining two cases, companies employed new personnel, which supports the exploration of new capabilities causing growth through acquisition as well. One of these cases belongs to the group of 15 cases that adhere to the alignment rule, providing the evidence of the moderating role of firm capabilities in determining governance mode. Overall, the mechanisms of growth as described in the 14 cases support hypothesis 2. i.e. it cannot be rejected by falsifications test. The remaining 4 cases follow the RBV mechanism of exploitation to better utilize the existing resource base and market opportunities exclusively.

Table 3 summarizes verification of the research hypotheses. Due to non-random sampling and a limited number of observations only the statements derived from Popper's falsification test are possible. Consequently, a hypothesis can be supported (i.e. it cannot be rejected) or can be rejected, but it cannot be confirmed by proof.

**Table 3. Verification of the research hypotheses based on falsification test**

Hypothesis	Verification	
	Supported ( <i>n</i> cases)	Rejected ( <i>n</i> cases)
1.1	11	8
1.2	6	13
2.	14	5
3.1	19	0
3.2	7	12

The earlier analysis of three elements of growth process from the perspective of entrepreneurial decision making provides useful insights into the interplay between the RBV and TCT. It tracks how the constructs of these theories combine into motives, rationale, mechanisms and modes of growth, which is reflected in supporting or rejecting research hypotheses in specific sets of cases. We found a considerable support for hypotheses 3.1 and 1.1, which are complementary in a sense that 1.1 can be covered by 3.1 as its specific case. According to 3.1 the entrepreneurial decisions as to motives of economic agents are based on the assessment of trust relative to perceived opportunism in business relationships. Hypothesis 1.1 states that trust and mutuality are the major motives in the process of growth with moderating effect from the perceived opportunism. There is also important evidence of growth mechanism based on aligning transaction characteristics and capability characteristics with growth mode, as stated in hypothesis 2. The verification of the hypotheses provides arguments in favour of explaining growth process with the use of both TCT and the RBV. Less convincing evidence for the integration of these approaches in explaining growth process was found for hypotheses 1.2 and 3.2, which are related in a similar way as 1.1 and 3.1. They held that rationale for growth is based on assessing value and competitive advantage from growth relative to transaction cost savings from growth (3.2), and that value and competitive advantage are the major rationale for growth, moderated by transaction cost considerations (1.2). More observations adhered to the RBV approach of value as the exclusive rationale for expansion.

### 3.1. Results of within-case study analysis

The analysis based on vote counting *across cases* studies is one step in analytical generalisation from qualitative research, however, it cannot be considered most critical and by nature it is more appropriate in quantitative than in qualitative studies. Another, even more critical step, is to investigate relationships among different approaches to motives, rationale, mechanisms and modes of growth *within specific case studies and to identify the most valid patterns*, considering the outcome, i.e. firm high growth. In order to achieve the understanding of the patterns of growth process, we applied the tools of Qualitative Comparative Analysis (Ragin 2000, Ragin 2009). The QCA enables comparing how different decisional approaches combine in specific cases, forming different paths of growth process and not competing against each other (Greckhamer, 2008, 2011; Kent & Argouslidis, 2005). The QCA is based on combinatory logic of Boolean algebra, which requires that each case is described with dichotomous variables of 1 or 0, which fits well with the analytical step we achieved, i.e. verified research hypotheses. Table 4 presents the summary of the verification of research hypotheses in each case studied in connection with growth outcome, i.e. high growth or moderate growth.

**Table 4. Summary of the verification of research hypotheses for each case study**

Case no	H 1.1	H 1.2	H 2	H 3.1	H 3.2	Outcome
1.	1	1	1	1	1	1
2.	1	0	1	1	0	1
3.	1	0	1	1	0	1
4.	1	0	0	1	0	1
5.	0	1	0	1	1	1
6.	0	0	1	1	0	1
7.	0	0	1	1	0	0
8.	1	0	1	1	0	1
9.	0	1	1	1	1	1
10.	1	1	0	1	1	1
11.	1	1	0	1	1	1
12.	1	0	0	1	0	1
13.	1	0	1	1	0	1
14.	0	1	1	1	1	1
15.	0	0	1	1	1	1
16.	0	0	1	1	0	1
17.	0	0	1	1	0	1
18.	1	0	1	1	0	1
19.	1	0	1	1	0	0

Hypothesis (H) supported (not rejected) – 1, hypothesis rejected by falsification – 0; outcome 1 - aggregate sales increase of at least 70%, outcome 0 - aggregate sales increase from 30% to 40%.

We construct 'truth table' structuring the cases that demonstrate the same configuration of results into sets that denote alternative patterns (solutions) of growth process (Table 5). As hypotheses 1.2 and 3.2 differ by only one case and hypothesis 1.2 puts more restrictions on conditions and is more informative, we considered only this hypothesis and excluded hypothesis 3.2 from further analysis.

Table 5. Truth table with all possible configurations and the sets of cases demonstrating the same configuration relative to outcome

Configuration	H 1.1	H 3.1	H 1.2	H 2	N	Consistency	Outcome
A	1	1	0	1	6 (31%)	83%	1
B	0	1	0	1	5 (57%)	80%	1
C	1	1	1	0	2 (68%)	100%	1
D	1	1	0	0	2 (78%)	100%	1
E	0	1	1	1	2 (89%)	100%	1
F	1	1	1	1	1 (94%)	100%	1
G	0	1	1	0	1 (100%)	100%	1
H	1	0	1	1	0 (100%)		
I	1	0	1	0	0 (100%)		
J	1	0	0	1	0 (100%)		
K	1	0	0	0	0 (100%)		
L	0	1	0	0	0 (100%)		
M	0	0	1	1	0 (100%)		
N	0	0	1	0	0 (100%)		
O	0	0	0	1	0 (100%)		
P	0	0	0	0	0 (100%)		

Hypothesis (H) supported (not rejected) – 1, hypothesis rejected by falsification – 0; outcome 1 – relevant configuration to describe growth process, 0 – not relevant solution to describe growth process.

The truth table (Table 5) presents 16 possible patterns (solutions) that result from introducing 4 independent variables in the form of the verified research hypotheses ( $2^k$  algorithm), while 7 configurations are represented by the data. The relevant configurations to describe the process of expansion by high-growers are coded as 1 in the outcome column. They were determined according to the criteria of frequency and consistency. Relevant frequency was defined as at least 1 case representing a given configuration, a rule recommended for small N samples by Ragin (2009). Consistency measures how close the specific pattern is to the process of high (instead of moderate) growth. The recommended consistency threshold is 0,75 and we followed this threshold. The operation resulted in 7 configurations that met relevance criteria, namely solutions A, B, C, D, E, F and G. The next step involved identifying sufficient patterns for describing high growth process, based on minimization procedure. The sufficient solution is a configuration that always produces the outcome in question, i.e. high growth, therefore it needs to demonstrate relevant consistency. The minimization procedure consists in combining solutions, which differ in only one condition (one hypothesis). This operation was, however, combined with logical simulations that take into account broader knowledge about the companies under study. The differences among the cases (companies) representing specific solutions justified abandoning the minimization procedure in the event of two solutions (CG and EF) and not combining them into one pattern (Table 6). Eventually, based on minimization and logical simulations, we identified 4 solutions represented by firms with similar characteristics according to the level of resource uniqueness (differentiating and rare capabilities) and of asset specificity (adjustment to transaction/customer requirements). The first feature represents the core construct of the RBV, namely the nature of capabilities for competitive advantage relative to those of competitors. The second feature is the TCT construct that implies the level of dependence in business relationships and a potential opportunism from customers. The resulted final solutions are displayed in Table 6.

Table 6. Truth table with final patterns (solutions) of growth process

Solution	Unique coverage (share in all high growth cases)	Consistency
AD, H1.1 * H3.1 * ~H1.2	41%	87,5%
B, ~H1.1 * H3.1 * ~H1.2 * H2	23%	80%
CG, H3.1 * H1.2 * ~H2	18%	100%
EF, H3.1 * H1.2 * H2	18%	100%
Solution coverage 100% (four combined solutions represent 100% of all high growth cases)		
Solution consistency 89% (combined consistency of all four solutions)		

\* - logical AND, ~ - logical NOT.

The resultant sufficient solutions can be described as follows.

**AD solution** assumes that the entrepreneurs assess trust and mutuality vs partner opportunism in the process of growth (H 3.1), and at the same time, they perceive motivations as dominated by trust and mutuality with some moderating effect from opportunism (H 1.1). They do not consider moderating effect of

transaction costs on value, which is the major rationale for growth (~H 1.2). Based on the earlier cross-case study analysis we can assert that value and competitive advantage are often exclusive rationale for the entrepreneurs following this solution. We cannot point to one mechanism of growth as the cases in this solution follow both the alignment logic of H 2 and the logic of exploitation of existing resource or exploration of new capabilities, as earlier described in the cross-case study analysis. These alternative mechanisms mutually falsified one another, and eventually, they were eliminated as differing factors, according to minimization procedure.

**The characteristics of the companies** representing this solution include high resource uniqueness, due to technological and customer service advantages, and medium asset specificity in transactions with customers, due to intermediate nature of their products and services.

**According to solution B**, the entrepreneurs assess trust vs opportunism as motives in business relations (H 3.1.), however we cannot maintain that trust and mutuality are the major motives with only moderating effect from the perceived opportunism (~H 1.1). At the same time, they do not consider moderating effect of transaction costs on value as major rationale for growth (~H 1.2). Based on the earlier cross-case study analysis we can assert that value and competitive advantage are often exclusive rationale for the entrepreneurs following this solution. Moreover, the mechanisms of growth in these cases follow the rule of aligning transaction characteristics and capability characteristics with governance (H 2).

**The companies applying this solution** feature by high to medium resource uniqueness due to routines and experience achieved. The specificity of assets devoted to customers is rather high, which leads to behavioural uncertainty (threat of opportunism).

**Pattern CG** assumes that the entrepreneurs consider both trust and mutuality and opportunism as motives in business relationships (H 3.1). They consider value and competitive advantage as the major rationale for growth, but they also take into account transaction costs as moderators (H 1.2). The mechanism of growth is not aligning transaction and capability characteristics with governance (~H 2). Instead, according to the evidence analysed earlier, they comply with the logic of exploitation of existing resource or exploration of new capabilities. In other words, the entrepreneurs align capability characteristics with governance and not transaction characteristics with governance.

**These companies** built their competitive advantage based on matching resources with environmental, specifically market, opportunities and not with specific customer requirements (they trace market trends, gaps). Their technological capabilities are not directed at differentiation and product or service uniqueness (they represent low resource uniqueness), but at standardization, which allows for avoiding asset specificity (low asset specificity) and thus the implied dependence and threat of customer opportunism.

Finally, in **solution EF**, the entrepreneurs assess trust and mutuality vs partner opportunism as motivations in the process of growth (H 3.1). Considering rationale for growth, they treat transaction costs as moderators of value and competitive advantage, the latter being the major determinant (H 1.2). The mechanisms of growth in these cases follow the rule of aligning transaction characteristics and capability characteristics with governance (H 2).

**The firms following this pattern** feature high resource uniqueness, due to human resource and marketing superiority, and high asset specificity.

#### 4. Discussion and conclusions

We described the process of firm growth in terms of its motives, rationale, mechanism and modes, based on the integrated TCT-RBV theoretical and methodological framework. The across case study analysis with the use of falsifications tests enabled verification of five hypothesis. According to the findings, the entrepreneurial decisions as to motives of economic agents are based on the assessment of trust relative to perceived opportunism in business relationships. Moreover trust and mutuality are the major motives in the process of growth with moderating effect from the perceived opportunism. There is also important evidence of growth mechanism based on aligning transaction characteristics and capability characteristics with growth mode. Moreover, the majority of observations adhered to the RBV approach of value as the exclusive rationale for expansion. These findings are in accordance with theoretical and empirical studies in firm boundaries that assert higher explanatory power of the RBV assumptions as motives and attitudes of economic agents and higher explanatory power of TCT as to mechanism and modes of growth (Conner & Prahalad, 1996; Madhok, 1997; Foss & Foss, 2005; Jacobides & Hitt, 2005; Lo et al., 2012; Poppo & Zenger, 1995; Silverman, 1999; Schilling & Steensma, 2002) Leiblein & Miller, 2003; Mayer & Salomon, 2006).

The internal case study analysis enabled identifying three patterns of growth consisting of different approaches to motives, rationale and mechanisms. These patterns reveal that entrepreneurs consider the assumptions and variables of the two theories in their decisions, however there are also instances when the RBV explanations are considered exclusively.

The theoretical contribution of the paper consists in formulating conclusions as to entrepreneurial decisional rules and choices in the process of expansion with the use of the RBV-TCT framework. We provide more comprehensive and complex perspective on this process, which can inform both research and practice, by introducing new aspects for studying drivers and barriers in firm expansion. Moreover, we extend the integrative RBV-TCT studies in firm boundaries by inclusion of high growth as a specific context of firm scope and size problem.

The methodological contribution includes proposing an innovative research framework to study growth process with the use of the two theories and with the application of a specific case study, namely prospective case study that enables case-based deductive theory testing. Adopting case study method for verifying research hypothesis has its limitations due to non-random design and small number of observations, however we do not claim we confirm hypotheses, but we can only either support or reject them based on falsifications test. This is why, beside across case study analysis, we also adopted internal case study investigation. The latter enabled identifying complex relationships among variables and plotting some patterns of entrepreneurial decision making and perceptions in the process of growth.

### **Acknowledgements**

The article was written with the financial support from the Polish National Centre of Science [Narodowe Centrum Nauki] – Decision no. DEC-2013/09/B/HS4/01938. Project “The process of SME growth. Combining the resource-based and transaction cost approaches.”

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