Market Consolidation, Market Growth, or New Market Development? Owner, Firm, and Competitive Determinants

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Abstract. Market entry decisions are complex and involve high sunk costs with uncertain or risky outcomes. In this study we explore how owner, firm, and competitive pressures shape this decision. Using a large UK data set of SMEs, we find that the preferred form of growth, and growth is not always desired, is expansion in existing markets. Key determinants of the decision to pursue a new market entry strategy are formal education, and large firm based market competition. Further, these decisions are made simultaneously not sequentially.

Keywords: market entry, firm growth, owner characteristics, competitiveness**.**

1. Introduction

This paper explores the growth decision in SMEs by drawing upon, and consolidating, key elements of three distinct literatures which all have direct relevance to the growth of firms, including theories of (a) entrepreneurial (owner) human capital, (b) general human capital, and, (c) market structure and market entry. In doing so we empirically question whether it is appropriate to consider the firm's growth decision in terms of a single dimension —the owner's and firm's human capital, or market based competition—, or whether a more inclusive theory which combines elements of all three literatures is more appropriate. Specifically, we consider not only the strategic choice of whether to grow or not,

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but if growth is desired, the precise mode of growth. Again the entrepreneurship and small business literature says little about the different strategic options for growth that are potentially open to the firm. And this is where there is a clear link to market structure theories as smaller firms operating in markets where there are dominant large firms face a different opportunity set than small firms in more competitive markets. This reflects the potential for economies-of-scale to play a dominant role where large firms are present.

There is a voluminous theoretical (see for example, Becker, 1975) and empirical literature (Hitt et al., 2001; Crook et al., 2011) linking human capital (HC) to successful business outcomes (Unger et al., 2011). In the small business literature human capital effects have also been studied in a variety of related contexts including, growth orientations *per se* (Javalgi and Todd, 2011), internationalisation (Siepel et al., 2017; Ruzzier et al., 2007), and innovation (Dakhli and De Clercq, 2004). But these studies have not explored growth in the context of the markets the firm currently operates in, or potential new markets that the firm could move into, in a particularly nuanced way. And this dominant focus on the role of human capital, specifically that of the founding (entrepreneurial) team and more broadly the ownership team, in the entrepreneurial and small business literature contrasts significantly with the traditional approach to growth taken by industrial economists which emphasises the importance of exogenously determined market structure in shaping the behaviour and potential growth of firms in an existing market and the potential for new market entry and growth. Equally, the more general human capital and growth literature says little on context and adopts a broader approach which established a causal link between productivity augmenting human capital and growth.

In particular, the industrial economics literature stresses how market structure shapes the rate of profit (the ability of firms to earn above competitive profits) and how barriers to entry can effectively prohibit new firms from growing through entering new markets and eroding the profits of existing incumbents (Bain, 1956; Bradburd and Caves, 1982). It also stresses how economies-of-scale can shape the ability of smaller firms to maintain price competition with efficient large firms. Thus we have some interesting tensions between the entrepreneurial and small business growth literature, the broader human capital – growth literature, and the industrial economics structure-conduct-performance paradigm. The former focuses very explicitly on the entrepreneur's human capital and psychological attributes and largely ignores market structure concerns and potential competitor reaction. It also says little on the explicit nature of growth other than a firm with an entrepreneurial team with a defined set of characteristics is growing (or not) at a rate of X percent over a defined period. The human capital – growth literature largely focuses on the broader and well-established link between human capital and productivity as drivers of firm growth, whilst ignoring the ownership team, and the latter SCP paradigm reduces the importance of the ownership team as the dominant factor is market structure which shapes the determination of profit and

the opportunities for market entry and growth. The power of markets, and specifically the presence of large firms, is particularly important in this study which focuses on SMEs and the decisions they make about growth *per se*, and the precise mode of achieving growth.

This research will attempt to consolidate these contrasting approaches to studying the growth strategies of SMEs by considering not only the human capital of the ownership team and firm specific characteristics, but also the nature of markets and competition that a firm is currently trading in (see also Zhou et al., 2018, for another recent study in this area). In doing so we recognise that there is a strong likelihood that whatever the underlying qualities of the ownership team and their chosen orientations for their firms, the nature of competition in markets will play a role in determining what strategic options are (a) possible, and, (b) achievable. In this sense, we hope to consolidate these disparate literatures and establish the relative contributions of each to the growth decision of the SME.

An additional strength of this study is that we also adopt a more nuanced perspective and argue that the growth decision is not binary but multidimensional as firms can seek to grow within their existing market or seek to grow by expanding their activities into completely new markets. Further, we consider this decision as being shaped by three related factors – the owner's human capital, firm-specific characteristics, and the competitive nature of markets – simultaneously. We also unravel whether this decision choice process is sequential – I choose whether or not to seek growth, and only then how I might achieve this – or whether all the decision-making on these three potential choices is made simultaneously.

Empirically we use complete data from a UK survey of SMEs, and estimate two sets of models. The first set of models explore the determinants of the growth – no growth decision. The second set of models explore the determinants of the choice of mode of growth in the context of growth in existing markets or growth via entry into new markets, conditional on the initial choice that growth is a desirable objective. We explore these two fundamental decisions in the context of how owners' human capital and experience may exert an influence, but also in terms of how market structure and competition in current output markets impacts on these decisions.

The rest of the paper is organised as follows. In Section 2 we discuss the literatures on organisational growth, focusing on the dynamic process through which growth is achieved, and the contribution of human capital to this process. We then consider the role of the owner (or in the small business literature the entrepreneurial team) in the growth decision-making process and in the determination of growth itself. Finally, we consider the industrial economics literature, and how market structure shapes not only the opportunities for growth available to smaller firms, but also the costs and benefits of pursuing a growth strategy when markets are imperfect and large dominant firms are present.

Section 3 discusses our data and empirical methodology, and Section 4 presents our core analysis and findings. We conclude in Section 5.

2. Literature Review

Organisation growth is a heterogeneous, complex and dynamic process that involves economic, social and cultural factors (Audretsch et al., 2014; Delmar et al., 2003; Leitch et al., 2010; Wong et al., 2005), and it has been the focus of numerous theoretical and empirical studies in ownership research (Coad, 2009; McKelvie and Wiklund, 2010). Despite this substantial research volume, theoretical development remains fragmented and slow (Davidsson and Wiklund, 2006; Wiklund et al., 2009) and empirical evidence highly inconsistent (Storey, 1994; Shepherd and Wiklund, 2009). One particular contributor to this complexity is the heterogeneity in growth patterns (Delmar et al., 2003) and growth measures (Delmar, 2006; Delmar et al., 2003).

2.1. The Dynamics of Large and Small Firm Growth

Whereas larger, more established firms in mature industries achieve growth primarily via merger and acquisition, younger and smaller firms mainly grow by increasing output and sales internally, i.e. organic growth (Davidsson and Wiklund, 2006; Penrose, 1959). However, even organic growth can take alternative forms (Lockett et al., 2011) and despite its popularity, the traditional resource-based theories originating from Penrose (1959) may fail to explain the differences in both growth rates and growth patterns (Mishina et al., 2004). First, the accumulation of resources does not, *a priori,* lead to growth, which is an assumption in many previous studies (e.g. Delmar et al., 2003). This view ignores the actual demand for resources, and thus the efficiency in resource utilisation (Penrose, 1959) and the advantage of resource slack (George, 2005; Mishina et al., 2004; Weinzimmer, 2000). Second, unlike larger firms, owners are a unique and essentially fixed factor of production (Casson, 2005; Cowling, 2003a) within the small business sector. They play a vital role in conceptualising and using a firm's resources, which define and shape the firm's growth paths. It is the intention of the present study to address this gap in the literature, by taking into account the human capital and experience of the ownership (the entrepreneurial and broader human capital literature) but also to take into account the power of markets and more specifically markets in which larger dominant firms are present (the industrial economics literature).

2.2. The Mode of Growth

In this paper, we also argue that the growth of a firm takes multiple forms, or logics. This is consistent with the Penrose view that growth is a two-dimensional process "governed by a creative and dynamic interaction between a firm's productive resources and its market opportunities" (Penrose, 1960, p. 1). Owners are in constant search for profits through expansion, and the heterogeneity of services from resources gives each firm its unique character. Therefore, so long as such an objective is served, business expansion should not be constrained to any particular form. Strategic planning must consider both the products and markets for those products (Abell, 1980), which means the decisions and logics of growth must be conceptualised along product and/or market strategies. In this sense, firms with growth intentions can choose either to extend the market for existing products/services, or develop new markets for new products/services. Never the less, 'holding one's current market position', or market consolidation, can well be a valid strategic option, as noted in Nelson and Winter (1982, p. 112) that "just keeping an existing routine running smoothly can be difficult". In the rest of this section, we will attempt to map alternative growth (and non-growth) strategies onto human capital.

2.3. Growth and Human Capital Resources

The central tenet of the resource-based view of the firm is that performance is determined by the availability of resources, both tangible and intangible, which forms the basis of the firm's competitive advantage. In particular, intangible resources in the form of human capital are more likely than tangible resources, such as business size, age or industry, to have a positive performance effect because of the rarity, complexity, and uniqueness of such resources, which make them difficult to imitate and more likely to produce a competitive advantage (Barney, 1991; Black and Boal, 1994; Hitt et al., 2001; Peteraf, 1993). Cowling (2006) divided HC into two categories: formal and informal. The former is commonly proxied by an individual's education level, and the latter usually by variables such as age, health, family, and prior experience.

Empirical studies show that, in general, HC is positively associated with venture growth and success (see Unger et al., 2011, for a review of recent literature). In terms of formal human capital, there is fairly strong support, across a number of empirical studies, for the notion that businesses with more educated owners experience faster early-stage growth (e.g. Cowling, 2003b; Dimov and Shepherd, 2005; Rauch et al., 2005). Whilst owner experience is found to be linked to a higher likelihood of both new market entry through increased dynamic capabilities (King and Tucci, 2002), and market expansion if the experience is more related to the operating routines of a firm (Gersick, 1989; Nelson and

Winter, 1982), empirical evidence on the impact of other types of informal human capital, such as the age of owner, is far less conclusive (Cowling, 2006). From this discussion, we posit one hypothesis;

H1: Higher owner human capital will be associated with a more expansionist growth strategy

2.4. Market Structure, Competition, and Growth Opportunities

Here we consider the industrial economics literature around markets and competition. This is an important aspect of growth which potentially impacts not only on the existence of growth opportunities available to the smaller firm, but the ability of small firms with no market power to take advantage of any opportunities for growth that exist. This literature identifies four core market and competitive structures within markets, which are: perfect competition, monopolistic competition, oligopoly, and monopoly. All four are defined in terms of information (knowledge) of firms and consumers, ease of entry into (and out of) the market, the uniqueness of the product or service, the ability of a firm to influence market price, the number of firms in the market, the presence of externalities (potential benefits to third parties not directly involved in a market transaction), and the level of profit. We focus specifically on monopolistic competition (Chamberlin, 1937) and oligopoly (Stigler, 1964; Sweezy, 1939) as these are the two market structures that have the greatest potential impact on smaller firms and growth.

Under monopolistic competition, firms have many competitors, as for perfect competition, but each producer sells a slightly differentiated product. On the firm side of the market, each firm chooses its pricing strategy and output level based on the size of the market and its individual cost base. Thus, a monopolistically competitive market does have a clear role for the ownership team (entrepreneurs) as they have to make choices about pricing and output. There is free entry and exit from the market, but advertising has a role in influencing demand. A key element of this type of market structure is that all economies-of-scale are not exhausted, thus the potential for growth within current markets is present.

The theory of oligopolistic competition allows for the presence of a small number of large dominant firms with significant market power, and a competitive fringe of smaller firms. Importantly, large firms' decisions are not made independently of one another. Dominant firms' position is sustained by creating barriers to entry (raising the costs of entering for outside firms) and by the threat of competitor reaction if a firm already operating in the market acts unilaterally. In this sense, smaller firms have no power to influence the general level of prices in the market and face the threat of large firm reaction if they pursue an

independent growth strategy. From this discussion we posit the following hypotheses;

H2: Smaller businesses facing competition from similar firms in their core markets will be more likely to seek to grow within existing markets
H3: Smaller businesses facing competition from dominant large firms in their core markets will seek to enter new markets when seeking growth

3. Data and Methodology

This study uses data from a UK government sponsored SME survey. Telephone interviews were conducted by OMB (a specialist survey company) during August to September 2008 with a sample of businesses drawn from the general SME business population. In total, 1,488 businesses were surveyed. The survey was developed from the known actual UK SME population using a stratified sampling approach, and a population weight was constructed to ensure that responses were representative of the size, age, and industry sector distributions. The survey was designed to collect information on growth and market displacement amongst SMEs and, more generally, data on growth orientation, employment and sales growth, product and process innovation, and owner and top management team characteristics such as prior labour market history, formal qualifications, and owner experience. Further data was captured relating to geographic market focus, competition, innovation and internationalisation. As with any large survey, particularly one which is 37 pages long, there are missing data responses. With this in mind, we use a reduced sample of 1,165 firms for our core analysis. We applied a weighting to the entire sample which reflected the size, age, and industry structure of the known UK business population.

Our key outcome variable captures the firms' strategic orientation in the context of market positioning. Here we observe that 28.3% of firms chose to hold their current market position and 71.7% chose to do something other than simply holding their current market position. Of the 71.7% who chose to do something, 77.6% adopted a preferred strategy of seeking to expand activities in their current markets and 22.4% adopted a preferred strategy of entering new markets. Taken overall, new market entry was the lowest strategic preference for firms and expanding in existing markets the dominant strategy.

Of particular focus and interest are our measures of formal and informal capital. Table I outlines the various survey variables relating to owner human capital available to us.

Table I: Description of Key Variables

HC Measure	Coding and description
Formal HC	
Managerial Qualification	Coded 1 if owner has any specific management qualifications, else=0
Finance Qualification	Coded 1 if owner has any specific financial qualifications, else=0
Degree Qualification	Coded 1 if owner has a degree level qualification, else=0 (What is the highest level of qualification that you hold?)
Informal HC	
Non-executive Director	Coded 1 if board has a non-executive director, else=0 (Qu: does your business have any non-executive directors?)
Board Size	Count of number of directors on the board (Qu: Including yourself, how many owners, partners or directors are there in day to day control of the business?)
Owner's previous years of business experience	Coded 1 if owner has <1 year of experience, 2 if owner has 1-3 years of experience, 3 if owner has 4-6 years of experience, 4 if owner has 7-9 years of experience, 5 if owner has 10-15 years of experience, 6 if owner has >15 years of experience)
Previous Business Start-Up	Coded 1 if owner previously started a new business, else=0
Owner Age	Coded 1 if owner is 16-34 years old, 2 if owner is 35-54 years old, and 3 if owner is 55 years or older
Independent Start-Up	Coded 1 if firm started as a de novo, independent start-up, else=0 (Qu: Was this business established as a...? Completely new independent start-up 1 A purchase of an existing firm 2 Or something else 3
Spatial markets	And which <u>one</u> of these is where your <u>main</u> customers are based…? Locally, and by that I mean within 20 miles of your site 1 Elsewhere in your region of the UK 2 In the rest of the UK, but outside your region 3 Elsewhere in the EU 4 Other countries outside of the EU 5
Competitor Size	Qu: And are your main competitors mostly…? Small firms with less than 250 employees 1 Or large firms with 250 or more employees 2 (Both small and large firms) 3

Table II outlines the univariate differences on core firm and owner characteristics across our three strategic types of firms. On firm size and age there were no clear differences across our three groups. But at the industry sector level construction firms were the most likely to choose a strategy of holding one's

current market position and service sector firms were more likely to choose a market expansion and new market entry strategy.

Important differences were apparent in relation to the human capital and experience of the owner team and across all layers of top management. For example, the share of firms who had a non-executive director at board level, a measure of external human capital inputs to the firm, increased from 11.9% in firms choosing a holding strategy, to 15.3% for firms adopting a market expansion strategy, and peaking at 21.5% for firms choosing a new market entry strategy. This might suggest that external expertise at board level is an important component of developing and implementing a market expansion or entry strategy. In terms of formal human capital measures, we also find differences across types of firms. On management qualifications we observe that only 17.7% of managers in firms pursuing a market holding strategy had a formal management qualification compared to 26.3% in firms pursuing a new market entry strategy. The comparable figures for formal financial qualifications were 10.4% and 17.1% respectively. For university degree level qualifications, we find that greater proportions of owners had a degree as we progress from firms adopting a holding strategy (37.1%), to a market expansion strategy (46.1%), to a new market entry strategy (54.8%). But this was not the case for prior business experience as the founding owner across all types of firms averaged between 7 and 9 years of prior experience. Informal human capital also differentiated between firms, with greater incidences of owner business start-up experience being associated with expansion strategies within existing markets, but increasingly with new market entry strategies. Firms pursuing a new market entry strategy were also more likely to have founders with self-employment experience immediately prior to starting their current business and less likely to have founding owners who were previously in waged employment or inactivity (these last results are not reported in Table II but are available on request).

In relation to geographic markets firms currently operate in, the data shows that there is a clear delineation across types of firms. Here we note that firms' presence in local markets diminishes their willingness to pursue market expansion or new market entry strategies, whilst firms' presence in national and international markets increases the scope of their strategic market positioning going forward. This might imply that experiential learning from serving more distant markets is an important factor in future strategic planning around growth. In relation to the firm's major current competitors, we also find differences across firm types. On this we observe that firms that compete mainly with large firms have a much greater likelihood of pursuing an expansion strategy, and particularly one involving new market entry. This might suggest different strategic reactions to competing with smaller or larger firms in main markets. On innovation, we find that firms adopting a market holding strategy are the least innovative of all, and this effect is even stronger for radical product and service process innovations than for incremental innovation.

Table II: Variable definition and sample descriptive statistics

Variable	Definition	Market Consolidation (N = 330)		Market Expansion (N = 648)		New Market Entry (N = 187)	
		Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
Human Capital Measures							
Board Size	As defined in Table 1	1.982	1.664	2.089	1.972	2.160	1.532
Non-exec Director	As defined in Table 1	0.119	0.325	0.153	0.360	0.215	0.412
Managerial Qualification	As defined in Table 1	0.177	0.382	0.219	0.414	0.263	0.441
Finance Qualification	As defined in Table 1	0.104	0.306	0.182	0.386	0.171	0.377
Degree Qualification	As defined in Table 1	0.371	0.484	0.461	0.499	0.548	0.499
Business Exp (1-3 yr)	As defined in Table 1	0.020	0.141	0.033	0.178	0.033	0.180
Business Exp (4-6 yr)	As defined in Table 1	0.210	0.408	0.208	0.406	0.147	0.355
Business Exp (7-9 yr)	As defined in Table 1	0.286	0.453	0.264	0.441	0.233	0.424
Business Exp (10-15 yr)	As defined in Table 1	0.161	0.369	0.148	0.356	0.153	0.362
Business Exp (>15 yr)	As defined in Table 1	0.262	0.441	0.284	0.451	0.360	0.482
Start-up Exp	As defined in Table 1	0.281	0.450	0.389	0.488	0.474	0.500
Independent Start-up	As defined in Table 1	0.696	0.461	0.752	0.432	0.763	0.426
Owner Age (35-54)	As defined in Table 1	0.621	0.486	0.648	0.478	0.662	0.474
Owner Age (>55)	As defined in Table 1	0.247	0.432	0.180	0.384	0.175	0.381
Competition Intensity							
Large Competitors	Firm's major competitors are large firms (0, 1)	0.099	0.299	0.152	0.360	0.239	0.428
Large&SME Competitors	Firm's major competitors are SMEs and large firms (0, 1)	0.184	0.388	0.229	0.421	0.244	0.431
Control Variables							
Firm Age	Firm age in years	7.637	10.586	6.116	12.716	6.670	8.822
Size	Firm employment size	17.831	10.573	16.751	9.425	18.021	9.630
Construction	Construction sector (0, 1)	0.083	0.276	0.046	0.209	0.039	0.195
Service	Service sector (0, 1)	0.694	0.462	0.777	0.416	0.759	0.429
Ltd	Limited liability company (0, 1)	0.756	0.430	0.748	0.434	0.820	0.385
Geographic Focus_Regional	Regional market focus (0, 1)	0.144	0.351	0.139	0.346	0.155	0.362
Geographic Focus_National	National market focus (0, 1)	0.223	0.417	0.269	0.444	0.332	0.472
Geographic Focus_Europe	European market focus (0, 1)	0.008	0.089	0.030	0.170	0.027	0.163
Geographic Focus_Global	Global market focus (0, 1)	0.019	0.135	0.025	0.155	0.068	0.253
New Products	Innovation through new products/services (0, 1)	0.151	0.358	0.200	0.400	0.162	0.370
Improved Products	Innovation through improved products/services (0, 1)	0.106	0.309	0.095	0.293	0.132	0.339

Note: Benchmark categories: business experience = < 1 yr; owner age = 16-34; competition intensity = SME competitors; geographic focus = local focus.

Table III: Pair-wise correlation coefficients

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)
(1) Market Expansion	1.000																												
(2) New Market Entry	-0.500*	1.000																											
(3) Board Size	0.012	0.021	1.000																										
(4) Non-exec Director	-0.003	0.074*	0.111*	1.000																									
(5) Managerial Qualification	0.012	0.052	0.072*	0.048	1.000																								
(6) Finance Qualification	0.072*	0.015	0.088*	0.120*	0.328*	1.000																							
(7) Business Qualification	0.036	-0.049	-0.052*	-0.074*	-0.051*	-0.066*	1.000																						
(8) Business Exp (1-3 yr)	0.015	-0.030	-0.041	-0.032	0.019	-0.014	-0.188*	1.000																					
(9) Business Exp (4-6 yr)	0.002	-0.004	-0.031	0.023	-0.003	0.032	-0.135*	-0.162*	1.000																				
(10) Business Exp (7-9 yr)	0.006	0.045	0.029	0.023	0.037	0.034	-0.193*	-0.232*	-0.166*	1.000																			
(11) Business Exp (10-15 yr)	-0.054*	0.019	0.061*	0.010	0.047	0.037	-0.270*	-0.325*	-0.232*	-0.334*	1.000																		
(12) Business Exp (>15 yr)	0.037	0.092*	-0.008	0.010	0.052*	0.072*	-0.171*	-0.084*	-0.053*	0.099*	0.225*	1.000																	
(13) Owner Age (35-54)	0.012	0.018	0.009	0.021	0.077*	0.027	-0.035	-0.017	0.020	0.129*	0.010	-0.024	1.000																
(14) Owner Age (>55)	-0.050	-0.024	0.030	0.009	-0.049	-0.017	-0.148*	-0.081*	-0.098*	0.243*	0.067*	0.061*	-0.683*	1.000															
(15) Degree Qualification	0.024	0.087*	0.076*	0.108*	0.226*	0.273*	-0.007	0.046	0.000	0.044	0.048	0.061*		-0.088*	1.000														
(16) Large Competitors	0.002	0.106*	0.036	0.082*	0.064*	0.053*	-0.070*	-0.005	0.002	0.060*	0.020	0.075*	0.025	-0.002	0.086*	1.000													
(17) Large&SME Competitors	0.027	0.026	-0.008	0.020	0.020	0.016	-0.002	0.000	0.033	-0.031	-0.019	-0.037	0.000	0.032	0.024	-0.226*	1.000												
(18) Firm Age	-0.050	0.001	0.026	0.035	-0.032	-0.017	-0.059*	-0.046	-0.033	-0.002	0.121*	-0.029	0.030	0.052	-0.009	0.003	0.007	1.000											
(19) Size	-0.058*	0.035	0.088*	-0.025	0.007	-0.137*	0.011	-0.024	0.023	0.112*	0.056*	0.055*	0.041	0.050	0.072*	-0.021	0.076*		1.000										
(20) Construction	-0.046	-0.030	-0.012	-0.052*	-0.048	-0.025	0.018	0.046	-0.018	-0.003	-0.048	-0.020	-0.005	-0.029	-0.074*	-0.035	-0.017	-0.160*	-0.424*	1.000									
(21) Service	0.068*	0.008	-0.048	0.020	0.044	0.020	0.073*	-0.018	-0.003	0.019	-0.086*	0.098*	0.089*	0.033	0.051*	0.030	0.000			-0.740*	1.000								
(22) Ltd	-0.037	0.060*	0.094*	0.177*	0.002	0.052*	-0.176*	0.007	-0.003	0.019	0.098*	0.050	0.089*	0.033	0.124*	0.042	0.108*	0.557*	-0.135*	0.006	0.021	1.000							
(23) Geo. Focus_Regional	-0.012	0.015	-0.001	0.035	-0.001	-0.054*	-0.063*	0.018	0.006	-0.028	0.060*	0.054*	0.089*	0.053*	0.003	-0.013	0.057*	-0.030	0.016	-0.076*	0.082*		1.000						
(24) Geo. Focus_National	0.007	0.065*	0.031	0.131*	0.072*	-0.087*	-0.032	0.039	0.015	0.060*	0.054*	0.066*	0.027	0.077*	0.093*	0.120*	0.007	0.147*	-0.013	-0.069*	0.207*	-0.244*		1.000					
(25) Geo. Focus_Europe	0.049	0.011	0.016	0.065*	-0.003	0.014*	-0.048	0.024	-0.003	0.075*	0.028	0.002	-0.023	0.065*	0.088*	0.016	0.044	0.007	0.121*	-0.037	-0.083*	0.085*	-0.063*	-0.092*	1.000				
(26) Geo. Focus_Global	-0.036	0.098*	0.051	0.085*	0.111*	0.134*	-0.021	-0.050	0.024	-0.003	0.036	0.002	0.002	0.027	0.106*	0.016	0.009	0.106*	-0.043	-0.059*	0.078*	-0.072	-0.106*	-0.092*	-0.027	1.000			
(27) New Products	0.068*	-0.021	-0.013	0.024	0.032	-0.010	-0.001	-0.010	-0.024	-0.033	0.061*	0.064*	0.018	-0.007	0.071*	0.040	0.007	0.017	0.039	-0.002	0.007	0.024	0.013	-0.106*	0.000	0.045	1.000		
(28) Improved Products	-0.034	0.040	0.012	0.013	0.051*	-0.014	0.012	-0.016	-0.030	0.011	0.021	0.033	-0.044	0.052*	0.010	-0.009	-0.041	0.017	0.021	0.013	0.021	0.028	0.029	-0.063*	0.000	0.018	-0.158*	1.000	
(29) Independent Start-up	0.035	0.025	-0.006	0.026	-0.024	0.006	0.045	0.067*	0.020	0.023	-0.063*	0.059*	0.077*	-0.097*	0.083*	-0.021	0.048	-0.125*	0.049	0.044	0.082*	0.033	0.072*	0.018	0.022	0.002	-0.066*		1.000

Note: * $p < .05$. Benchmark categories: business experience = < 1 yr; owner age = 16-34; competition intensity = SME competitors; geographic focus = local focus.

From the correlation matrix (Table III), we observe that three core factors are significantly correlated with extended market growth strategies. Firstly, both formal and informal types of human capital, including the presence of non-executive directors on the board, financial qualifications, university degree level qualifications, and previous business start-up experience. All of these HC measures are positively correlated with extended market development strategies. Secondly, we find a positive and significant correlation between extended geographical markets and more ambitious market growth strategies. Finally, we observe that competing against large firms in existing markets is associated with more ambitious market strategies.

4. Results

To begin our formal econometric modelling of the decision to adopt different strategies in relation to future market development, we needed to explore whether or not there was something systematically different about firms who chose not to adopt a market holding strategy and then sought to enter new markets in preference to expansion in existing markets. In this sense we are implicitly questioning whether firms have a logical ordering from 'do nothing' to 'grow within a defined existing market' to 'enter a completely new market'. To address this potential selection issue we estimated a probit version of the standard Heckman selection model, choosing to identify the first order equation (whether to do nothing or something) with a geographical region identifier (Table IV). The selection term in this model was found to be statistically insignificant (rho=0.350, prob=0.658), which establishes that we can defer to a model specification which focuses on the mode of growth (expanding in one's current market, and entering new markets). The insignificant selection term also implies that the growth/no-growth decision and the mode of growth decision are taken simultaneously rather than sequentially. Briefly, we discuss the growth or no growth initial model (i.e. the selection equation in Table IV) before we move on to focus on mode of growth. We find that previous start-up experience is positively associated with the probability of choosing growth over stability, yet extensive, more general, business experience reduces the desire to pursue growth. This is also the case for older entrepreneurs who appear to prefer stability over growth. On competition, we find that where smaller firms face large firm competition in their established markets, they are more likely to seek growth rather than stability and consolidation, which suggests that the need to reach a minimum efficient scale of output is a competitive driver, at least if there is a desire to compete in established markets. On firm age, we observe that the desire for growth diminishes for the first 50 years of a firms' life, before it begins to increase. On firm size, the desire for growth is increasing in size, but at a diminishing rate.

Table IV: Probit model with sample selection effect

	Selection Equation Prob (Non-holding Strategy)		Main Equation Prob (New market entry | Non-holding)	
	Coeff.	Std. Error	Coeff.	Std. Error
Human Capital Measures				
Board Size	0.0136	0.0367	-0.0106	0.0445
Non-exec Director	0.1004	0.1280	0.0378	0.1409
Managerial Qualification	0.0898	0.1111	0.1112	0.1351
Finance Qualification	0.2378*	0.1366	-0.2071	0.1566
Degree Qualification	0.1031	0.0900	0.1899	0.1210
Business Exp (1-3 yr)	-0.6020*	0.3196	0.4748	0.4150
Business Exp (4-6 yr)	-0.5406*	0.3097	0.4347	0.4057
Business Exp (7-9 yr)	-0.6156*	0.3178	0.5368	0.4230
Business Exp (10-15 yr)	-0.4972	0.3111	0.6295	0.3916
Business Exp (>15 yr)	**-0.6067****	0.2963	0.6689*	0.3935
Start-up Exp	**0.3709*****	0.0940	0.0441	0.1864
Independent Start-up	0.0772	0.0965	0.0346	0.1294
Owner Age (35-54)	-0.1638	0.1244	-0.1170	0.1688
Owner Age (>55)	**-0.3937****	0.1636	-0.2137	0.2858
Competition Intensity				
Large Competitors	**0.4668*****	0.1344	0.1369	0.2262
Large&SME Competitors	**0.1993***	0.1067	0.0959	0.1660
Control Variables				
Firm Age	**-0.0345*****	0.0092	**0.0324***	0.0165
Firm Age ^{2}	**3.2048*****	0.9544	-3.4430*	1.9469
Size	**0.6322***	0.2904	-0.2817	0.3555
Size ^{2}	**-2.1329*****	0.8468	-0.0852	1.1940
Construction	12.0203*	6.5184	-6.5522	7.5294
Service	10.8852*	5.7931	-5.9081	6.7334
Ltd	**-5.8084***	2.8159	2.8668	3.3557
Current Markets				
Geographic Focus_Regional	0.1874	0.1255	0.0569	0.1733
Geographic Focus_National	**0.2302***	0.1095	0.0954	0.1691
Geographic Focus_Europe	**0.8759*****	0.3249	-0.2694	0.4397
Geographic Focus_Global	0.3894	0.2704	0.5353	0.3529
N	1,165			
Censored N	330			
Wald χ^2	34.63			
χ^2 ($\rho = 0$)	0.20			

*$p < .10$; ** $p < .05$; *** $p < .01$. Fifteen region dummies are used as the exclusion restrictions for the regressions (coefficient estimates are not reported). Robust standard errors reported. Benchmark categories: business experience = < 1 yr; owner age = 16-34; competition intensity = SME competitors; geographic focus = local focus.

Given that we found no selection effects in Table IV, we chose to estimate our preferred mode of growth model specification in the form of a probit model which focuses very explicitly on firms that have chosen growth and attempts to distinguish between growth within the confines of a firms existing market and by entering new markets as our alternative strategies (Table V).

Our estimates show that elements of human capital are important, but also the nature of competition in a firm's existing markets. Further, the geographic reach of a firm plays a role in distinguishing between firms who choose a current market growth strategy and those who choose to grow by entering new markets. These findings, which we discuss in more detail subsequently, offer some support for our original contention that (a) it is important to consider growth (the how question) in a more nuanced way, and, (b) that no single theory encompasses all the aspects of a firm's decision-making around stability, growth, and the preferred nature of that growth (see also Zhou et al., 2018).

On human capital, we find that a degree level education (a form of formal human capital) is strongly, and positively, associated with growth through new market entry. We find modest evidence (at the 10% level of significance) that older owners choose a more modest growth strategy. In addition, again only at the 10% level of significance, we find that formal human capital identified as having a specific financial qualification, was associated with less ambitious growth choices. Yet, other measures of human capital, such as start-up experience, general business experience, and board related capital, were not found to be important in terms of mode of growth. In short, we find modest, and in some cases inconsistent, support for H1 which predicted that greater human capital endowments would be associated with a more expansionist strategic position regarding growth.

The spatial extent of current markets was also important. Here we find that operating in a global market was associated with a strategic decision to grow through entering new markets. This might suggest that firms that compete on a wider geographical scale, particularly on an international level, build up valuable knowledge and experience that makes them more aware of new market opportunities and more confident of pursuing them. Finally, we observe that competing against large firms in one's current market acts as an incentive to diversify into completely new markets. Here competing against large firms, compared to small firms, is positively associated with growth in new markets as opposed to growth in current markets. This is strong support for H3. And turning it around, this evidence is also supportive of H2 as the presence of small firm competition creates an opportunity for other small firms to grow within the markets they currently trade in.

Our model also shows that core firm characteristics are a clear distinguishing factor between adopting a market holding strategy and seeking to expand in current markets. Here we find that as firms age they are more likely to adopt a market holding strategy, or simply that younger firms, on average are more likely

to adopt a market expansion strategy in their current markets. Conversely, firm size is positively associated with a strategy of expanding in existing markets rather than holding the current position.

Table V: Probit regression results: Growth in Existing Markets (0) or Entry into New Markets (1)

	Coefficient	Standard Error
Human Capital Measures		
Non-exec Director	0.1401	0.2182
Managerial Qualification	0.1208	0.2038
Finance Qualification	-0.4376*	0.2375
Degree Qualification	**0.3512****	0.1748
Business Exp (1-3 yr)	0.2940	0.7378
Business Exp (4-6 yr)	-0.2886	0.5105
Business Exp (7-9 yr)	-0.2885	0.4815
Business Exp (10-15 yr)	-0.0399	0.5000
Business Exp (>15 yr)	0.1095	0.4680
Start-up Exp	0.1658	0.1747
Independent Start-up	-0.0129	0.1935
Owner Age (35-54)	-0.3433	0.2414
Owner Age (>55)	-0.06131*	0.3237
Competition Intensity		
Large Competitors	**0.4344****	0.2138
Large&SME Competitors	0.2047	0.2027
Current Markets		
Geographic Focus_Regional	0.0857	0.2535
Geographic Focus_National	0.2576	0.2030
Geographic Focus_Europe	-0.0363	0.5020
Geographic Focus_Global	**1.0244*****	0.3999
N	835	
χ^2	39.10	
Log Likelihood	-477.919	

* $p < .10$; ** $p < .05$; *** $p < .01$. Benchmark categories for independent variables: business experience = < 1 yr; owner age = 16-34; competition intensity = SME competitors; geographic focus = local focus. Region dummies included. Controls are firm size, firm age, and industry sector.

Taken as a whole, our findings here are supportive of the argument that some measures of formal and informal HC are important in the growth-stability choice, but only formal human capital (in particular a Degree Qualification) is associated

with more ambitious strategic planning in respect of growth through new entry over expansion in established markets.

On the nature of competition, we observe that competing against large firms in one's current market also acts as an incentive to seek growth, but the preferred mode of growth is to diversify away from large firm competition into new markets.

5. Conclusion

Economic theories of market entry and growth have taken a market and firm based approach, but this has largely ignored the ownership team as a key decision-making agent. Management literature has focused on growth and linked it to human capital, and ignored competition and markets. In this study, we set out to explore whether market and firm based theories of competition, growth, and market entry and theories built around human capital endowments could fully explain the decisions that firms make around stability, growth, and importantly the desired mode of growth. We also considered that "holding one's current market position" was a valid strategic option and took a more nuanced view which takes into account the mode of desired growth too. Our general argument was that each theory focused on a rather narrow set of features, and in doing so these bodies of work had not fully explored the nuances of the firms' actual decisions regarding the precise mode of growth if growth was desired at all. We also questioned whether or not firms in fact faced three distinct and alternative strategic choices, namely; holding one's current market position, expanding in one's current market, or seeking to enter new markets. Our basic evidence showed that new market entry was the lowest strategic preference for firms and expanding in existing markets the dominant strategy.

We then sought to empirically test what types of firms and owners adopted which of these three alternative market strategies. Our results showed that the simple stability-growth choice was associated with elements of human capital, as predicted by human capital theories of growth, but also aspects of competition and markets, as predicted by market structure and competition theories rooted in economics. But our most interesting findings relate to the choice to adopt a new market entry strategy over a more cautious growth in current markets strategy. Here the relevance of formal human capital was shown in the sense that degree level educated owners were more likely to choose a more expansionist and ambitious growth strategy. But competition and market characteristics played a significant role in the mode of growth decision as well. Here, firms operating in international markets, and those facing direct competition from large firms, had a greatly increased chance of pursuing a new market entry strategy. From this, we suggest that large firm competition is important in understanding small firms' strategic choices around growth.

Taken together, our findings suggest that we cannot ignore human capital in the context of the owner and ownership team in the complex strategic process by which firms decide what their preferred market strategy will be. But equally, the power of markets and competition cannot be ignored either. Both have a role to play although it would appear, based on the current evidence that, on balance, market and competitive issues dominate these strategic decisions around growth.

Accepting the fact that our work here has opened up a gap for future theoretical development and empirical testing, there are some clear lines of enquiry that come naturally out of it. In particular, establishing a clear link between strategic choice around markets and the outcomes of adopting alternative market strategies. In essence an obvious research question could be: We know what types of owners choose which market strategies, but are the same 'types' of owners the best able to achieve a successful outcome given their strategic choices? Our view is also that the nature of competition that small firms face has been largely ignored in the ownership literature, as has the owner in the industrial economics literature. In fact, we find evidence that both are important and this should be recognised in future work around market entry and growth.

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