Factors Influencing the Growth of Small and Medium Sized Firms in Different Growth Stages

---------A Study of Four Chinese SMEs

Master’s Dissertation in International Marketing

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ABSTRACT

Small and medium enterprises play an important role in the development of a country. The growth of SMEs is also important for the world economy which has been widely discussed in recent years. Although the growth of small firm is a well known topic in theoretical research, still there are some research gaps that need to be filled. There is no single multidimensional theory which would embrace all possible approaches; most studies on SMEs’ growth examine the growth factors one by one. (Wasilczuk, 2000) Nor is there any single theory that can adequately explain small business growth due to the heterogeneity of SMEs. Moreover, growth itself is difficult to measure, and can be measured either objectively or subjectively. (Delmar, 1996)

Therefore, this study incorporates the resource-based view, as well as the consideration of SMEs’ fives stages model to examine the growth factor of SMEs. The resource-based view provides a unified approach in the conceptualization of the resource analysis in the small firm. The five stages model shows the position of SMEs current growth stage. By analyzing SMEs’ key resources (tangible and intangible resources), indentifying their growth stages, SMEs can find out the critical resources which influence their business growth.

As a conclusion, the study finds that each resource has its importance in different stages. Tangible resources, such as cash and physical resources are critical in the start-up firms, while intangible resources are prioritized in the success and resource maturity stages. In order to gain the competitive advantages, SMEs should fully develop the unique and inimitable resources such as the brand, technology, culture and reputations.

Key words: growth, SMEs, resource-based view, five stages model
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1. Introduction

1.1 Background

One of the significant characteristics of a flourishing and growing economy is the booming and blooming of small and medium enterprises (SMEs). Small and medium enterprises play an important role in the development of a country. With the emergence of developing countries and their integration in world economy, the authors are now implying the third wave of globalization, especially the involvement of SMEs (Johansson et al, 2007). They are the most common firm styles in the world; millions of SMEs make up the most important resources of growing economy.

SMEs contribute to the economic development in various ways: by creating employment for the rural and urban labour force, by providing desirable sustainability and innovation in the economy as a whole. In addition to that, a large number of people rely on the small and medium enterprises directly or indirectly. SMEs have their significant effect on the social income distribution, tax revenue, and employment, efficient utilization of resources and stability of family income (Fida, 2008).

The importance of SMEs is obvious, but until now there is no unified definition of it. There exist various definitions in different countries, different industries and even in different phases. In the last thirty years, there has been considerable discussion related to the appropriateness of categorizing SMEs based on the number of employees. According to Doole and Lowe (2007), a number of definitions of the small and medium sized firm sector exist, but the most commonly used terms relate to the number of employees in the company. The European Union, for example, has recently changed its definition of SMEs from those firms employing less than 500 staff to those employing less than 250. This characterization, however, effectively includes 99 percent of all firms in Europe, and accounts for roughly 50 percent of employment. (Doole & Lowe, 2007)

The growth of SMEs is also important for the world economy, which has been widely
discussed in recent years. The term of “growth” is used with two different implications: firstly, it implies an increase in the amount of output, export and sales. Secondly, it does not as a result of a process of development (Penrose, 1959).

Growth has usually been considered as an essential objective for its contribution to SMEs’ survival and competitiveness (Rodriguez, 2003). However growth is such a totally complex phenomenon, it is hard to discuss which factors that can influence the growth. Hay and Kamshad (2006) found that, although most managers pursue value growth and follow expansionary strategies, the main limits on the growth of SMEs are the intensity of competition stemming from the recession, and the inability or unwillingness of management to deal with the increasing administrative burden arising from expansion.

1.2 Problem discussion

The determinants of growth in large corporations are fully researched and developed; however, the researches on SMEs growth still have some gaps need to be filled in.

Although the growth of the small firm is a well known topic in theoretical research, numerous studies on firm growth examine the growth factors one-by-one. There is no single, multidimensional theory which would embrace all factors. Nor is there any single theory that can adequately explain small business growth due to the heterogeneity of SMEs. (Wasilczuk, 2000)

The absence of complete and accepted growth models is not the only problem in research into growth. Growth itself is difficult to measure. To begin with, growth can be measured either objectively or subjectively (Delmar, 1996). The most common are objective approaches based on the analysis of employment figures and sales. Subjective measures more rarely used involve the owners’ evaluation of their performance relative to the industry, to their goals, and to their perception of growth (Komiski, 1995; Delmar, 1996).

According to Barney (1991), firms can gain the competitive advantage and growth by making best use of the distinctive capabilities and resources. The transition from the
industry analysis to the resource-based view, demonstrates a new perspective to do the research on SMEs. What surprised authors are that most of literature which discusses Chinese SMEs’ growth is from a network-based view or government policies aspect. For instance, the research about how government cultivates a favorable environment for SMEs; how important of relationship in Chinese business. (Sandberg, 2008; Jansson & Boye, 2007). Only rarely is research based on an analysis of SMEs’ own resources and capabilities which the authors think is the fundamental factor of firms’ growth. Therefore, from the literature motivation, the authors see there is a chance to do something really worthwhile and interesting.

On the other hand, from the consideration of the reality, the financial crisis has lead to millions of SMEs collapsing, and statistics show that around 70 thousand SMEs were bankrupted during this financial crisis, until January of 2009, millions of workers lost their jobs (eeo.com.cn). In such a difficult time and business environment, the smartest way to grow and sustain the success is to exploit one’s own resources and reduce the dependency on others.

1.3 Problem formulation

The problem formulation of this study will be the identification of the factors influencing the growth of SMEs from a resource-based view. Therefore, the underlying research question is: which factors are influencing the growth of SMEs in different stages from the resource-based view?

1.4 Purpose

Based on the background and problems the authors have discussed above, the research purpose of this study is to investigate the importance of different resources in different growth stages of SMEs.

1.5 Delimitations

Due to challenges in the research of Chinese firms, such as lack of access to information and case companies, as well as considerations of reliability of official secondary data, the authors decided to find the case companies by the authors’
personal relationships in order to get more reliable information and data.

The study is done in Sweden, and the authors contacted the chosen Chinese SMEs by email and telephones. The case companies are all from the Yangtze River Delta region, where the authors come from, and the region is one of the most expansive and company-dense regions in China.

This selection of companies delimits this study to only investigate companies that have less than 2000 employees and have their own production factories. In terms of size classification, Chinese industrial SMEs can have up to 2000 employees and construction SMEs up to 3000 employees (Natural Bureau of Statistics of China, 2007), which differs widely from Western standards (e.g. the EU SME definition is <250 employees).

Considering the definition of growth, which is a process of development, (Penrose, 1959) this paper does not have any delimitation from the time perspective, considering the historical growth issue as well as the future planning and marketing strategies carried out by case companies.

1.6 Earlier researches

SMEs are increasingly viewed as the major source of jobs and contribution to the world economy. Some commentators, like Best (1990), have highlighted this flexibility of small firms, and others like Birch (1987) go further and see small firms as the primary foundation for technical innovation. For instance, the Chinese SMEs have reached a number of 39.8 Million in 2006, accounting for 60 percent of the exports (Kanamori, Lim & Yang, 2006). With the growing importance of SMEs, the research on its growth and sustainability is heating up.

Small firms are considered to have less experiential knowledge of international business, thus facing challenges in performance (Eriksson et al, 2000). These barriers and challenges could be related to financing, organization and competition from new firms or products. Finance is a key fundamental resource, but the management of resources and competition will shape the preservation of growth resources (Garnsey,
1998; Penrose, 1996). Unlike large firms, small firms face financial barriers based on the divide between financiers (financial functions), on the one hand, and engineering (innovative functions) (Veblen, 1965). The integration of finance and innovation can occur through the entrepreneurial culture of corporate founders, firms can become vulnerable and growth can be ‘contingent’ because innovation-based rents can be temporary (Conner, 1991, p.134). New and small firms are particularly vulnerable to an increased competitiveness in their niche markets. (Roure & Maidique, 1986)

Concerning the growth issues of SMEs, there is a good deal of research which has attempted to explain the growth process. In their review of the literature on small business growth, Gibb and Davies (1990) refer to four main types of approach: personality dominated approaches, which focus on the impact of the entrepreneur’s personal characteristics; business management approaches, which emphasize the factors affecting the firm’s performance in the marketplace, particularly its financial performance; sectoral and broader market-led approaches, which emphasize the influence of external factors rather than individual firm characteristics; organizational development approaches, represented by the so-called “life-cycle” or “stages of growth” models (e.g. Churchill and Lewis, 1983).

Storey (1994) has identified three key components in his analysis of the growth of small firms: (1) the characteristics of the entrepreneur; (2) the characteristics of the organization; and (3) the types of strategy associated with growth. Storey (1994) emphasized the third key elements in his paper, namely the strategies and management actions associated with growth.

The analysis of the determinants of SMEs’ growth is mostly qualitative (Brown et al., 2004). Liedholm and Mead’s (1999) survey of entrepreneurs’ opinions in five African countries, found finance among the “principal problems,” while “government regulations were reported to be of minor importance” (p83). However, there have been surprisingly few researchers who have investigated the effects of finance, and the business environment on small firm growth, in the development context (Brown et al., 2004). Besides, Liedholm, Mead (1999) and Liedholm (2002), analyze the effects
of a firm’s age, sector, and location in Africa and Latin America, while McPherson (1996) examines the effect of entrepreneurial characteristics. Research on the microfinance has estimated the effects of small loans on the consumption and assets of borrowers and on the school attendance of their children, but not on the growth in jobs or sales of their businesses (Brown et al., 2004).

McMillan and Woodruff (2000) analyze employment and sales growth from 1994 to 1996 in five countries, and they conclude that a “lack of bank finance does not seem to prevent private-sector growth” and that “more inhibiting than inadequate finance are insecure property rights” (p1350). While Pissarides, Singer, and Svejnar’s (2003, p562) study of managers’ perceptions in Russia and Bulgaria, found that “constraints on external financing limit in important ways ability to expand production,” but insecurity of property rights is not “a major constraint”.

Concerning the resource-based view (RBV), Brown et al. (2004) analyzes the policy-relevant determinants of small firm growth using panel data on recent start-ups in Romania. These determinants included the finance, human capital, technical assistance, the business environment, and other complementary institutions. The authors concluded that, “availability of loans is an important factor in promoting the growth of small start-up firms in Romania”, (p46) concerning the human capital, they find “negative effects of age and female gender and a positive effect of high school completion by the entrepreneur. University education and worker education do not appear to raise growth”. (p48) However “business environment and firm performance is weaker than it is for the other factors”. (p51)

Runyan, Huddleston and Swinney (2007) extend their study from large firms to small firms based on the resource-based view. Their study describes a qualitative study of American small retailers to uncover perceptions of resources which maybe utilized to create competitive advantages. They found that community brand identity, local social capital and environmental hostility, emerged as important constructs. Both community brand identity and social capital were articulated by focus group participants as resources which helped them to be successful. Brand identity was seen as important
regardless of environment, while social capital emerged as a resource used more in hostile environments.

When it comes to the external perspective, two theories should be mentioned: Firstly, resources exchange theory, where the perception that SMEs exchange resources with its environment is highlighted. The environment provides a pool of resources or munificence leading to growth. Some researchers argue that the severe managerial, financial and informational constraints faced by SMEs can be reduced by developing relationships and networks (Ding, 2007; Jansson & Boye, 2006; Zeng & Williamson, 2003). Secondly, population ecology theory sees new markets being developed by the firm’s ability to adapt and change rapidly. The concept of firm density underlies this theory (Specht, 1993). Cluster externalities are shown to enhance the competitiveness of the SMEs involved and thus giving a positive impact on the internationalization process (Jansson & Boye, 2006; Zeng & Williamson, 2003).

By reviewing the previous studies, we found some research gaps which can be filled by our studies. On one hand, studies of firms’ growth based on the resource view are mostly done in big companies. Even though similar studies about SMEs’ growth are found in Romania, Africa or USA, when it comes to Chinese SMEs, seldom does research take a resource-based view. Mostly researchers on Chinese SMEs’ growth have highlighted the importance of relationships, as “ren qing” and “guanxi” are known as vital in Chinese culture and the business environmental (Sandberg, 2008; Jansson & Boye, 2007).

On the other hand, previous studies of small firms have focused almost entirely on employment growth (Brown et al., 2004). However, in this research, we consider the growth of the SMEs to be a process of development from a sectoral angle. The growth stages will influence the role that SMEs play in the market; the growth stages may also, in turn, affect the opportunities and constraints on their ability to grow (Smallbone, Leigh, & North, 1995).

Overall, this paper is going to fill in the gap caused by the lack of research in China
about SMEs’ growth by combining the resourced based view and five stages model. The aim of the research is to examine the factors influencing the growth of SMEs in different development stages.

2. Research framework

As other authors have noted, there is no single theory which can adequately explain small business growth, neither there is much likelihood of such a theory being developed in the future (Gibb & Davies, 1990). This is partly because of the heterogeneity that exists in the various types of SME, but also because of the range of factors that can affect growth. In some circumstances, the factors may interact with each other in different ways in different circumstances. Therefore, it may be possible to identify key success factors that affect the growth of SMEs by combining different research approaches.

2.1 Five stages modes of SMEs’ growth

One of the representative theories from the organizational development approach is the classic Harvard Business Review study five-stages model (see figure 1), tackled the complex problem of analyzing the issues and growth patterns of small businesses by Churchill and Lewis (1983), they develop a framework for the five key stages of small business growth: existence, survival, success, take-off and resource maturity. Churchill and Lewis (1983) argue that, in the first stage, financial resources, i.e. cash, is critical to meet all start-up requirements. When the firm becomes stage-two company, the focal point then is the relationship between revenues and expenses. Finance growth is highlighted in order to earn an economic return on assets and labor. When the firm reached economic health, the third stage will appear as two, sub-stage tracks: the success-growth sub-stage and the success-disengagement phase (see figure 1). The former sub-stage focuses on the basic business of staying profitable when the
company enters into a parallel strategic planning and execution phase. In the latter sub-stage, the owners either benefit from the cash flow from operations ‘indefinitely’ or prepare for sale or a merger. The take-off stage as the stage four is characterized by managers having very real responsibilities. The owners often face a high debt-equity ratio as well as aggressively managing a cash flow and expense controls. In the last stage-resource, maturity, the company has the staff and financial resources to engage in detailed operational and strategic planning. The owner and the business have been separated to a large degree, both financially and operationally. The key is to maintain a nimble culture that pays attention to environmental and market and have the organizational structure and incentives that reward adaptation. (Churchill & Lewis, 1983)

Figure 1: Five stages model (Churchill & Lewis, 1983)

2.2 Resource-based view (RBV)

The resource-based view of the firm originates from Penrose’s (1959) work, where the firm is described as a bundle of resources. Penrose posits that the growth of the firm is both facilitated and limited by management search for the best usage of
available resources. The resource-based view focuses on companies’ resources and capabilities to understand business strategy, and provides direction to strategy formulation (Andreu & Ciborra, 1996). Resources and capabilities lay the foundations for establishing and sustaining competitive advantage. Barney (1991) argued that companies’ competitive advantage comes from its resources and capabilities. There are four key attributes that a firm must have in order to raise the sustainable competitive advantage: valuable, rare, imperfectly mobile, and non-substitutable (Barney, 1991).

Resources are defined as those tangible and intangible assets that are tied semi-permanently to a company (Maijoor & Witteloostuijn, 1996). According to Grant (2008), tangible resources are physical; they could be plant, equipment and the cash flow of the firm, and the intangible assets of the company can be the technology, reputation, the brand, and the culture. As said by Dollinger (1995), resources include in-house technology and the employment of skilled personnel.

Small firms frequently lack critical resources (Hadjimanolis, 2000). A single resource is rarely the main successful factor of firm. It is usually the combination of assets in resource clusters, which leads to competitive advantage (Grant, 2008). Inter-asset coupling and interaction with complementary assets (e.g. marketing skills complementing the technological innovation assets) frequently contribute to the uniqueness and inimitability of assets (Hadjimanolis, 2000).

By reviewing the literature, this study finds some similar resources which have discussed by most of research.

**Financial resources**

According to Oswald Jones(2003), the importance of financial resources for SMEs is obvious: it helps to retain profits, grants, loans and equity, obtained from a range of sources including self, banks, venture capitalists, government agencies and so on (Oswald Jones, 2003). Vargas and Rangel (2007) argue that, even though the financial resources are important for a firm to leverage performance, it was found that the
development of internal capabilities has been more important than limited financial resources in order to develop competitive advantages, to compete with larger and multinational competitors. It has also been argued that putting more money into start-ups is more costly than helping established SMEs to grow faster (Storey, 1993).

**Physical resources**

The location of the company is important. For instance, many industrial clusters in China are located in the economic and export processing zones of the coastal areas (Johnasson, 2008). The growth issue also could be influenced by the plant and equipment the company owned. As a part of a cluster, the competitiveness of a firm can be enhanced by the external features of the cluster, e.g. cost advantages due to the co-location, access to competent personnel, information and joint marketing, as well as connections to institutions and public goods (Porter, 2000).

**Human resources**

It is argued that entrepreneurs are the key resources of small firms. Keasey *et al.* (1994), for example, a study of directors’ ownership and small business performance, concluded that “external shareholdings” by individual directors was an important complication and needed to be addressed in future studies. Entrepreneurs have individual assets that can help them recognize new opportunities and assemble resources for the new ventures (Alvarez & Busenitz, 2001). The entrepreneur of any single SMEs is one key and unique resource that can be especially influential on the organization (Daily, Certo, & Dalton, 2000). One relevant major finding is the experience, skills, knowledge and leadership ability of the entrepreneur are important resources and capabilities of the small firms (Miller & Toulouse, 1986). According to Scotter et al (2003), recruiting, training, appraising and rewarding are the most important factors for SMEs.

**Technology**

Rothwell (1989) believes that the innovative advantages of small firms are derived from their flexible managerial structures, which are more responsive to changes in the
marketplace. Freeman (1982) pointed out that the innovation is the range of organizational activities associated with moving from the conception of an idea to a product or service offered for sale in the marketplace.

Storey (1982) pointed out that “for every Racal, Sinclair, etc., there are probably several thousand small firms who have no wish to innovate, and a great deal more who are incapable of doing so” (Storey, 1982 p33). Fast-growth firms are started and run by motivated and capable entrepreneurs, or fliers, while a low-performance firm is conversely associated with trundlers (Storey 1994). According to Steward and Gorrino (1997), SMEs are always highly dependent on external knowledge sources, and technological innovation is important for a small firm.

**Brand**

Brand image has long been considered as a resource (Barney, 1991). It is important for a firm to differentiate with others (Ji, 2005). Small business managers generally accept that a good corporate reputation is important to receive legitimization from different stakeholders (Goldberg, Cohen & Fiegenbaum, 2003). However, the difficulty often arises in terms of transferring his viewpoint into specific reputation building activities. Berthon, Ewing and Napoli (2008), in their research, found that high-performing SMEs implement key brand management to a greater extent than low-performing SMEs. Brand-focused SMEs are able to achieve a distinct performance advantage over rivals by essentially getting back to the “branding basics”, that is: understanding customers’ needs and brand perceptions, creating relevant and valued brands, supporting the brand consistently over time and so forth.

**Relationships**

It has been argued that strong relationships between suppliers and their business clients may have advantages for both. Advantages for the sellers include the ability to maximize profits by reducing risks, improving information flows, increasing customer satisfaction and enhancing loyalty (Binks & Ennew, 1997). Advantages for the buyers consist of greater access to supply, favorable rates, higher perceived quality of service,
reduced stress, avoidance of switching costs, and increased convenience (Binks & Ennew, 1997).

Relationships with customers, as well as the supplier, are also critical for the companies’ reputation. Relationships between local consumers and small firms are referred to as reciprocity. This is a “network” in which each member has something to provide to the other (Tsai and Ghoshal, 1998). Close relationships can create trust and obligations, and define expectations among trading partners (Gulati, 1995). According to David and Krsto (2003), quality of the small-firm owner-manager’s network of relationships, and how the owner-manager learns from and manages those relationships, is important for a SMEs’ growth.

**Culture**

Barney (1986) identifies organizational culture as a firm’s resource of great strategic importance, which is potentially very valuable. The discussion on corporate culture, and the question of whether culture has an effect upon organizational development, has largely concentrated on the large corporate and organizational sectors. There is a clear gap by the lack of reference as to the effects of organizational culture on the development of SMEs (Choueke & Armstrong, 2000). In their investigation about SMEs’ culture, they concluded that, in the majority of cases, respondents who identified unique “culture” in their organizations believed that those “cultures” had a positive effect on the performance of their companies. This effect was even more clearly articulated by those respondents who perceived their companies to be “growth orientated”. Yan (2008) argues that culture impacts SMEs’ growth in three ways: improve the core-competitiveness, improve the management and improve the corporate image.

**2.3 Analytical model**

The model presented below is a combination of two theories: the resource-based view and the five stages growth model. As was discussed before, there is no single theory which can adequately explain small business growth, and little likelihood of such a
theory being developed in the future (Gibb & Davies, 1990). It may be possible to combine different perspectives to examine the successful factors.

The framework used in this study incorporates the resource-based view as well as the growth stages model. The resource-based view provides a unified approach to the conceptualization of the resource analysis of the small firm. The growth stage model helps to position SMEs in different growth stages. By the analysis of firm resources (both tangible and intangible), and the stages the firms have reached, the SMEs can identify their key factors for their growth.

To develop a framework that is relevant to SMEs growth, we used a combination of resource-based views and the five stages model (see figure 2). The framework that evolved this effort delineates the five stages of developments: existence, survival, success, take-off, resource maturity. Each stage is characterized by an index of the size and complexity of the firm which grows from small to large. We insert the importance of resource as the other index (see figure 2), based on the assumption that the different resources have a different importance in each stage. The importance of tangible resources (financial resources and physical resources) is critical for a start-up business. With the growth of firm, the importance of intangible resources (human resource, reputation, technology and culture) appears when SMEs step into success stages.
Stage 1: Existence

According to Churchill and Lewis (1983), at the beginning, small business owners are most concerned about finding and signing up customers, and being able to deliver their products and services. They are grappling with the question of whether they will get enough customers and deliver enough products/services to become a viable business; and whether they have the financial resources-cash to meet all start-up requirements. Therefore, having the sufficient financial resources and the adequate physical resources to deliver enough products is critical.

The organization is a simple one: the manager does everything and directly supervises subordinates. System and formal planning are almost non-existence. The company’s
strategy is just to keep alive. The owner is the business, performs the entire task and is
the major supplier of energy, direction and capital. (Churchill & Lewis, 1983)

Stage 2: Survival

At this stage, Churchill and Lewis (1983) argue that businesses have proven their
basic business plan premise and have a true operating concern. The focal point at this
stage is the relationship between revenues and expenses. Owners are evaluating
whether they can generate enough cash to break even and cover the
repair/replacement of basic assets; whether they can get to cash flow break-even; and
whether they are be able to finance growth in order to earn an economic return on
assets and labor.

The organization is still simple. The company may have a number of employees
supervised by a sales manager or a general foreman. Systems development is minimal.
Formal planning is, at best, cash forecasting. The major goal is still survival and the
owner is still synonymous with the business. In this stage, the key resources are still
the financial and physical resources. (Churchill & Lewis, 1983)

Stage 3: Success

This is a pivotal point for owners in that the business has reached economic health,
and the owners are debating whether to leverage the company as a growth platform,
or to consider the company as a means of support for them as they embark on
disengaging from the company. Thus, there are two sub-stage tracks to the Success
stage. In the Success-Growth sub-stage, the owner pulls together all resources and
risks them, to some degree, with the intent of financing growth. If this is the direction,
they are focused on the basic business staying profitable while the company enters
into a parallel strategic planning and execution phase. In the Success-Disengagement
phase, the company should be able to maintain itself indefinitely, barring external
environmental changes. Managers take over the owner’s operational duties, and the
strategy is essentially to maintain a status quo. The owners either benefit from the
cash flow from operations ‘indefinitely’, or prepare for sale or a merger. (Churchill & Lewis, 1983)

**Stage 4: Take-off**

According to Churchill and Lewis (1983), what owners face at this juncture is how to grow quickly and how to finance their growth. Both operational and strategic planning is being actively done, with managers having very real responsibilities. Owners then grapple with structural organizational issues of how to construct the enterprise, how to delegate to these managers, and in what way.

The organization is decentralized and, at least, divisionalized. The key managers must be very competent to handle a growing and complex business environment. The systems are becoming more refined and extensive. The owner and the business have become reasonably separate. (Churchill & Lewis, 1983)

**Stage 5: Resource maturity**

At this point, the company has the staff and financial resources to engage in detailed operational and strategic planning. It has a decentralized management structure with experienced, senior staff and all necessary systems are in place. The owner and the business have separated to a large degree, both financially and operationally. The systems are extensive and well-developed. The company, in this stage, has the staff and financial resources to engage in detailed operational and strategic planning. If the company can continue as it has, and maintain its entrepreneurial spirit, it has a strong probability of continued growth and success. The key is to maintain a nimble culture that pays attention to environmental and market changes, and has the organizational structure and incentives that reward adaptation. (Churchill & Lewis, 1983)

**The importance of resources**

As the business moves from one stage to another, the importance of the factors changes in different stages. (Churchill & Lewis, 1983)
The importance of cash changes as the business changes. It is an extremely important resource at the start, and becomes easily manageable at the success stage. It is a main concern again if the organization begins to grow. As the growth slows at the end of the take-off stage and the resource maturity stage, cash becomes a manageable factor again.

The issue of people and systems gradually increases in importance as the company progresses from the initially slow growth stage to rapid growth.

The later stages firms are in, the more important are the intangible resources it posits. As Churchill and Lewis (1983) state, a key for companies who are in the resource maturity stage is to maintain a nimble culture that pays attention to environmental, market changes and incentives that reward adaptation. They also mention that, in order to gain continued growth and success, firms should avoid of “ossification”, which occurs when innovation stalls and culture begins avoids taking risks. In other words, the intangible resources, such as innovation and culture, are more important in the later stages.

According to Churchill and Lewis (1983), the importance of entrepreneur remains in all the stages, but the role of them changes in different stages. The small business is normally started up by entrepreneurs’ talent: the ability to sell, produce, invent or whatever. This fact is thus of the highest importance to the existence and survival stages. As the company grows, other people enter sales, production or engineering work. Those people first support, and then supplant, the entrepreneur. Therefore, the entrepreneurs’ ability of managing and delegation becomes more important. When companies are in take-off and resource maturity stage, the entrepreneurs are required to make the business strategies and planning instead of involving themselves in everything.
3. Methodology

As this research purpose mentioned, this study tries to find out the factors influencing the growth of SMEs in China by using different theories. The growth of Chinese SMEs will be examined by the criteria in the analytical model. Then the analysis will be conducted, according to the data collected. To achieve the aim of the study, the following data collection methods will be used in this research.

3.1 Choice of methodology

Exploratory research

There are two main kinds of research designed for marketers: exploratory and conclusive. An exploratory research design is usually based on a small, qualitative sample, and it is not very strictly defined. (Malhotra, 1993) “The objective of exploratory research is to gather preliminary information that will help define problems and suggest hypotheses.” (Kotler et al. 2006, p. 122) Exploratory research is always be used when the research question is unprecedented or unusual, such as when there is a lack of literature and knowledge to direct forecasting, and when such research brings about a better understanding of the subject.(Hair, Babin, Money & Samouel, 2003) An exploratory process should be used when the task aims to “gain additional insights”.

This study uses exploratory approach to address knowledge within problem area. As the fact that literature and knowledge concerning the Chinese SMEs’ growth using resource-based view is lacking, the paper is aiming to get a better understanding of this subject and get some additional insights. Therefore, an exploratory research approach is adopted.

Qualitative research

Strauss (1967, p17) defines the term “qualitative research” as “any kind of research that produces a finding. This sort of research would be made by researchers within the social and behavioral sciences. This is comprehensible when this paper underlines one
of the reasons to use qualitative research. Meanwhile, Strauss argues (1967, p19) that it pertains to the “nature of the research problem.

Qualitative methods can be used to uncover and understand what lies behind any phenomenon which is unknown yet. It can give the intricate details of phenomena that are difficult to convey through quantitative methods.” Indeed, contrary to the quantitative research, qualitative research allows a certain degree of freedom and flexibility, in order to gather information. Therefore, this paper can underline the sources where it is likely to find qualitative data: observations, interviews, documents, literatures, videotapes and so forth. Again, the qualitative method aims at increasing the understanding of phenomena, rather than the testing of a hypothesis. A qualitative approach is also used because it is appropriate for sources of data to solve a problem (Holme & Solvang, 1991).

In this paper, the authors will interview the companies they have chosen, and get the data about the resources of companies, then find which resource is the most important one in different growth stages. According to Bryman (2002), qualitative research is a research strategy that always emphasizes words, rather than quantification in the collection and analysis of data. Therefore, this research chooses to use qualitative research as the research method in order to find out the growth determinants for Chinese SMEs.

3.2 Choice of research framing

Research framing creates a structure for generating the empirical findings, which should fit the research question and purpose of the study (Bryman, 2002). In this stage, the authors will use some case studies to flesh out the theoretical analysis.

According to Yin (2002, p2) that “The case study method allows investigators to retain the holistic and meaningful characteristic of real-life events, such as organizational and managerial processes”. Moreover, a multiple case study gives a deeper understanding of the international positioning and culture aspects. The researcher can go deep in cases, and find results that were not previously clear. From
these results it is then possible to create hypotheses and test them through further studies (Jacobsen, 2002).

In this case, the authors will choose some Chinese SMEs to do the case study. The choice of companies and the data collection will be presented as outlined in the following section.

3.3 Choice of companies

The selection of sample companies is mostly done through personal contact. Most Chinese firms, especially the Chinese SMEs, are protecting the so-called ‘business secret’. When it comes to the company’s financial situation or technology, they will keep silent and refuse the interviews. Therefore, by choosing the companies through personal relationship, it will be much easier to get the reliable information.

All the companies the authors selected are contacted by telephone or email. Of course, all companies fitted the delimitation of the study; they are small and medium size firms, and they all have certain self-resources that support their growth. The four companies are: Zhejiang Yingxia Rubber & Plastic Co., Ltd. (Yingxia), Zhejiang Tiansheng Arts & Craft Co. Ltd. (Tiansheng), Zhengjiang Senken Stock Co., Ltd. (Senken), and Company A (this company wants to be treated anonymously). In Yingxia and Tiansheng Company, we interviewed the sales managers of the two companies; In Company A, we interviewed one salesman. In Senken Company, we interviewed a girl works in Technical Department.

3.4 Data collection

Interviews

The primary data in this research are gathered through semi-structured interviews with four Chinese SMEs. As Glaser (1992) says that the common way of collecting qualitative data is by conductive interviews; it enables one to acquire loads of insightful data in a very short time. It is also possible in this technique to ask follow-up questions if the answers from the respondents are not enough (Bryman,
2002). Furthermore, semi-structured interviews allow the researchers to interview the respondent more times if necessary (Bryman, 2002). This data collecting method is also appropriate for collecting the empirical findings as it gives the study deeper information and wider angles about the subject straight from the source (Jacobsen, 2002). Using this method, the authors can, therefore, adapt the question to the situation.

All interviews have been conducted through telephone, email and MSN (message online). Firstly, we contact them by email. As soon as they agree to the interview, we send them the interview questions by email. In the case of Tianshen and Yinxiang Company, we interviewed them by meeting online through MSN. After the first instance data collection, we called them by phone if we needed any further information. All responses from the interviewees are exactly written down, although the interviews varied from company to company due to the time availability. It is hard to write down the concrete interview times, because of the limitation to conduct interviews by email and telephones. Normally, we have to wait a few days or weeks to get the companies’ responses and then, for further information, we may take another two days. So the concrete time for interviews is hard to determine. The main reason this study does not choose the face-to-face interview data collecting method is the limited time and limited financial resources the authors have; the high traveling costs constrains the authors going back to China to have face-to-face interviews.

Secondary data

Strauss and Corbin argue (1990) that it is not necessary to master the field by thoroughly reviewing the literature before starting the research. The literature here can be newspapers, books, journals, articles, and so forth. Indeed, literature is used throughout all stages of the research but, when using secondary data as a source in research, it is important to be critical of the data and also to the selection of the data. This is to make sure that the data is reliable and trustworthy for the research in question (Jacobsen, 2002).
The secondary data in this research has primarily been collected from literature and articles about growth theory and the determinants, which all have been published. The secondary data about the companies has been gathered through their web pages and reports.

3.5 Research criteria

Patton (2001) states that validity and reliability are two factors that any qualitative researcher should be concerned about while designing a study, analyzing results and judging the quality of the study.

Validity

In general, validity concerns the degree to which an account is accurate or truthful, as well as the degree to which a finding is judged to have been interpreted in a correct way (Golafshani, 2003). There are four main types of validity in qualitative research: external validity (generalizability), descriptive validity, interpretive validity and theoretical validity (Johnson, 1997).

Interpretive validity is obtained to the degree that the participant’s viewpoints, thoughts, intentions, and experiences are accurately understood and reported (Johnson, 1997). In our cases, the four respondents speak Chinese in the interview and we need to translate all of their answers into English and, in the process, small translation error are hard to avoid. However, technical terms which were used in the interview, such as coaching and mentoring, can avoid the misunderstanding of concepts.

Descriptive validity refers to the factual accuracy of an account, that is, making sure one is not making up or distorting the things one hears and sees (Johnson, 1997). In our study, we attempt to present the interview for readers. To increase the openness of respondents, we conducted interviews in Chinese. Both interviewers are from China and have a good understanding of what participants articulate in the interview.

Theoretical validity is obtained to the degree that a theory, or theoretical explanation developed from a research study, fits the data and is credible and defensive (Johnson, 1997). For one thing, we use multiple theories and perspectives to help to interpret
and explain the data, and these theories are well-known in the field of SMEs’ growth and are suitable for our cases. Additionally, we discuss our interpretations and conclusions with our supervisor and other tutors to guarantee the quality of research.

**Reliability**

Reliability refers to the ability of other interested persons to repeat the research and receive the same results. According to Joppe (2000), reliability is “the extent to which results are consistent over time…. then the research instrument is considered to be reliable.” (p. 1).

One of the ways to make the research more reliable is to document all the steps of the research. In our research, we used the same questionnaires for the four companies. Due to cultural peculiarities, the interviews were conducted in the Chinese language, thus some data can be misinterpreted due to the translating issues. At the same time, all the interviews were recorded electronically and then transferred to written form. After that, we analyzed the information received from our case companies, and provided some extra questions for respondents in written form, in order to clarify some issues.

**3.6 Conclusion**

In sum, in this exploratory research, the authors will use the qualitative research method, applying both secondary and primary data collection approaches in order to interact as much as the authors can with the empirical and theoretical levels. The uses of cases are aiming to find out which factors influence the growth of SMEs. Whenever this paper gathers the first hand data or secondary data, the authors will keep the criteria of validity and reliability in their mind. Therefore, to meet these demands, all respondents in companies will be informed about the content of the analysis before the actual interviews, and they will also get the chance to read this paper, in order that nothing is incorrect before paper is published.
4. Empirical Data

4.1 Zhejiang Tiansheng Arts & craft Co., Ltd

Zhejiang Tiansheng Arts & Craft Co., Ltd is a professional manufacturer of self-inflating air mattresses, sleeping pads, stadium seat cushions, beach mats, medical tourniquet cuffs etc. The company was established in year 2002, lying at TianTai industry zone, beside the 104 national highway, which is a three-hour driving from Shanghai. Their customers can be found in Europe, South East Asia, the Middle East and America. The self-owned production workshop and technology and development (R&D) research makes the product price and quality very competitive abroad. (Source from company website: http://zjtsarts.com/en/about.asp)

(The following source is all provided by interviewee)

Financial resources:

Generally speaking, the financial state of this company has been maintained steadily and positively until last year. However, due to the overstocked commodities and debt defaults brought about by the global economic crisis, the financial situation has been declining to some extent from a comparatively positive level since last year. Confronted with such a dilemma, the company is planning to apply for a loan of 100,000 RMB, from Agriculture Bank of China, to help them overcome the hard time. However, the procedure of application is very complicated, and the loan was unavailable. 17% of the total profit will be submitted as tax, which is also a big burden for the company.

Physical resources:

The company is located in Tiantai city, Zhe Jiang province, China. Zhe Jiang province, which is not only more affluent than the most other provinces in China, also turns out to be the area obtaining the most intensive SMEs. The company is situated in TIANTAI industry zone, where the location of mattress production cluster is. Besides, the company is equipped with own workshops and facilities and can produce high
quality products in massive quantities, which includes camping equipment, self-inflating mattress, and etc.

**Human resource:**

The human capital within the firm can be divided into two parts: the one in the factory and the one in office. There are around 20 employees working in the factory, and the manager will hire more temporarily workers in busy periods. They are all highly experienced.

Nine employees work in the office. There is one manager, one purchase manager, two technical engineers, two accountants and four salesmen. They all have a university education, and have skills and experience in their working area.

The company was established by three people at the very beginning. In 2009, it became individual proprietorship by the present owner bought the whole company. The entrepreneur is 50-years of age and with a university education. Before starting a business, he worked in a governmental department for five years. According to his employees, he is a very demanding and ambitious person. He is impatient sometimes, not professional in his products but willing to express his opinions. He is also welcoming to ideas from employees. He is decisive, does not care too much about details. Most importantly, he has a very good relationship with the people around him. Presently, he is trying to transfer the company to son, so his son is more and more involved in the firm’s business.

**Reputation: brand, relationship**

The company currently does not have its own brand name. The main export mode is original-equipment manufacturer (OEM), which requires that the products are labeled with the customers’ trademark when they are exported. According to the interviewee, the company has not considered registering its own brand name.

The relationships with suppliers are good, but as it is the buyer in this relationship, the company operates more on its own initiative. The company’s customers are mainly the foreign trade companies, so relationships with customers are different with
suppliers. They are pinned down by the customers.

**Technology:** Using mass production, the company is now developing a new technology which is advanced in the whole industry.

**Culture/Managerial system:** The Company values the “quality” and “service”. As a family business, the management system is relatively loose compared with large firms. As long as you do right thing, no one will judge you or criticize you.

**Key resources**

According to the interviewees, the financial resources are the most important resources for them right now. The overstocked commodities and debt defaults brought about by the global economic crisis has led the firm into a worse situation. A great expectation now rests on a loan from the bank. There is no investment in this company due to the shortage of financial resource. The entrepreneur is the key resource to guide the company.

**Growth stage:**

Tiansheng Company grew both physically and organically since its establishment in 2002. As was found in the interview, entrepreneur is the central role for the company existence. The firm does not have a competent technology; the educations of the human resources are average. The organization is simple: the owner does everything and directly supervises subordinates. There is no brand for the product, and no specific culture within company. The relationships with both suppliers and customers are maintained well, but it seems that they have no action to further develop these relationships. The production capacity within the firm is not sufficient. The company is still in its infancy; both of tangible and intangible resources are insufficient, so the growth stage of this firm can be defined as the existence stage.

4.2 Zhejiang Yingxia Rubber & Plastic Co., Ltd.

Tiantai Yingxia Rubber & Plastic Co., Ltd. was established in 1995 by Mr. Yang. The company is specialized in the production of rubber items and transportation facilities,
such as rubber buckets, rubber tanks, plastic buckets, traffic cones, and etc. The company is located on the southeast coast of Zhejiang Province, near Ningbo-Taizhou-Wenzhou Expressway and No.104 National Highway. Their products are exported to South America and North America, Western Europe, Asia, the Middle East and other countries and regions. The core value of the company is “not the largest but the best”. (Source from company website: www.rubberpail.com)

(The following source is all provided by interviewee)

**Financial resources:**

The break-even and less burden of loan enable this company to have a sound management on the whole. Most of their investment movements lie in outreach advertisements: company catalog, website construction and membership fees of the Alibaba English website. Apart from that, in order to win reputation and attract more clients, exhibition fairs like The China Export Commodities Fair are also a must to attend. However, the operation is still in order, this company is also facing some debt default problems which counting about 800,000 RMB in total. Moreover, the 17% tax also burdens this company.

**Physical resources:**

As mentioned previously, this company also locates in TianTai city, where the transportation and logistics are well developed. The company owns three workshops and more than ten production machines, and has certain capabilities of production. It mainly produces plastic and rubber products. The research and development of new products never stopped.

**Human resource:**

There are, in total around 100 people in the company, and more than 90 people are working in factory. Those working in the factory are not required to have a high education, as long as they have experience. Most of them have high school education. Six employees work in the office, comprising a production department, packaging department, sales department and financial department. Every department has its own
manager, and they are independent from each other. In the sales department, there are five salesmen and two managers.

The owner of the company is 37-years-old. He is very patient, sincere, and humorous. His education finished at high school level, but due to his hard work and learning, he gained the experience of the industry. He used to be a salesman, but established the company through research, skill and know-how.

**Reputation: brand, relationship**

The company currently does not have its own brand name, but the name of company stands for good reputation. They are now registering their trade mark.

The relationships with customers and suppliers are good, but they are still searching for new customers.

**Technology:** The technology they are using now is normal in their industry. The company pays particular attention to quality controlling, and to good craftsmanship of the products. They rely on the machine products.

**Culture/Managerial system:** one important core value within the company is “the customer is God”, which maintains all aspects. For instance, they have strict quality control as well as the service consciousness. The management system is relatively simple; the manager is in charge of all general development issues.

**Key resources**

The interviewers were told that the key resources in this company are more or less the integration of financial resources and the human resources. Financial access is critical for business success. As the company has no home market, the route to getting in touch with foreign customers is by attending the Guangdong Trade Faire and advertisements in the business portal website, which needs a great deal of money to pay the entry fees every year. Therefore, without enough financial resources, the company can not explore their foreign markets. The entrepreneur has the vital role in the firm; he makes all the business decisions. As the firm is empowered, and has visible departments, even though some of them are made up by one person, human
resources are important for growth.

**Growth stage:**

Compared with the former company, this company, loaded with adequate funds to sustain the operation, has an obviously better financial state. Moreover, investment in advertising also promotes the development of the company at the same time. This company has gone through the initial stage; it has some customers for its product. The management of this company is still simple, so the growth stage of this firm can be defined as survival stage.

**4.3 Company A (The following source is all provided by interviewee)**

Company A is a toothbrush producer, located in Hangji town — the city of toothbrushes in China. It was established in 1993, firstly registered as a collective enterprise. Through the founder, *Mr Yang, and his 13-years of intensive and pioneering efforts*, it has now developed into one of the successful large toothbrush production companies nationwide. In 2005, the company passed the Jiangsu Quality Inspection System, and won the Jiangsu Province Quality Management Award.

**Financial resources:**

Company A had a turnover of around 400 million by 2007. Since 2002, the sales increased from 200 million to 600 million of toothbrush, growing by 30% every year.

**Physical resources:**

Company A is located in Hangji town where 70% of the entire toothbrush manufacturing companies in the country are located. The company covers an area of 150,000 square meters, with a building space of 100,000 square meters. The daily output is 2 million and the annual output is about half billion. The company now has more than 500 imported and homemade specialized toothbrush facilities, producing more than 300 types of toothbrushes for adults and children.

**Human resource:**

The company now has 1500 employees. The employees are selected strictly according
to each work place. They are competent in their own jobs. The managers in each department have their own responsibility; they can make the decisions on their own. The company does have the talent strategy and staff development for employees, every employee is valued and there is an equal opportunities policy.

The entrepreneur in the company is General Manager Yang. He is a man with ambition. He is decisive, courageous and forward looking. During the rapid development of the company, his importance is shown by his leadership and guiding of the company, setting up the future developing orientation and the performance goals, and implementing them by strategic planning. On the other hand, his individual charm can also be seen in his organization, cooperation, communication and encouragement. He builds a learning organization in the company, conducts, cooperates and communicates with others. He also encourages the staff in terms of material rewards, safety education and morale. He controls the company’s performance, perfects the organization and fulfills his social responsibility.

**Reputation: brand, relationship**

The company pays much attention to the protection of the brand, and insists on developing the brand. Now the company uses “X” in the national market and “XX” in the international market, and has put the brand management into its company strategic planning, and has used a great deal of care in this respect.

The relationships with foreign customers are mainly maintained by foreign trade companies, as an 80% share of the exports from the company are done through intermediaries. The company has not yet established any sales agents abroad and has thereby no operators for overseas markets. The expansion of international business is mainly done through the Guangzhou International Trade Fair, keeping contact through telephone and mail.

**Technology:**

Among 300 types of toothbrushes, there are 158 patents, which are all from own employees’ practical design, accounting for 30% of all the toothbrush patents in the
country. The firm takes an active part in registering patents and uses the intellectual property to protect its interests.

**Culture/Managerial system:**

There is a strong cultural atmosphere within the company; culture such as “establishing the business with honesty and credit” and “topping talent, topping management, topping equipment, topping quality, topping reputation” are valued.

The management system within the firm is formal and institutional.

**Key resources**

As the interviewee said that, Company A is now taking care of the brand management and the intellectual property protection, which are the key resources for the company. As the market target is now turning to the domestic market, the company believes a well-known brand and intellectual property can help them win the battle. The entrepreneur is always a spiritual leader within the company. More and more attention is paid to cultivating the company’s culture and its intangible assets.

**Growth stage:**

Company A had a turnover of around 400 million in 2007. The sales increased by 30% every year since 2002. The intangible resources are of particular importance in this case company. The organization is decentralized and divisionalized in sales and production. Each department has a manager to handle a growing and complex business environment. The managerial systems in Company A are formal and institutional, and becoming more refined and extensive. Both operational and strategic planning is done with the involvement of specific managers. Mr. Yang and the business have become reasonably separate. This company at a critical position; it may be able to continue as a successful company. The growth stage of this firm can be defined as take-off stage.

4.4 Zhengjiang Senken Stock Co., Ltd.

Zhejiang Senken Stock Co., Ltd. was founded in 1990 by the present chairman Mr.
Cheng Shisheng and the enterprise’s backbone staff. The company is located in Wenzhou City, Zhejiang Province, where millions of industrial producers are located. The firm specializes in the research, production and sale of police equipment, safety engineering equipment, special illumination equipment, city air defence warning equipment and each kind of protective security equipment. With decades of efforts from both the entrepreneur and employees, Senken now has become the leaders in its particular industry. Their products have occupied more than half the share of the domestic market, Senken has gradually stepped onto the world stage relying on the good quality and service. (Source from company website: http://senken.com.cn/)

(The following source is all provided by interviewee)

**Financial resources:**

The annual sales of Senken are 180 million Yuan. Their registered capital is 56.3 million Yuan. The financial resource is very strong. As can be seen from the table 1, the output values and sales profit increased overall, ranking number one both in its province and in China within its industry.

<table>
<thead>
<tr>
<th>(million)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output values</td>
<td>13182</td>
<td>12818</td>
<td>15197</td>
</tr>
<tr>
<td>Sales</td>
<td>12086</td>
<td>12501</td>
<td>14713</td>
</tr>
<tr>
<td>Net profit</td>
<td>373</td>
<td>329</td>
<td>444</td>
</tr>
<tr>
<td>Tax</td>
<td>851</td>
<td>809</td>
<td>1003</td>
</tr>
<tr>
<td>Advertise input</td>
<td>25</td>
<td>26</td>
<td>28</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ranking in Province</th>
<th>No. 1</th>
<th>No. 1</th>
<th>No. 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranking in China</td>
<td>No. 1</td>
<td>No. 1</td>
<td>No. 1</td>
</tr>
</tbody>
</table>

*Table 1: the financial report of Senke from 2006-2008 (offered by interviewee)*

**Physical resources:**

The company’s estate covers 30 Chinese acres and has a 18,000 square meter workshop. The offices and sales sections have spread to all over the country.
**Human resource:**

There is more than 600 staff, and 80% are educated above high school level and 25% are educated above college level. The company has built up a sound employee performance appraisal system and talent management system.

The entrepreneur of the company, Mr. Cheng Shisheng, started as a technician in the electronics industry in 1983. Then he became the manager of the technical department, and the manager of factory. In 1990, he established Zhengjiang Senken Stock Co., Ltd. He is the typical technical entrepreneur, very ambitious and has strategic vision. He won a lot of rewards due to his technical skills and social contribution.

**Reputation: brand, relationship**

The company registered the brand, Senken, which was awarded the number one brand in Chinese special illumination equipment and the city air defense warning equipment industry. The company devotes millions in advertising their brand and products.

The relationships with customers are close. There are 21 offices around the country, hundreds of sales agents and more than three hundreds franchised dealers and service outlets. Meanwhile, the company co-operates with hundreds professional special car, motorcycle producers.

**Technology:**

The enterprise has succeeded in developing more than 20 types, 100 series, and about one thousand varieties of products, including more than 50 patents, four kinds of products obtaining the State Star wars Plan and the national Torch Plan Special, and some of them have won honours by being awarded prizes both at home abroad many times. The product renewal is rapid and, each year, several dozen varieties of new products are pulled forward to the market. The firm has an independent R & D center, which has registered each kind of specialized technology development and this department is staffed by more than 80 people.

**Culture/Managerial system:**
Senken prioritizes innovation. It pays attention to the employees’ working environment. They are supposed to work in a harmonious and pleasant working place. The company values personal creativity as well as the team spirit. Senken has the tradition of organising a lot of activities for stuff to get known each other.

Senken now has eleven departments in their organization. Each department has empowered managers. In their website, it says that a good team depends on good leaders. Presently in the company, there is one president, one general manager, financial director, administrative vice manager, four vice managers and other department managers.

The managerial system is institutional and active.

**Key resources**

It is clear for Senken that their technical patent and strong service network are the key resources. Their survival in the financial crisis has also proved that. According to the interviewee, the reason for their stable business environment since the financial crisis last year is their strong service network, as well as their number one brand in the whole industry and the technical research ability.

**Growth stage:**

The financial resource of this company is strong, profitable, and still keeps a healthy growth. Meanwhile, owning advanced and sufficient product lines, as well as modernized equipment, the company at the same time possesses considerable capital assets. These advantages enable this company to maintain a steady survival in this economic crisis with limited impact.

The staffs of this company are well-educated on average, and organized with clear-cut assignment of responsibilities. The company also arranges regular professional training programs for its staff to strengthen their capacities. To promote its own brand, Senken invests a great deal of funds on advertisements. Meanwhile, the firm has an independent R and D centre, and owns a great many technical monopolies. It makes every effort to create a relaxed and harmonious working atmosphere to mobilize its
staff’s positivity. The stable cooperation with a certain number of clients overseas provides the company with a promising future. A key element for the success of the company which needs to be highlight is its strong sales network and after-sales service, which show the responsibility with its customers from company. The growth stage of this firm can be defined as resource maturity stage.

As a summary of the four case companies, the following graph (see table 2) is made to compare the single growth factor among four companies.

<table>
<thead>
<tr>
<th>Company Resources</th>
<th>Tiansheng</th>
<th>Yingxiang</th>
<th>Company A</th>
<th>Senken</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td>Turnover:5M Lack of cash</td>
<td>some debt default problems</td>
<td>Turnover:400M 30% growth/year</td>
<td>Turnover:15197M Net profit: 444M</td>
</tr>
<tr>
<td><strong>Physical</strong></td>
<td>2000 m², 20 production machines</td>
<td>3 workshops, more than ten production machines</td>
<td>cover 150000 m², 500 facilities, 300 types productions</td>
<td>cover 200000 m², 18000 m² workshop</td>
</tr>
<tr>
<td><strong>Entrepreneur</strong></td>
<td>University education, no professional skills, ambitious</td>
<td>High school education, superior skills, ambitious, Decisive, courageous, has forward looking.</td>
<td>Technical entrepreneur</td>
<td></td>
</tr>
<tr>
<td><strong>Brand</strong></td>
<td>No</td>
<td>Is registering</td>
<td>One foreign brand and one domestic brand</td>
<td>No.1 brand in its industry</td>
</tr>
</tbody>
</table>

*Table 2: Comparison of four case companies (modified by authors, the other part of this table in next page)*
Table 2: Comparison of four case companies (modified by authors)

<table>
<thead>
<tr>
<th>Relationships</th>
<th>Initiative with suppliers, maintain the good relationships with customers</th>
<th>Through intermediary</th>
<th>Strong after-sales service network</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technology</strong></td>
<td>is developing a new technology</td>
<td>Normal</td>
<td>158 patents, 30% of all the toothbrush patents in the country</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>50 patents R&amp;D center has 80 persons</td>
</tr>
<tr>
<td><strong>Culture</strong></td>
<td>Value “quality” and “service”</td>
<td>“customers are the god”, strict quality control</td>
<td>“topping talent, topping management, topping equipment, topping quality, topping reputation”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“Innovation is the soul”, creativity, team spirit</td>
</tr>
<tr>
<td><strong>Manage style</strong></td>
<td>Directed supervision</td>
<td>Supervised supervision</td>
<td>Divisional</td>
</tr>
<tr>
<td><strong>Key resources</strong></td>
<td>Finance, entrepreneur</td>
<td>Finance, Human resources(entrepreneur)</td>
<td>Brand, technology, entrepreneur</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Brand, technology, service, relationships, culture, entrepreneur</td>
</tr>
<tr>
<td><strong>Growth stage</strong></td>
<td>Existence</td>
<td>Survival</td>
<td>Take-off</td>
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<td>Resource maturity</td>
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5. Empirical analysis

5.1 Zhejiang Tiansheng Arts & craft Co., Ltd
As can be seen from this case company, finance is a key fundamental resource, but the management of resources and competition will shape the preservation of growth resources. (Garnsey, 1998; Penrose, 1996) Any debt default will cause problems to the company, but owning to the lack of a formal management system and the fierce competition, Tiansheng is still struggling in the business survival stage.

When it comes to the importance of tangible resources, the authors find that the firm’s current situation can be concluded as the existence stage (Churchill & Lewis, 1983). According to them, cash in this stage is critical to meet start-up requirements. The companies’ strategy is simply to remain alive. The owner performs all important tasks, and is the major supplier of energy, direction and, with relatives and friends, capital. (Churchill & Lewis, 1983)

5.2 Zhejiang Yingxia Rubber & Plastic Co., Ltd.

The importance of human resources has been discovered in this stage within the company. As said by Scotter et al (2003), managers of smaller organizations are most concerned with the practical aspects of recruiting, training, appraising and rewarding individuals within individuals with an often resource-poor and rapidly changing working environment.

Entrepreneurs have individual assets that help them recognize new opportunities and assemble resources for new ventures (Alvarez & Busenitz, 2001). As with the case of YinXiang, the entrepreneur played an important role although he did not receive a high education. The company is simple but efficiently organized, with minor managers and a great many skilled laborers. Though it has no brand so far, the efficient marketing strategies facilitate its exports to overseas markets and enable the company to maintain a steady number of clients.

The firm’s current situation can be concluded as the survival stage (Churchill & Lewis, 1983), as the focus of the company more or less moved to the relationship of revenues and expenses. Their business has enough customers and satisfies them sufficiently with its products or services to keep them, thus the main problem for them is how to
survive in intense competition. The owner is still synonymous with the business. Therefore, in this stage, the entrepreneur and tangible resources are vital factors.

5.3 Company A

According to Steward and Gorrino (1997), small firms generally have little commitment to R&D and are ‘information-constrained’ which makes them highly dependent on external knowledge sources. They also thought that the majority of SMEs placed more emphasis on tacit knowledge and their ability to maintain a ‘fast-mover’ position through continuous technological innovation. (Steward and Gorrino, 1997) In this case, the company A attached importance to technological innovation. The rapid growth of the financial index enabled Company A to enlarge the production space and facilities. The daily 2 million output and 500 imported and homemade specialized toothbrush facilities are a reflection of its distinct production capacity and technology innovation.

Ji (2005) points out that brand resource becomes more and more important for SMEs, with the development of the market and technology, imitation has become much easier than before, so for firms, it is hard to keep a competitive advantage in terms of quality and cost, the only way to distinguish them is through brand. The company A is emphasizing the establishment and development of the brand. They pay a lot of attention to brand management and intellectual property protection. The value of culture is highlighted.

Company A has not yet established any sales offices abroad, and the relationships with customers are mostly handled by intermediaries. Even though Company A has turned to competing in the home market, the brand recognition in China is still weak. Thus, the authors consider Company A has not reached the stage that all the resources are mature. It can be seen at the take-off stage. (Churchill & Lewis, 1983) In this stage, intangible resources are critical for growth, such as brand and technology. Meanwhile, this research also thinks Company A can be considered as a divisional organization, where it has “arrived”, and has the resources and organizational
structure that will enable it to remain viable. (Steinmetz, 1969)

5.4 Zhengjiang Senken Stock Co., Ltd.

According to David and Krsto (2003), an important factor for growth of SMEs is the quality of the small-firm owner-manager’s network of relationships and how the owner-manager learns from and manages those relationships. It is important for each owner-manager to establish a clearer understanding of his network of relationships. As an excellent representative of his coterie, the entrepreneur of this company, who started as a technician, is qualified, with capabilities of product development and improvement himself. He also set up this company on his own and developed it to the scale it is today. Obviously, he has established a strong network by many years of accumulating relationships. Meanwhile, from the company’s core values, we can see his clear understanding of business strategies.

According to Yan (2008), the culture is crucial for SMEs to get competitive advantage in a competitive market; the culture can improve SMEs in three ways: improve the core-competitiveness, improve the management and improve the corporate image. Compared to the former firms, the company in this case is competitive in many aspects, so the importance of resources is also different to the former companies; the importance of relationship resources is prioritized for this company.

All in all, the comprehensive strength has reached a positive level. According to Churchill and Lewis (1983), the firm’s current situation can be concluded as the resource maturity stage, where managerial style is line and staff. Compared with previous case companies, Senken has the advantages of firm size, financial resources and managerial talent. The major problems confronting this company lie in how to elude risk, to maintain development and advantage, as well as to adapt to new challenges. Therefore, in this stage, the intangible resources, such as technology innovation, culture and brand, heavily influence the company’s growth and contribute its success. Compared with the other case companies, Senken does great job in providing services, which helps to build superior relationships with customers.
5.5 Summary of empirical analysis

Different resources have their importance in different growth stage. The importance of intangible resource is more and more obvious with the growth of SMEs. As is known from the cases, cash and physical resources are critical for the start-up stage (Churchill & Lewis, 1983). In the inceptive time, the main problems for SMEs are about how to exist and survive in fierce competitions, as the case of Tiansheng and Yinxiang Company.

There is no evidence to indicate whether the location of the companies helps their growth, but the study does find in each case company’s website that each company highlights its transportation convenience. The production facility and workshops are no doubt the important reasons for firms’ growth as can be seen in all case companies.

Entrepreneur starts up business by their skills, knowledge, experiences, and networks. At start-up time they are equal to the business: company can not run without his absence (Churchill & Lewis, 1983), which this study can reflect it to each case company when the owner started up their business. An important finding from the study is about the different importance of entrepreneurs in different stages of the firm. The entrepreneur of an SME is one key and unique resource that can become especially influential on the organization, as this person acquires new knowledge (Daily, Certo, & Dalton, 2000). No matter which stage the firm comes to, the entrepreneur always has his role. The different roles in different stages relates to the question of empowerment and delegation. At the beginning, the entrepreneur takes over everything, but he will detach more and more as the firm growth.

As Storey pointed out, “there are probably several thousand small firms who have no wish to innovate, and a great deal more who are incapable of doing so” (Storey, 1982: p33). The different stages of four companies can be explained by their technical innovation and capability. As with the case companies Company A and Senken, they dedicate a lot of resources to updating their technologies and to building up their R&D center in order to compete with other producers.
When comes to the brand management, the finding from the four companies corresponds with the statement of Berthon, Ewing and Napoli (2008). In their research, they find that high-performing SMEs implement key brand management to a greater extent than low-performing SMEs. Brand-focused SMEs, like Senken and Company A, are able to achieve a distinct performance advantage over rivals by essentially getting back to the “branding basics”.

In terms of company culture, the four interviewees all identified their company “culture” as having a positive effect on the performance of their companies. However, as shown in the data, the two small companies, Tiansheng and Yingxiang, are obviously weaker in culture cultivation.

In addition, Senken maintains the best relationships with customers among the four companies. Its nationally distributed agents and franchised dealers, as well as the strong services network, helps the company to gain the advantages, including the ability to maximize profits by reducing risks, improving information flows, increasing customer satisfaction and enhancing loyalty. (Binks & Ennew, 1997) According to the manager the two authors interviewed, the large market share of the domestic market, and the services, are the main reasons to explain why the company has not been much affected by the financial crisis.

According to the analysis above, and combing the five stage model by Churchill and Lewis (1983), the following framework (see figure 3) is dedicated to showing the different key resources of four companies and different stages in which they are.
When comparing to four case companies from the resource-based perspective, Tiansheng Company and Yinxiang Company do not have the unique and inimitable resources that build the competitive advantages. A single resource is rarely the main successful factor of firm. It is usually the combination of assets in resource clusters, which leads to competitive advantage (Grant, 2008). For the company A and Senken, it is more about the inter-asset coupling and interaction with complementary assets (e.g. marketing skills complementing the technological innovation assets) which frequently contribute to the uniqueness and inimitability of assets (Hadjimanolis, 2000).

For the success of Company A and Senken, resources and capabilities lay the foundation for them establishing and sustaining competitive advantage. As Barney (1991) argued, companies’ competitive advantage comes from the resources that are: valuable, rare, imperfectly mobile, and non-substitutable. Company A and Senken’
brand and technical patent, as well as Senken’s national relationship network, can be seen as the competitive resources.

It can be seen from figure 3 that the cash resource for the company at the existence stage is crucial but, for the company at the resource maturity stage, the importance of intangible resources such as culture, relationship and technology is obvious. The authors point out a result of the analysis: the importance of intangible resources for SMEs is more and more obvious with the growth of SMEs.

6. Conclusion and Discussions

6.1 Conclusions
Through the analysis above, it can be deduced that the resources required for all the companies at each growth stage are different. According to the data that have been collected, Tiansheng is still at the preliminary stage of development, namely at the existence stage. The toughest issue confronting it is how to get more financial support to maintain the routine operations and pass the existence stage successfully. However, Yingxiang has already passed the existence stage and reached the survival stage. The financial resource of this company is better than Tiansheng, which makes it unnecessary for it to depend entirely on the financial resources like Tiansheng does, though financial resources are still important for the company. Additionally, the importance of human resources has become more obvious in this stage for Yingxiang. Company A has maintained certain scale of operation after a period of development. The data show that it is at take-off stage, which means tangible resources are not so important for it, while technology and brand have become the most needed resources for the company. The last company, Senken, has sustained a number of advantages. Years of growth have enabled it to reach the resource maturity stage. The company has paid intense attention to intangible resources, such as brand, technology, service, relationships and culture resource. Due to the limited time, we did not find any
company at the success stage. However, concerning the data gathered in this study, it can be seen that tangible resources, rather than intangible resources, are the most import for companies at start-up stage. However, in later stages of growth, intangible resources become more vital than tangible resources.

The findings of this paper are similar to the result of the five stages model (Churchill & Lewis, 1983). Cash and other physical resources are critical for start-up businesses. Brand management or culture cultivation is not the top priority for SMEs which are in these stages. Their consciousness is to exist and survive by price advantage or to be in a niche market. When SMEs move into the success stage, followed by the take-off stage and the resource maturity stage, intangible resources begin to show their importance. Brand image and innovative culture are the keys for SMEs to gain the competitive advantages.

The importance of the entrepreneur is undeniable from the beginning stage until the resource maturity stage, which is also in accordance with most of the research in this area. The role of entrepreneur changes from stage to stage. In the inceptive stage, the entrepreneur is the business: he takes charge of everything, he supervises everybody. Without him, the firm can not run, so he has to work maybe 15-hours a day to keep the businesses operating. In this period, the managerial system is informal, what the entrepreneur says is the rule. The entrepreneur’s power is decentralized to the other managers as the SMEs grow, and he separates from his business step-by-step. The management style also changes from supervised to divisional.

Some findings are similar to earlier research, such as Vargas and Rangel (2007), who argue that, even though financial resources are important for a firm to leverage performance, development of internal capabilities is more important than limited financial resources, in order to develop competitive advantages to compete with larger and multinational competitors. Fast-growth firms are those that have the willingness and capability to innovate, while low-performance incapable of so doing (Storey, 1994). High-performing SMEs implement key brand management to a greater extent than low-performing SMEs. (Berthon, Ewing & Napoli, 2008)
One unique contribution of this paper is the information from case companies concerning the financial crisis. Unlike the imagination and assumption, as one interviewee told the authors, the economy is still flourishing and booming in its area. The financial crisis did knock down some SMEs, but other SMEs have found new opportunities and start up new businesses. The orders are still there; the difference of before and after the financial crisis is that customers are now looking for suppliers that can share the responsibility with them, and the one who has better service is the winner. One of these case companies, Senken, did not suffer too much from the crisis due to its strong national service network.

6.2 Implication

In this paper, the authors use the resource-based view to analyse the different growth stages of SMEs, which is a new perspective for study of SMEs. The new framework, combining the five stages model and resource-based view for SMEs, may have some references for other researchers who are interested in Chinese SMEs. Meanwhile, finding SMEs’ reactions concerning this financial crisis is worthwhile for those who are suffering from it.

6.3 Limitation

Due to the financial and time issues, the authors interviewed the case companies by email and phone calls, and could not conduct face-to-face interviews, which could have better interpreted the interviewee’s facial expressions. Due to the special culture and situation in China, it is very different to get information about firm’s financial resource or other resources. Unlike in Europe, where you can easily find the annual reports of companies, in China, people keep silent about the information of their companies. Even though this research found the companies by the authors’ relationships, still they were not their own companies, and interviewees answered the questions that they thought they were able to answer. Thus, the information obtained for this paper would not be fully complete. Last but not least, though multiple cases are studied, the low number of case companies, as well as the same location of the
case companies, may have had an affect on the data and findings.

6.4 Further research

In order to strengthen the results and conclusions in this study, and also give a broader view about the subject, further research can be done. Suggestions for further research are:

1. If the findings could be used in other country or in large firms
2. How to use the resource-based view in the big business
3. Difference between different companies in the same stage of SMEs growth.
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Appendix: Semi-structured interview guide

The following questions will be used only for intended study and the answers can be treated confidentially if wished so.

A. Basic information

1. Can you write down the name and website of your company?
2. What is your role/title on the company?
3. Do you wish that you and/or your company is treated confidentially in this study?

B. Tangible resources

Financial resource:

1. Can you tell some information about your company’s financial situation?
2. How is the cash flow within the company?
3. Where is the loan resource? Can you tell the size, the number and the difficulty of the loan?
4. How is the tax rate in your industry?

Physical resource:

1. Can you tell some information about your company’s physical resource? (including the location, plant, equipment)

C. Intangible resources

Human resource:

a. Employee:

1. Can you tell some information about employees in your company?
2. How many people are they? (if you have your product factory, separate the stuff information from the one who works in the office.)
3. How are the employees’ education, skill, experience, age and know-how?

b. Entrepreneur:

1. Can you describe the characteristic of your boss (the leader)?
2. How about his/her education, skill, experience, age and know-how?

Reputation: brand, relation

1. Do you have your own brand name?
2. If have, how do you maintain your brand?
3. How is the relationship with your customers?
4. How is the relationship with your supplier?

5. Do you have after-sale service? What do you think about the service in your company?

Technology

1. How about your technology?

2. Does your company have any advanced technology?

3. Does your company have new product research and development?

4. Does your company have mass production in your factory?

5. Does your company rely on the machine-production or manual-production?

Culture

1. How do you think the culture in your company?

2. How is the manage system in your company?

D. Questions concerning the marketing

1. Do you have home market?

2. How is the foreign market? Which foreign market is your main market?

3. Do your company have individual foreign sales department?

4. The contacts with the foreign customers are mainly through foreign trade company (agency) or by the company itself?

5. How do you explore the new market and new customer? Do you attend the Guang Dong trade fair? Do you use Alibaba website?

6. How do you think about the competitive advantage of your product? Is it price advantage, differentiation advantage or niche market?

E. Questions concerning the financial crisis

1. Is there any influence to your company concerning the financial crisis?

2. If no, can you tell the reason why your company can avoid the financial crisis?

3. If yes, do you have any plan or decision to survive in the crisis? What do you learn from this crisis?

F. Key resource

So overall, which factors do you think is the most critical resources for your companies’ growth?

Extra comments related to the above material:

Thank you for your participation!