Internal and external factors influencing SMEs development

-A qualitative case study of import-and-export oriented SMEs in Jiangsu province of China

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Abstract

The SME sector of Jiangsu Province of China contributes quite a big percentage to the GDP and solves the unemployment problem. Moreover, the import-and-export industry has been the pillar industry that boosts the development of the economy of Jiangsu Province. With the take-off of Jiangsu’s economy, problems have also appeared; the import-and-export-oriented SMEs have been influenced by many internal and external factors, and some of the factors are: Yuan appreciation, inflation, industrial structure, skilled employees, and CRM, etc. Therefore, the thesis is going to analyze the internal and external factors that influence the development of Jiangsu import-and-export-oriented SMEs by researching the books and articles, and make qualitative case studies to observe how these factors have influenced the case companies.

In order to make the qualitative case analysis, the authors have travelled back to Jiangsu province and interviewed with different SME managers with selective questions.

Key words: SMEs, Jiangsu, import, export, internal, external, influence, company.
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Chi Yuan & Shuxuan Tang
### Abbreviation

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tbody>
<tr>
<td>SME</td>
<td>Small and medium enterprise</td>
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<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<td>CSR</td>
<td>Corporate social responsibility</td>
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<tr>
<td>HR</td>
<td>Human resource</td>
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<tr>
<td>NBSC</td>
<td>National Bureau of Statistics of China</td>
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<tr>
<td>PBC</td>
<td>The People’s bank of China</td>
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<tr>
<td>CNY</td>
<td>Chinese Yuan</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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<td>JSEO</td>
<td>Jiangsu SME Association</td>
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Chapter 1 Introduction

SME sector is important for a country’s development. It provides working opportunities, contributes to national taxations, and occupies a great part among all enterprises (McIntyre & Dallago, 2003). Since the economic reform, China has achieved remarkable economic development and growth. Moreover, the economic development of SMEs is closely associated with the import and export industry. For instance, in 2006, the import-and-export-oriented SMEs contributed 70% to the total import and export volume in China (Datamonitor, 2010).

According to NSBC, most of the contributions are from the provinces which are located in the east coastal area, such as Jiangsu Province. Among all the import-and-export SMEs, 65% are located in Jiangsu Province (2009). Jiangsu Province also has the biggest import-and-export harbor in China, and is one of most developed provinces in China’s coastal areas (NSBC). Its import-and-export SME sector represents the highest level (revenues, employee numbers, and salaries) in mainland China.

Therefore, we decide to limit our research scope within Jiangsu Province. In this thesis, through studies of various kinds of materials and books, the authors have found out the main factors affecting the import-and-export-oriented SMEs in Jiangsu Province, and have learned that these factors can be grouped into internal ones and external ones, e.g. changes in the external economic environment can influence the import-and-export-oriented SMEs, while internal problems arising from the process of international competition of these SMEs can also affect them.

In addition, the authors have surveyed several import-and-export-oriented SMEs in Jiangsu Province and studied how these internal and external factors have influenced them, which have helped the authors to study the development of import-and-export oriented SMEs in Jiangsu Province.
1.1 Background

Jiangsu Province is located in the eastern part of China and near Shanghai. It has an area of 102,600 square kilometers, approximately one fourth of that of Sweden. It has a population of 760 million and 119 cities. Jiangsu Province is the most developed province in China. (China, 2007)

According to the official data (ONS), in 2007, the GDP per capita was 4,400 USD; the import and export industry contributed over 80% to the total revenue, and the annual growth rate of the import and export revenue was 27%. In 2010, the GDP per capita was over 5,500 USD, and it had been the most developed province in China for over five years.

In 2008, the total number of SMEs increased to 45,459 compared to 43,916 in 2007 and 99.2% of them were industrial enterprises. Most of the SMEs were labor-intensive manufacturers (Yao, 2011).

In the past 10 years, the import and export of the manufacturing industry have boosted the major economic development. Most of the case companies surveyed in this thesis are those in the light industry and manufacturing industry, e.g. export-oriented textiles, and plastic products, etc.

In Jiangsu Province, the structures of these enterprises are not complex, most of them only have the department of manufacturing, the department of import and export, as well as the managers (Datamonitor, 2010), and the products they make do not contain too much technological elements, therefore, they can be easily affected by internal and external factors.

In recent years, the inflation is becoming more and more serious. In addition to the pressure from the trade surplus between Sino-US trades, the value of RMB appreciates year by year, having increased from the ratio of 1:8 to 1:6 (World Bank, 2011). These have greatly influenced these import-and-export-oriented SMEs with weak capacity to resist pressure in Jiangsu Province. Products containing a low degree of technology mainly take the strategy of low cost as the competitive means in the
international market (Filatotchev et al, 2009), so if the cost increases, their competitiveness will naturally decrease. The reason why the authors choose enterprises dealing with textiles and plastic products is that the operational modes and structures of these enterprises are comparatively simple, and the products are not complex, therefore, the authors can comparatively easily observed what kind of influences they have been subject to.

What’s more, the authors will combine the credit review standards of SMEs in Jiangsu Province provided by The Bank of China and the definition of import-and-export-oriented SMEs raised by such governmental organizations as Jiangsu Enterprise Association as well as data and information about the influential factors to analyze the influence of inflation on these companies and observe how they have survived.

1.2 Problem discussion

With China’s entry into WTO in 2001 and the economic development, many problems have occurred, e.g. high inflation and the appreciation of RMB. These external changes of environment affect import-and-export oriented SMEs in Jiangsu (Zhang, 2009). As Prof. Lind has stated, “It is easy to found SMEs, but they are subject to the influence of the environment (2010).” The external environment changes the development modes and survival strategies of SMEs.

Import-and-export-oriented SMEs in Jiangsu have also met some internal difficulties, including problematic management, inappropriate industrial structure, and lack of bank credit, etc. These critical issues are big obstacles for the development of import-and-export-oriented SMEs.

It has been approved by Prof. Lang that “the development of import-and-export-oriented SMEs has become difficult in the south coastal area of China, which needs to be solved immediately (Lang, 2010).”

The reason why import-and-export-SMEs have many difficulties can be argued. It is
mainly caused by the instable economic environment, and there are also some issues that can be seen from SMEs themselves, and these difficulties have restricted their competitiveness on the global stage. This is in accordance with the argument made by Prof. Lang in 2009.

On the contrary, there are positive influences, too. For example, in 2009 the Tax Bureau (NSBC, 2010) of China has constituted new regulations and laws to protect and assist import-and-export-oriented SMEs; Furthermore, the impacts and difficulties also push import-and-export SMEs to adjust their strategies to survive in the present circumstances. For example, some SME owners have introduced the western enterprise cultures and development strategies to their enterprises in the purpose of becoming more efficient.

Therefore, this paper attempts to find out and analyze the most important factors through books, articles and materials, and influences to the case companies.

The following part will illustrate several important factors, all of which are from comparatively authoritative sources, e.g. Reports by Import-and-export Enterprises in Jiangsu, China in 2010 provided by Jiangsu SME Association (JSEO). Other factors that are not mentioned herein will be expounded in later studies.

1. From the aspect of government policies, laws, and regulations, the government has constituted preferential policies and laws for the import-and-export industry. For example, The Taxation Refund Law (JSEO, 2010) increased the percentage of tax refunds from 11% to 13% in textile exports.

2. From the aspect of appreciation of RMB, the appreciation hampers the industry, and it forces many SMEs to modify their development strategies. (Bell, 2007)

3. From the aspect of inflation, the high inflation brings the increase of cost, which is a critical issue for the SMEs. This thesis will discuss the true inflation rate about relevant products such as house rent and commodity. (JSEO, 2010)

4. From the aspect of crisis resistance, the instability of external environment can hamper the development of SMEs, e.g., the economic crisis in 2008. The thesis will investigate the living situation of SMEs under the economic crisis. (Zhang,
5. The issue of industrial structure in import-and-export SMEs cannot be ignored. The inconsequential industrial structure causes low employee loyalty and narrow profits. (McIntyre & Dallago, 2003)

1.3 Research purpose and research questions

The purpose of this thesis is to explicitly study the most influential positive and negative factors through the analysis of internal and external aspects of import-and-export-oriented SMEs in Jiangsu Province. Moreover, the data findings of the factors will be researched in order to analyze the influences of these factors on these case companies.

The main research questions are:

1. What are the most important positive and negative factors for import-and-export-oriented Jiangsu’s SMEs in the external perspective?

2. What are the most important positive and negative factors for import-and-export-oriented Jiangsu’s SMEs in the internal perspective?

In order to understand the target SMEs, this thesis will focus on the factors that can influence them, and the thesis will also observe the current circumstances of these SMEs based on individual case investigations of import-and-export-oriented SMEs in Jiangsu. In this sense, the thesis will provide case analyses and contribute to the research of the SME sector.

1.4 Methods

In order to enhance the reliability and credibility, the thesis adopted two methodologies of data collection, which were primary data collection and secondary data collection. These two methods could help objectively collect and analyze data,
and the methods could help the authors to find out the positive and negative factors through the analysis of internal and external aspects.

In this thesis, both the primary data collection and secondary data collection were adopted. Firstly, the authors adopted the secondary data collection in order to collect valuable data, which were mainly about the basic information about the import-and-export-oriented SMEs in Jiangsu Province (e.g., number, industry, scale and average yearly earning) and some analytical reports given by experts on the current factors affecting the development of import-and-export-oriented SMEs in Jiangsu Province (e.g., Prof. Lang explicitly pointed out in his academic article that industrial structure is a big issue for SMEs in Jiangsu Province (2010).) Moreover, in the form of emails, the authors consulted Jiangsu SME Association and The Bank of China in March, which also provided us with comparatively authoritative data and information, e.g. Jiangsu SME Association provided us with some information about the causes affecting the import-and-export SMEs in Jiangsu, and The Bank of China showed us the detailed rules and regulation as well as methods examining and verifying SME loans and introduced some risks of SME loans and their solutions. Finally, through the method of secondary data collection, we found out the internal and external factors influencing the development of import-and-export SMEs in Jiangsu Province, and took them as the themes of our articles.

These data were collected through the internet, economic books and peer-reviewed articles. This is conducive to better understanding of the overall situation of import-and-export SMEs in Jiangsu Province.

Furthermore, after analyzing the internal and external factors influencing import-and-export SMEs in Jiangsu, the authors adopted primary data collection for collecting data from qualitative questionnaires and semi-structured interviews in order to observe how these factors embodied in these case companies.

The qualitative questionnaires were sent to different SME owners through emails. After a period, feedbacks were collected and analyzed in order to select the most
valuable information for the correctness of this thesis. In order to ensure the quality of
the questionnaires, the authors also interviewed SME managers for the uncertainties
of the questionnaires until they made clear of the problems. More explicated research
methodologies will be introduced in the following chapter.

Chapter 2 Methodology

In this chapter, the thesis will introduce all the research methods and strategies
applied to this thesis, including the methods for data collection and data analysis. This
helps enhance the logic and rationality of the thesis by adopting efficient analytical
methods.

2.1 Research strategy

A clear research strategy determines the correctness of the thesis and ensures that the
research questions have been answered.

The authors have researched and studied different categories of books and articles
about of import-and-export-oriented SMEs in Jiangsu, and obtained some suggestions
from Jiangsu SME Association (2011). Thereafter, the research questions were
decided. In order to answer the research questions and ensure the reliability, the
research strategy must comply with the purpose of studying comparatively
comprehensive materials, e.g. the authors have collected articles, internet sources and
books about economics describing or analyzing import-and-export SMEs in Jiangsu
from different perspectives. In addition, the information about SMEs acquired from
secondary data collection will be analyzed in order to confirm that the internal and
external factors found by the authors are correct. This can also help to make an
overall understanding of the import-and-export oriented SMEs in Jiangsu.

Furthermore, the information about SMEs acquired from both primary and secondary
data collection will be analyzed in order to confirm the case analysis in this thesis.
2.2 Research method

The main research method includes the quantitative and qualitative methods. The quantitative method is used for data and statistics research, and the qualitative method is used for research of detailed information, such as case studies. (Bryman and Bell, 2007)

In this thesis, the research questions mainly deal with the positive and negative factors in the external and internal environment. What the authors did is analyzing the influences of various factors. Factors drawn through secondary data collection by the authors need to be expounded in a comparatively detailed way one by one. The authors also interviews a few case companies, therefore, this thesis is more related to individual case analyses, therefore the qualitative method is appropriate for the thesis.

2.3 Data collection

According to Bryman and Bell, the secondary data analysis is important. After having obtained the internal and external factors influencing import-and-export SMEs in Jiangsu from the articles and books written by Chinese scholars, the authors have searched different books and articles in order to analyze whether the standpoints of these Chinese scholars were correct or not. These articles and books included The China under Inflation (Lang, 2010), When the Dragon Awakes: Internationalization of SMEs in China and Implications for Europe (Hall, 2007), Creating sustainable small to medium enterprises through technological innovation (Thomas, 2007), and Market Orientation and Internationalization in Small and Medium-Sized Enterprises (Armario& Ruiz, 2008) etc. These mentioned books and articles are written by Japanese, European, and American authors, thus they could help authors to study from an objective and comprehensive view.

In order to ensure the reliability of the questionnaire, it’s important to select an
appropriate method. There are two kinds of questionnaires, i.e. qualitative questionnaire and quantitative questionnaire. The authors decide to select the method of qualitative questionnaire on account of three main reasons:

1. In order to research the issues, the authors need to communicate with target companies as case studies.

2. The authors prefer to analyze several companies simultaneously in order to ensure the reliability of the data.

3. Due to the limited social relationship, the authors cannot make a wild-range investigation among hundreds of SMEs.

Therefore, the authors decide to select the method of qualitative questionnaire for the research in order to discuss the core argument and identify the commonness of the different selected import-and-export-oriented SMEs.

The authors have sent the questionnaires to eighteen import-and-export-oriented SMEs according to their social relationship in Jiangsu Province. At last, ten companies are selected. The authors’ social relationship in China has done a great deal in helping collect data. Through the feedbacks of the questionnaires, the information has been collected and typed into diagrams for convenience of comparison and contrast. After that, the authors had in-depth interviews in July for the uncertainties, e.g. some vague questions and some questions that have not been answered in the emails. In the following chapters, most of the analysis and research are based on the chosen ten companies.

2.4 Scientific approach

Bryman and Bell have defined two methods of illustrating issues, i.e. inductive method and deductive method. The inductive method means that the conclusion is based on accumulated analyses and studies. The inductive method can ensure the validity of the conclusion, but the authors can never ensure the correctness of their expectations at the beginning of the thesis. According to Bryman and Bell, the
hypothesis can be changed after the data are collected and analyzed (2007).

The deductive method is more subjective. The authors have to decide what the argument is first, and then prove it by studying plenty of resources.

Theory → Observations / Findings (Bryman & Bell, 2007)

The deductive method is used in this thesis, which is built on a pre-decided theory, and all of the findings are obtained in a logical way in order to support the theory.

2.5 Questionnaires and Interviews

The data collection research will be divided into two parts: qualitative questionnaires and interviews (Bryman & Bell, 2007). These two parts are both used as the means to collect data from the selected case companies.

The first part is the qualitative questionnaires based on the structure and general information of the case companies, including five questions, e.g. what difficulties they have met before, what their current business strategy are, and how their future market confidence is.

These questions are to investigate the development and the attitude of the managers in order to find out how the managers think of the future of their companies.

Moreover, the sixth and seventh questions are open questions investigating the companies’ development history and strategies in order to accord with the analyses of the external influence of the macro economy. In addition, the open questions in the questionnaire make it possible to obtain the opinions of those privately-owned SME owners, which, to some extent, can be used to observe the representation of the internal and external factors mentioned in this thesis in their companies.

The second part is the in-depth interview made after questionnaire feedback collection, which is about the uncertain questions according to the feedbacks. It includes more
specific questions in order to more deeply explore the difficulties in their daily operation, e.g., “As you have claimed in the feedback, you can’t allow the annual revenue to be lower than 300 thousand Yuan, but if it happens, will you leave the market? Or will you change your development strategy, if yes, what will you do?” These questions are to investigate the virtual or possible problems of the companies. The authors have communicated with the selected companies till the questions were fully understood and answered.

2.6 Respondents

The sample has not been chosen by random selection. The authors have selected the companies for study according to the industry. Apart from the reasons mentioned in Chapter One, there are another three reasons on account of which all of the selected companies belong to the light industry and textile industry:

1. Most of the import-and-export-oriented SMEs belong to the light industry and textile industry in Jiangsu Province (NSBC, 2010).
2. These companies are easy to be influenced by any internal/external change due to their size and their industrial structure (Filatotchev et al, 2009).
3. From the industrial-structure perspective of view, a quite large number of laborers intend to work in the light industry and textile industry due to the low technical requirement.

One point needs to be made clear is that some of the selected companies are contacted by friends and family members of the authors.

The authors also interviewed some authoritative organizations, e.g. Jiangsu Branch of the Bank of China and Jiangsu SMEs Union; their persons in charge will be also mentioned in this thesis.

Selecting contact persons is the subsequent task. It is important to find the right person during the research procedure of sending questionnaires. The persons who
receive the questionnaires are all working at the management level; hence it can maximize the reliability of this thesis. The main respondents are shown as below:

- **Managers:**
  
  SUGAO International Co., Ltd., Mr. Lu Yu, Manager of Operation Management interviewed on 10-06-2011  
  HANTANG Co., Ltd., Mr. Zhang Xuefei, Manager of Marketing Department, interviewed on 25-06-2011  
  KF Solar, Mr. Sa Tuo, sales manager for the European market, interviewed on 27-6-2011

- **Owners:**
  
  East Ocean Plastic Chemical, Mr. Miao Zhengyuan, owner of the company, interviewed on 03-07-2011  
  ZhengXing Electric, Mr. Lu Hairuo, owner of the company, interviewed on 04-07-2011  
  ZN shire Co., Ltd., Ms. Zhang Xiaoting, owner of the company, interviewed on 10-07-2011

- **Administrators:**
  
  Jiangsu Suhao Co., Ltd., Mr Gu, vice manager and HR manager, interviewed on 10-7-2011  
  Jiangsu High Hope, HR manager, interviewed on 13-7-2011  
  Zashika International Co., Ltd., Ms. Ma Jing, exclusive accounting manager, interviewed on 11-7-2011  
  Shuangyuan Jiangsu Co., Ltd., Ms, Feng Ziyung, exclusive accounting manager, interviewed on 13-7-2011

- **Government officials**
Mr. Miao Guohe, senior manager of the accountant department
Jiangsu Province Nanjing SMEs Union, senior manager of the accountant department
Mrs. Gao Zhengyin, manager of SMEs loan transactions. Bank of China, Jiangsu branch, located in Nanjing City.

2.7 Validity and reliability
The validity and reliability are very important to consider when making a qualitative analysis, because the objectivity of the research is of the first priority. Bryman and Bell mentioned the importance of consistent measurements (2007), which means that the results should be the same if other researchers conduct an interview or questionnaire with the ten selected companies with the same topic.
In this thesis, the selected ten case companies are the respondents of delivered questionnaires and the details of questionnaires are shown in the above paragraphs, including objective and subjective questions. Each of the questionnaires presents the same questions, and all of the ten respondent companies are import-and-export-oriented SMEs located in the same area in order to ensure the reliability.
Moreover, the questions in the questionnaires are raised after cogitative thinking; all of the questions have been discussed by two authors. The data of questionnaires have been collected and analyzed before the interview regarding to the validity.

2.8 Limitation
One limitation is that the authors have only chosen ten companies in this thesis, so it cannot represent the whole situation of import-and-export SMEs in Jiangsu even though the authors have acquired data from local SME Union and books. These questionnaires and surveys, or interviews can only be regarded as case references.
Another limitation is the means of data collection used in this thesis. When in Sweden,
what we used were emails, so some answers to the questions were comparatively vague because it was not face-to-face communication. When the authors returned to China, we visited these companies, but they only gave the authors a limited time, so some of the questions in this thesis may not be so comprehensive.

The selected companies are not chosen by random sampling. Seven of these ten companies are related to the family or friends of the authors, which may have some impact on the reliability of the survey. This is also one of the limitations of this thesis. Based on the analysis of the official resources and references provided by these cases, the data from these ten companies cannot represent the average data or the generality of companies in the same industry in Jiangsu Province. These cases can only be studies as independent ones to help the authors to observe how the internal and external factors represented in these companies. This is another limitation of this thesis.
Chapter 3 Theoretical Framework

At the beginning of this chapter, the authors will list the internal and external factors influencing the development of import-and-export SMEs in Jiangsu through reading the materials provided by Jiangsu SMEs Union and the books written by Prof. Lang Xianping, and these factors are put into a diagram so that the readers can understand them more easily. Then, the adopted theories, e.g. the macro economy, sustainable development, and industrial structure, etc. will be summarized and explained. At last, the definition and scope of SMEs in China will be mentioned as the supplements to the theories.

3.1 Positive and negative factors in the external and internal perspectives

Diagram 1 shows the positive and negative factors in the external and internal environment which influence the living situation and the development of import-and-export-oriented SMEs. Prof. Lang remarked that the instability of the macro-economy could influence the development of SMEs (Lang, 2008). Therefore, the authors decide to analyze these seven factors from the aspect of Chinese macro-economy.

According to the communication with different SME managers, most of these eleven internal factors appeared on the questionnaires. Thus, the authors decide to focus on these internal factors as the core of the research. The internal factors are separated into objective factors and subjective factors so as to present a clear overview. Moreover, these factors will be analyzed with the real case examples in Chapter 4 and 5.
The following theories will be explained in detail, including the policies and regulations of the SME sector, the macro economy and inflation influence, SME weakness caused by the industrial structure, and the sustainable development and development strategies of SME.

3.1.1 External positive factors of the SME sector

- The policies and regulations of the SME sector

Many countries have adopted supportive policies in the SME sector, for instance, financial assistance, tax incentives, financial support and legal protection. In the
meantime, relevant governmental organizations have set up laws and regulations in order to support SME development. They utilize tax as a tool to guide the flow of funds and promote the healthy development of SMEs, which could also distribute national income and adjust macro-economy. (Wright, 2006)

3.1.2 External negative factors of the SME sector

- Impact of the change of macro economy

The change of macro economy brings great impact on the import-and-export-oriented SMEs. In Jiangsu Province, the change of macro economy is reflected in two aspects, which are high inflation and RMB appreciation. The inflation are caused by different factors, mainly the over circulation of currencies, and the best way to relieve the inflation is to reduce the currency circulation, e.g. appreciating the value of currency. Appreciation of RMB decreases the profits of import-and-export-oriented SMEs, and many of them have quitted the market (Filatotchev et al, 2009).

Figure 2 shows the CPI and inflation rate in Jiangsu Province from 2006~2010

![Inflation rate and CPI in Jiangsu Province (2006-2010)](image-url)

Figure 2 Inflation rate and CPI of Jiangsu Province (2006-2010)
Figure 2 shows that the inflation is quite severe in Jiangsu Province. Inflation has become the most important issue that needs to be solved immediately in China according to its influence on Jiangsu Province. The Bank of China has increased the interest rate of one year fixed deposit to 3.25% (PBC, 2011) in order to control the inflation, but the situation has not been relieved successfully.

The inflation issue in Jiangsu Province and its influence on the import-and-export-oriented SMEs will be the most important part of this thesis, and the authors will explain its impact on the selected companies in Chapter 4 and Chapter 5.

○ Corruption
On the other hand, there are still corruption problems and under-table dealings in Jiangsu Province, which can affect the supportive policies in the SME sector. The details will be analyzed in the chapter of Empirical Study.

3.1.3 Internal positive factors of SME sector

○ Skillful employees
Import-and-export-oriented SMEs have the shortage of skillful employees (Cunningham & Rowley, 2010). A skillful employee can lead the company to adopt appropriate business strategies, and even salvage the company under vital situations. In import-and-export-oriented SMEs, some skillful managers have adopted new models and enterprise cultures, and turned their SMEs to be well-organized companies.

3.1.4 Internal negative factors of SME sector

○ SMEs development strategy
A large number of SMEs are lack of strategies, especially the long-term strategies
which are related to the future development. The SMEs’ development strategies can be divided into long-term strategies and short-term strategies. The long-term strategies concern the further development of a company, and the short-term strategies are made for gaining profit in a relatively short period. (Almor & Hashai, 2004)

● SME weakness caused by the industrial structure

Industrial structure can be separated into three layers, which are labor-intensive, capital-intensive, and knowledge-intensive. Most of the import-and-export-oriented SMEs adopt the labor-intensive model in Jiangsu Province (Zhao, 2010). The model has the lowest requirement for companies, and it emphasizes the low labor-cost in business activities. The non-tech or low-tech jobs occupy a high percentage of the production elements, such as the textile industry and handcraft industry (Datamonitor, 2010). This abor-intensive model has limited the development of SMEs at the very beginning.

The capital-intensive model needs the support of assets and resources, such as the construction industry, mining industry, and petrochemical industry. It brings huge benefits for the country, yet it pollutes the environment.

At last, the knowledge-intensive model is mostly adopted in developed countries, such as the European countries. Services and high technology production occupy a high percentage in the GDP contribution (Chan& Chao, 2008).

Since the last 40 years, the industrial structure in Jiangsu has led to the development of the labor-intensive model. This model boosted the economy rapidly in the last century (Datamonitor, 2010). Since China’s entry into WTO, this traditional model has been criticized a lot due to the side effects of the industry in Jiangsu Province, especially the import and export industry. This thesis will selectively focus on the disadvantages of the labor-intensive model on the import and export industry.

● Sustainable development of SMEs
In Jiangsu Province, only a few SMEs develop sustainably. The sustainable development is a common topic in the world. After the innovation in internationalization of China, people have realized that the companies need to be sustainable in order to leave resources to next generations, and the sustainable development for SMEs is important due to the current lack of resources. The sustainable development can be understood as reuse of wasted resources, green production, and sustainable strategies for SME development. The first two aspects can save the cost for SMEs directly, and the third aspect can enhance the competitiveness and sustainable capabilities for SME development (Thomas, 2007).

3.2 Definition of China SME

The classification of China SMEs is divided into different aspects due to the huge number of population. The number of employees is not the only measurement for defining SMEs. There are other measurements, including the annual revenue and industry. (Shao, 2007)

The regulations published in June 2002 (Regulations of SME promotion) clearly classified the China SME sector, as shown in Table 1.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>element</th>
<th>Unit</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Employee</td>
<td>people</td>
<td>&lt;300</td>
<td>300-2000</td>
</tr>
<tr>
<td></td>
<td>Sale RMB/Y</td>
<td>Million</td>
<td>&lt;30</td>
<td>30-300</td>
</tr>
<tr>
<td></td>
<td>Asset RMB/Y</td>
<td>Million</td>
<td>&lt;40</td>
<td>40-400</td>
</tr>
<tr>
<td>Construction</td>
<td>Employee</td>
<td>People</td>
<td>&lt;600</td>
<td>600-3000</td>
</tr>
<tr>
<td></td>
<td>Sale RMB/Y</td>
<td>million</td>
<td>&lt;30</td>
<td>30-300</td>
</tr>
<tr>
<td></td>
<td>Asset RMB/Y</td>
<td>million</td>
<td>&lt;40</td>
<td>40-400</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------</td>
<td>---------</td>
<td>-----</td>
<td>--------</td>
</tr>
<tr>
<td>Wholesale</td>
<td>Employee</td>
<td>People</td>
<td>&lt;100</td>
<td>100-200</td>
</tr>
<tr>
<td>sale RMB/Y</td>
<td></td>
<td>million</td>
<td>&lt;30</td>
<td>30-300</td>
</tr>
<tr>
<td>Retail</td>
<td>Employee</td>
<td>People</td>
<td>&lt;100</td>
<td>100-500</td>
</tr>
<tr>
<td>Sale RMB/Y</td>
<td></td>
<td>million</td>
<td>&lt;10</td>
<td>10-150</td>
</tr>
<tr>
<td>Transport</td>
<td>Employee</td>
<td>People</td>
<td>&lt;500</td>
<td>500-3000</td>
</tr>
<tr>
<td>Sale RMB/Y</td>
<td></td>
<td>million</td>
<td>&lt;30</td>
<td>30-300</td>
</tr>
<tr>
<td>Postal department</td>
<td>Employee</td>
<td>People</td>
<td>&lt;400</td>
<td>400-1000</td>
</tr>
<tr>
<td>SALE RMB/Y</td>
<td></td>
<td>million</td>
<td>&lt;30</td>
<td>30-300</td>
</tr>
</tbody>
</table>

Table 1: China SME classification and standards, 2003

Moreover, there are distinctions between different categories. The Chinese government has regulated the assets requirement especially for the industry (including mining, manufacture, electricity, the supply of water and gas) and construction.
Chapter 4 Empirical Study

This chapter will analyze and study the 10 case companies according to the major elements of the internal and external influences by secondary data collection. All the referenced data of the case companies have been collected according to the data collection method mentioned in chapter two and will be used in the analysis in this chapter.

This chapter includes three parts, which are case overview, external positive and negative factors analysis and internal positive and negative factors analysis.

1. Case overview. This part will make a general introduction of some of the methods adopted in the survey of case companies and some complementation of this chapter.

2. External positive and negative factors analysis. This part mainly analyzes the influence of external and internal factors on the case companies by combining the cases. It will focus on introducing the influences of such external problems as loans and appreciation of RMB on the import-and-export oriented SMEs, and analyze the influence of these problems on the case companies interviewed by the authors.

3. Internal positive and negative factors analysis. This part will mainly analyze and study the major internal influential factors in the case companies, e.g. commercial strategies and industrial structure, etc.

4.1 Case overview

This part gives an overall introduction to the 10 SMEs which have been interviewed. Seven of the ten companies produce textile products, such as clothing, toys and silk. The other three companies produce electronic items such as solar batteries, electronic parts for speakers, and carving machines for furniture decoration.

The authors made a survey of the above mentioned companies, and having sent emails
to their managers. After that, the authors interviewed them or sent emails to them again on account of some vague issues. It can be said that the survey made the authors were comparatively successful because the companies were very cooperative. After the data were collected, the authors obtained valuable data. For example, as shown in the questionnaire, all the case companies admitted the factors influencing the development of import-and-export enterprises in Jiangsu collected by the authors also affected them. Nine of them stated that the factors influencing their subsistence in the current times were mainly the influence of the appreciation of RMB and the problem of difficulties in taking loans. Among these 9 companies, 2 considered they could take loans in a comparatively easy way, but 7 held opposite opinions. The authors made a further survey of the two kinds of opinions, and carried out online interviews with the managers of these companies and sent emails again to those companies which had not too much time to do an interview. At last, the authors obtained information and understood why these companies held their respective opinions.

This table 2 shows when and how the authors contacted with the 10 case companies:

<table>
<thead>
<tr>
<th>No.</th>
<th>SMEs</th>
<th>Method and feedback time</th>
<th>Additional communication method and feedback time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Zashika (Z)</td>
<td>Email 2011.03</td>
<td>An Extra email towards issues 2011.04</td>
</tr>
<tr>
<td>2</td>
<td>Jiasheng(J)</td>
<td>Email 2011.03</td>
<td>An extra Email and online interview towards issues 2011.04</td>
</tr>
<tr>
<td>3</td>
<td>High Hope (H)</td>
<td>Email 2011.04</td>
<td>An online interview towards issues 2011.05</td>
</tr>
</tbody>
</table>
In addition, the SME Expo held in Suzhou, Jiangsu Province in March, 2011 also contributes much to the survey and investigation of this thesis, because the expo attracted huge numbers of foreign buyers. Quite a large percentage of them were looking for import-and-export oriented SMEs with the lowest prices. The expo has been held for over the 30 years since the economic innovation and has become the biggest expo of business. Therefore, the expo in Suzhou is a typical case representing the survival situation in Jiangsu Province today and it will be used as an extra case analysis in the following context.
In order to maintain fluency, the Chinese names of companies and persons will be replaced with the capital letter of the first word.

### 4.2 External positive and negative factors analysis

In this part, five critical factors, the external policies and laws, RMB appreciation, inflation, issue of insufficient labor forces and access to finance will be analyzed.

The table below shows the influences of each factor on the case companies. P stands for positive influence and N stands for negative influence. For example: In this chapter, the company Z is used as the example of the positive influence of policies and laws.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Company</th>
<th>Policy and law</th>
<th>Inflation</th>
<th>RMB appreciation</th>
<th>Access to finance(Bank credits issue)</th>
<th>Insufficient labor forces</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zashika (Z)</td>
<td>P</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Jiasheng(J)</td>
<td>P</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>High Hope (H)</td>
<td>N</td>
<td>-</td>
<td>-</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suhao(SH)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZN Shine(ZN)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KF Solar(KF)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zhengxing(ZX)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Hantang(HT)</td>
<td>-</td>
<td>-</td>
<td>Yes</td>
<td>-</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Sugao(SG)</td>
<td>-</td>
<td>Yes</td>
<td>-</td>
<td>-</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Shuangyuan(SY)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td>-</td>
</tr>
</tbody>
</table>

**Note:** Yes - Marked as an example on the external factor’s part  
P - Positive influence example  N - Negative influence example
4.2.1 External positive factors

4.2.1.1 Influence of policies and laws

New policies influence Jiangsu’s SMEs in different aspects. This thesis is going to analyze the policies related to the import/export industry and manufacturing. Around five or six years ago, the Chinese government realized the contribution of SME sector to the emerging economy and published the Regulations of SME Promotion:

4.2.1.1 Positive influences

- Article 009 (year 1994) clearly states: “up to 27% tax deduction of the SMEs with less than one hundred thousand Yuan annual fixed taxes (state taxation).”
- According to the article 30 (year 2008), the fixed taxes for manufacture is deducted from 7~20% to 5~15%, and it clearly says that the purpose is to promote the development of SMEs (state taxation).
- Article 24 (year 2002) states if the SME solves the problem of unemployment and reaches the quantitative requirement, the taxes can be exempted.
- According to the article 1 (year 1994), the SMEs in import-and-export industry are exempted from taxes in the first year.

These regulations are also applicable to the import-and-export-oriented SMEs in Jiangsu Province. The first article mentioned above also states the tax refund about textile producing/exporting SMEs. Moreover, the government has claimed that new regulations reducing institution tax would be released (state Development Commission, 2006), and this can relieve the burden of unnecessary expenses on SMEs.

These regulations show the government’s attitude towards SME promotion in China.
The policies are intended to create a positive business environment for SMEs.

✧ **Company Z and Company J**

Due to the resultant effects, the manager of Company Z said that the tax refund of textile exporting bailed them out of the economic crisis in 2008.

The manager of Company J (Clothing production) said that he felt the policies had aided the company. In 2008, the company moved to western China in order to avoid the rapid rising of costs due to inflation, and they gained tax free status in certain productions after hiring 30 local workers. As the manager claimed, 2008 was the most difficult year for the exporting business, so the deduction of taxation had saved the company.

4.2.2 **External negative factors**

4.2.2.1 **Preferential laws and Bureaucracy**

However, imperfect policies could also be found, such as the tax deduction only for joint ventures (Fan, 2003). Native SMEs have less competitive power due to the preferential laws.

Furthermore, there are a number of policy disadvantages that constrain the development of import-and-export oriented SMEs in Jiangsu Province. “Bureaucracy is a quite big issue for us”, claimed the manager of Company J. In fact, the unnecessary procedures in the process of license applications take up plenty of resources, so the SME owners need to apply for licenses through different administrations.

Besides, due to the huge population, a single progress can last up to six months (Feng, 2010), thus the time it takes can be the biggest obstacle to starting up a SME.
Company H (Jiangsu High Hope LTD) met a serious issue caused by the license application procedure when they started up the new business. In early 2009, High Hope invested 70% of their total resources to build a supply chain for a new product, i.e. solar batteries, which are mainly used in generators and energy saving systems. At the beginning, everything followed the schedule, but there was no response regarding to the exporting and relevant licenses (quality, and safety, etc) four months after the application. In the meantime, the crew had to wait, wasting their limited resources. The sales representative Mr. Sa said, “It was a tough time. We couldn’t wait that long due to our limited resources plus the investments and maintenance. The issue was critical. I went to different administrations almost every day, and I didn’t know when it could be done.” Eventually, he had to send staff on unpaid leave till the licenses were issued.

4.2.2.2 Access to Finance

It is difficult for SMEs to get loans from banks due to their low level of credit (Chen, 2010), and this is no exception to import-and-export SMEs in Jiangsu Province. According to the official figures in April 2011 (JSEO), 40.3% of private SME owners claimed there were insufficient bank loans for ordinary producing and working expenses, and 74.6% of private SME owners claimed there were insufficient bank loans for external development. Moreover, while 13.6% of big enterprises gained the low interest rate, only 2.5% of SMEs gained the low interest rate (JSEO).

Even though the government has emphasized the importance of SME sector, these figures show that there are insufficient policies assisting and promoting SME’s development with bank loans, despite the government having already constituted some preferential policies for the exporting business of SMEs. SMEs are still marked with having “low credit”. Frankly, this is a worldwide issue, but there hasn’t been an
effective solution to the situation in China yet. Private loan is one way out, but it has clearly been prohibited by the Chinese government (Chen, 2008).

❖ **Company SH (Case analysis 1)**

According to the collated feedback of the second questionnaire, Manager Lu, sales representative of Company SH (Jiangsu SUHAO International LTD), claimed that:

Firstly, SMEs are able to get loans from banks, but it depends on the company’s credit. Company SH is a medium-sized enterprise with 485 employees. The transactions and annual revenues are quite favorable, thus the company can get loans due to their reputation. However, the amount of loans they can apply for is limited, as it could not help the company too much in front of fatal crises, e.g. the economy crisis in 2008.

Secondly, the SME owners can mortgage their companies in order to get loans. This sounds simple, but it is a long procedure. Eleven documents must be applied for, and sometimes transactions and projects must be aborted due to the time it takes to complete the procedure.

Thirdly, the government constituted a preferential policy for export-oriented companies, such as Company SH. The manager could directly apply for loans through the central bank to save time. Due to the huge numbers of export-oriented SMEs, it takes the same time as the ordinary procedure requires. Therefore, Mr. Lu thinks the solution can only be found through private loans.

❖ **Company H (Case analysis 2)**

Another example is Company H (High Hope Ltd). This company borrowed 10 million Yuan (approx. the same amount in SEK) of public money and from the Federation of Enterprises in order to expand the overseas market. The interest rate is lower than that in banks. Among the amount, 8 million Yuan has been invested in the campaigns
focused on the German market, and the rest has been used for the company’s operations (feedback from the second questionnaire).

✧ **Company ZN (Case analysis 3)**

Furthermore, the Chinese government promotes SMEs to turn to public companies for financing (State Development Commission, 2006), yet the requirements are relatively strict. The salesman of Company ZN, which mainly deals with producing and exporting silicon chips used in lamps and solar systems, and which has 301-400 employees, clearly said that, “The requirements are extremely strict, and our company is comparatively small. It can’t meet the requirements, and they are complicated, so it’s not our option now.”

**4.2.2.2.1 Measurement of credit risk**

These examples have showed the difficulties with bank loans, but some factors are also decided by SMEs, as the case goes with Company KF. It is a small-sized company with 20 employees. The new transaction has just been in place for two years; therefore, it is disadvantaged in banking assessment due to the lack of successful deals. To address the problem, the authors contacted the Jiangsu branch of the Bank of China. The loan manager has provided risk assessment for enterprise loans and presided over the successful case of one typical import and export SME from their branch.

This chapter will introduce how the Bank of China assesses the loan problems with import-and-export SMEs in Jiangsu. It will also elaborate on one case company which has got the loans successfully, and make an analysis of the reasons why the case company has succeed.

- **a) Risk assessment:**

According to the risk assessment materials provided by the Bank of China, the authors have summarized the following major points affecting the loans for enterprises. On
the whole, the risk assessment consists of five factors of the investigation into the borrower’s reliability:

- **Factor 1**: The borrower’s credibility. The bank requires that borrowers have to provide their historical loan records, and borrowers must have figures for debts in daily business transactions.

- **Factor 2**: The floating assets of borrowers should be more than 50%, and for import and export enterprises, the amount needs to be higher due to the risk of international transaction.

- **Factor 3**: The actual payback capability of borrowers has to be considered. The borrowers may lack of assets, and this problem may affect and hinder the company’s development.

- **Factor 4**: The risk assessment of a company’s execution. There are three measurements in the import-and-export industry, i.e. the international risk, the execution risk, and the ability of venture against risks. The borrowers have to meet certain requirements related to the above mentioned criteria.

- **Factor 5**: The capability of paying off. The borrowers have to be capable of paying off the loans. Their ability to do so is measured via the companies’ annual reports, the companies’ reputation, and the provisions of required certificates.

**b) Company ZX (The successful case)**

Company ZX (Jiangsu Zhengxing Ltd), had to face the asset issue of expansion in the international market due to the economic crisis and the CNY appreciation in 2008. Their main transactions are exporting textiles and plastics. In 2008, the company had to loan 650 thousand Yuan in order to fill the gap created by the CNY appreciation.

1. According to the first factor, the borrower had 18 years of positive business reputation, and had 14 fixed overseas customers. The borrower successfully loaned two million Yuan from the Jiangsu Branch (Nanjing) of the Bank of China.
in 2002, and the money was paid off in 2005. Therefore, the borrower could be considered as having good credit. The borrower has three house properties and one of the three properties had been mortgaged. From 2004 to 2007, the total export amounts of the company were (in millions of Dollars) 200, 250, 450, 550, and most of the transactions were related to the Bank of China.

2. According to the second factor, the borrower had 60% floating asset among total assets for over 5 years, thus the income could be seen as an impressive achievement. The debt of the borrower in 2006 and 2007 were 35% and 38% of total floating assets, respectively. The customer manager claimed that in order to avoid taxes, the actual revenue was supposed to be higher.

3. According to the third factor, the historical records had to mark the borrower as a trusted payer of repayments.

4. According to the fourth factor, the macro-control had affected the expansion of the borrower in the international market by limiting its transactions. Moreover, the added value of textile was low (Wang, 2004), and due to the appreciation, the company was weak in venturing against risks.

5. According to the fifth factor, the total payback capability of the borrower could be calculated as 3 million Yuan. In addition, the borrower was able to provide all of the documents and certificates which were required by the bank; therefore, the bank issued 650 thousand Yuan of loans.

The cases showed the considerations were weighed to the side of the banks. Frankly, the requirements are quite high. One of the bank employees claims that all five of these factors are compulsory, which means all of the new SMEs cannot loan due to strict measurements. The full circumstance of execution of the company is investigated and the conditions are rigorous.
In this thesis, it is believed that the bank should ease the requirements in certain areas in order to promote the development of the Jiangsu import-and-export industry. For instance, the historical reputation of the company should be less important when considering granting sufficient mortgages. The bank loans in Jiangsu can therefore be labeled as highly difficult, and the onus is on the government to reform unnecessary procedures in order to enhance effectiveness.

After innovation, the process of marketlization pushed banks into the market; banks prioritized profit maximization as their primary consideration alongside ordinary enterprises. Thus the risk analysis of lending became difficult and fussy. Banks habitually chose the safer option of big enterprises and ignored the demands of SMEs. The employee also claimed that the bank rejected the SMEs which had relatively high risks and unstable revenues.

4.2.2.3 Influence of Yuan appreciation

In early 2005, one US dollar equaled 8.1 Yuan. In June 2008, one US dollar equaled 6.65—6.68. In the meantime, Chinese RMB kept appreciating rapidly. There are diverse reasons for this. Firstly, there is trade deficits claimed by the USA, Japan and so on. They forced the Chinese government to balance the deficits (Zhang, 2009). Secondly, macro-control has been used to counteract the severe inflation (Zhang, 2009).

Although the economy works at a relatively fast pace, such unharmonious elements as inflation and poverty gaps constrain the development of Jiangsu. Since the last decade, the real estate market has become extraordinarily competitive. In Nanjing, the housing price is approximately six times of that in 2004. Moreover, there is quite an interesting coincidence within the official figures. The year in which CNY appreciated was also the year when the price in the real estate market rose.
Is it merely a coincidence? Or is there any relationship between the two phenomena? Professor Lang proposed that “Appreciation of China’s Yuan cannot solve the problem of inflation; it even exacerbates the economic bubble (Speech, Beijing University).” This perspective has been criticized time after time by governmental researchers and scholars, but in the authors’ opinion, his proposition was reasonable.

Company HT

Firstly, according to the questionnaire of the managers of company HT, 4 out of 8 of them stated in the final question that “I will invest money in the real estate market, and it is worthy of doing so.”

According to the feedbacks of the 10 SME owners and managers, 6 of them stated that “I’ll invest in housing” or “Of course I’ll buy an apartment.” That meant over half of the SME owners wouldn’t like to invest money in their own companies. In spite of the high ratio, the questionnaire did not give any indications about the real estate market.

Secondly, the appreciation of Chinese Yuan possibly harms the import-and-export industry because the industry is tightly bound with exchange rates and a small fluctuation has a great impact on import and export (Wright, 2005). The appreciation of currency is a way of controlling inflation. It can limit the overheating of industries like the import-and-export industry, and some countries, e.g. Japan and the USA, have a trade deficit in the import-and-export industry. It seems that the import-and-export industry is overheated, and it needs to be cooled down in order to balance the trade deficit. However, according to Professor Lang’s opinion, even if the RMB keeps appreciating, severe inflation will still exist in Jiangsu. Official figures show that from 2007 to 2010, inflation fluctuated from 4.8% to 5.7% (NSBC).

Thirdly, according to the first questionnaire, 5 of the SMEs stated that their companies have met the issue of the appreciation of Chinese Yuan. Besides, after referring to SME Information, the authors found that quite a high percentage of
import-and-export-oriented SMEs in Jiangsu would not develop their companies (JSEO, 2010). They would change their mind and invest in the real estate market because of the rising house prices.

4.2.2.4 Influences of Inflation

Inflation is another critical factor which influences Chinese SMEs. In this section, the reasons for inflation will be analyzed with a focus on the influence of import-and-export-oriented SMEs.

With import-and-export-oriented SMEs, inflation brings with it a rise in raw material and operational costs. For instance, the cotton price in January of 2010 was 13000 Yuan per ton and in December 20000 Yuan per ton (East Textile, 2011). The rise in the cost of storage, labor, and transportation are also becoming negative factors which narrow the survival space for import-and-export-oriented SMEs.

Company SG

The international business may take a long time. For example, in the bookkeeping of company SG, sometimes the money are transferred to the bank account after a long period, which means the customer may pay the arrearage after a long period.

This can affect the SMEs heavily. For instance, as the procedure shows on figure 3, the official inflation rate in 2010 was 5.7% (NSBC, 2010), which means if in June 2010, the deal price of an exporting business was 100 Yuan, including 7% interest, the profit would be 7 Yuan. If the customer paid the money in December 2010, it means the 100Yuan depreciated 2.85%, and at last, the profit was 4.15 Yuan after the inflation.
4.2.2.4.1 Loan issue caused by inflation

Moreover, the inflation also increases the difficulties of loans. The basic reason of inflation is that the currency is issued too much, and the fastest way to control it is to raise the interest rate. Therefore, it is more difficult for the SMEs to have loans due to the high interest rate. All of these difficulties become the burden for import-and-export-oriented SMEs, and they could not even pass it to customers (Wright et al, 2007). As mentioned in the case of the expo in Suzhou, foreign customers are aware of the severe competition among import-and-export-oriented SMEs. As a result, the customers only pay the lowest price in the international business and the SMEs can only gain the tiny profit and struggle in the industry.

In addition, these figures are collected from official figures, and due to some reasons, e.g. the stabilization of the Chinese society and the despotism regime, people seldom hear different voices toward the government, thus the figures may be modified or deflated, and the true situation will be more complex than what the examples have showed.
4.2.2.5 Issue of insufficient labor forces

In recent 3 years, a new issue has emerged and become serious in Jiangsu and in the rest of the eastern China, i.e. the insufficient labor force. In Nanjing, manufactories are not able to hire the same number of workers as those in previous years; the total number of employees is decreasing.

In Jiangsu Province, the labour forces in big cities are mostly from villages. They switch roles between farmers and workers; they come to big cities and find jobs when each farming season ends, and they go back to villages before the next farming season year by year, so people give a special name for them--- “Nongmingongs”, which means “farmer workers”. In 2008, problems came. Since the manufacturing industry in Jiangsu is labour-intensive, the manufacturers need labour forces most (Cunningham, 2010). Due to the issue, the manufactories had to raise the salaries. Yet, the situation had not been refined. There are two reasons for the issue.

The industrial upgrading in Jiangsu Province is the first reason. The manufactory has moved the production lines such as factories to the western and middle parts of China in order to decrease the cost; therefore, the factories and industrial bases have been moved far away from big cities. Instead of looking for jobs in big cities, Nongmingongs can easily find jobs in small cities close to their villages. In addition, even though the salary will be less than that in big cities, the transportation fee has been reduced, and the working spots are not far away from their homes. As a result, most of the Nongmingongs prefer to stay in small cities (Chen, 2008).

The one-child-policy is the second reason. The policy has also been implemented in villages and in 1980; the policy was put into effect. The consequence of the policy can be seen since 2008. According to Mr. Lu, the salesman of ZX, the cost for labor doubled compared with that in 2008.
4.3 Internal positive and negative factors analysis

Table 4 is the same as Table 3, which shows that the cases have been used and are correspondent with the internal factors.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Business strategy and management</th>
<th>Social network</th>
<th>Logistics issue</th>
<th>Industrial structure</th>
<th>Crisis resistance</th>
<th>Sustainable development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zashika (Z)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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**Note:** Yes- Marked as examples on internal factor’s part

Table 4 Main internal factors
4.3.1 Positive factors

4.3.1.1 Skillful SME owners in Jiangsu Province

Normally, SMEs owners are lack of knowledge (Filatotchev et al., 2007), but there are well-educated and skillful SME owners in Jiangsu Province, who graduated from overseas universities and came back to Jiangsu Province to start up their own businesses (Filatotchev et al., 2007). Those who brought new technologies and advanced management skills to Jiangsu's enterprise cultures were able to reform the organizations the same as western enterprises. According to the analysis of highly-educated SME owners in N City (eastern part of Jiangsu Province), high-tech development areas are mostly composed of high-tech SMEs, especially the software industry. The survey shows that in most of the companies, strategies, regulations, and employee welfares are close to those in western companies, and these companies are more flexible on the whole. The resource integrations are efficient (Filatotchev et al., 2007). The reason is that after the economic take-off in Jiangsu in 2002, plenty of students studied abroad, and in 2010, there were 77 thousand students who went to different countries, and 74 thousand students graduated and came back to Jiangsu Province (JSNEWS 2010). The significance of the phenomenon tells its own story. Some of them may start their own SMEs, and they would be the fresh blood of the SME sector.

For example, Mr. Sa, the owner of Company X, who was interviewed by the authors is a returned student. He studied in Europe and worked there for more than 10 years, so he has a comparatively deep understanding of the European enterprise cultures. After having returned to China in 2008, he opened Company X, adopting comparatively humanized management skills. For example, he adopted such management approaches as customer relationship maintenance and brand awareness, etc., operating a plastic-product-manufacturing company in a comparatively ideal manner.
4.3. 2 Negative factors

4. 3.2.1 Weakness

The international competitiveness of Jiangsu’s import-and-export-oriented SMEs is weak due to the internal weakness. This part will analyze the weakness of import-and-export-oriented SMEs through different internal aspects. These aspects represent the weakness and difficulties caused by the SMEs themselves, including the weakness of business strategies, the weakness of social network, the weakness of logistics, the weakness of industrial structure, and the weakness of crisis resistance. These factors clearly illustrate and explain the weakness and difficulties for companies’ internal operation.

1) Weakness of business strategies

SMEs are more or less weak in different dimensions compared with big enterprises, such as the employee’s education level and their specific knowledge (Christos, 2004).

- Company SY (Case 1):
The writers have interviewed an SME owner who had bankrupted in 2007, and the example perfectly shows the weakness of SMEs.

Before 2005, the company SY (Shuangyuan Import and Export Co., Ltd) used to be the sub-company of a big Japanese enterprise. It dealt with the producing and exporting of plastic products, and the main target consumers were Japanese. The transaction was riskless; the Japan headquarters bought all the products regularly. After 2005, the Chinese manager of the branch who bought the company wanted to make its own business. But the manager hadn’t considered that its good achievements were given by the Japan headquarters. He thought there could be a better solution if he expanded the business by himself.
However, the manager was lack of the managerial skills and knowledge of accounting; his wrong decision led the company to have missed the opportunity of gaining financial preferential subsidies. The chaotic management made all of the Japanese employees leave the company. In 2006, the manager focused on a new project, which was the investment of lumbers and gold sand resources in New Guinea, but he didn’t take into consideration of the poor infrastructure and political issues there. At last, the machines could not get started due to the lack of electricity and the diggers were prohibited by the new elected regime.

- **Company KF (Case 2):**

Company KF, another case of the solar-battery-exporting SME, mentioned at the beginning of the context, is also facing a critical issue recently.

According to the feedbacks of the questionnaire, the company has invested 10 million Yuan (approx. the same amount as that in SEK) in the expansion of the German solar power market, and they have invested 8 million Yuan in the campaign and building manufactories in China. The situation was vital, because the company wrongly assessed the strength of their main competitors—Sun Tech and YG Solar. These two brands are famous, and they are big enterprises. The KF is not aware of their strong competitiveness before the campaign in Germany. And the sales representative admitted it was their fault in the marketing research. The authors contacted with the company last week, and they are still not able to sell the first batch of products in Germany. Moreover, due to the new EU law, the company which has adopted solar energy was not allowed to gain subsidies from the government, which made it more difficult for KF to expand the market.

- **Analysis:**

These two cases could prove the weakness of the SME sector, and the weakness is vital. One wrong step leads to the entire failure. But it is difficult to change the current
situation related to the industrial structure in Jiangsu Province, which means Jiangsu Province is still a labor-intensive province and low-tech working still takes a big part in business activities (Cunningham, 2010). The abundant labor force results in low labor cost. Moreover, although the Chinese law has regulated the lowest income, it can be regarded as helpless and inanition. For instance, the lowest income in ShangHai is 850 Yuan per month, and in Xi’an, 520 Yuan per month (NBSC, 2011). Thus it’s even harder for SMEs to attract highly-educated and skillful employees due to the low salary. Skillful employees tend to work in big enterprises in order to have relatively high salary and social securities (Cunningham, 2010), because big enterprises are powerful and they have the strength to provide good payments and comprehensive social welfares in Jiangsu Province.

According to Christos (2004), the SMEs need to prioritize the strategy-making in order to improve the effectiveness and focus on the self-innovation strategies instead of on unrelated multiple strategies. This perspective provides a good suggestion for them. SMEs should make different goals such as short-term goals and long-term goals; the most importance is to be flexible with the market. According to the questionnaires, the companies which meet or have met critical issues were unable to adjust themselves in order to comply with the changes in the market. For instance, the manager of SY Import-and-Export Co., Ltd admitted the company had not considered different backup plans.

In addition, SMEs should mobilize their advantages, i.e. agility in business activities. This may help the company to survive by rapid reaction to the changes in the market, especially in Jiangsu Province today.

2) Logistics misunderstandings

Figures show that in Jiangsu Province, the logistics cost occupies 30—40% of the total cost, and an efficient logistic management can save 15—20% of the total cost (Xue& Liu, 2009). Professor Chen argued in his survey that 80% of SMEs would not
outsource their logistics to third parties in terms of logistic costs (Xue & Liu, 2009). In fact, these SME owners have not considered storage costs, vehicle maintenance costs and time efficiency. Although the logistics cost has been saved, it may not be a correct choice, considering the overall cost in the business activities.

According to the second questionnaire, the salesman of JS clothing and exporting Ltd stated that “we are not using logistic outsourcing. It’s expensive. And we do not have fixed orders for logistic companies.” Moreover, he also said something about the advantages of using outsourcing, “We’d like to have logistic outsourcing if it’s not that expensive. Sometimes we cannot send the products to the customs immediately after getting orders, because we don’t have too many trucks and drivers. Thus we have to follow the schedule of the trucks, it takes time.” It can be understood. Due to the flexible orders and less transactions compared with those in big enterprises, SMEs have low bargain power with logistics companies.

Thus Professor Chen claimed that the import-and-export oriented SMEs in Jiangsu should also build an alliance in order to bargain with logistics companies the same as western countries (2010). This has two advantages--- reducing the overall cost and enhancing the business efficiency.

3) Lack of social networks

The social network in Jiangsu Province is extremely important, so is it in business networks. The word “Guanxi” is defined to describe this cultural feature in China (French, R. 2007). In Chinese business activities, Guanxi (means “relationship” in Chinese) represents the profit.

The owner Mr. D of Company H claimed that the Guanxi hinders the company’s fair competition, especial during the procedure of document sanction; people who had relationships with local officers can simplify the procedures and gain preferential treatment in the custom house.
Also, he agreed that in his company, his family members or friends are responsible for the important working positions, such as the positions of procurement manager and administration manager.

According to the unpredictable policies, such as the appreciation of Yuan, the falling of stock market, the new policies in real estate market and the new subsidies standard in import-and-export industry, if the company is able to receive the information before it releases, it will be the biggest advantage. It sounds unreal, but it is true in terms of the autocratic regime in China.

Under table operations and places where corruptions are common, people are used to hearing the cases of under table operations between officers and businessmen. It becomes a negative factor that hinders the SME development. Unfair treatment can be frequently seen in business activities between normal SMEs and the SMEs which have social connection with government officers.

Moreover, the Guanxi also represents the trust-based relationships in Jiangsu Province (Zhao. 2007). Some of SME owners are family-based, but it brings a problem, i.e. the people who have been well educated or skillful can’t be hired for critical positions in the companies, as the owners would rather give the positions to unaccomplished relatives or family members instead of giving them to skilled employees in terms of the loyalty (Zhao, 2007), which hinders the absorption of skillful employees in the SME sector.

4) Weakness caused by the industrial structure

In the following part, the writers will illustrate the problems caused by the industrial structure. According to the questionnaire, most of the companies have met the issue caused by the industrial structure, especially in the textile-production-oriented SMEs. The manager Mr. Z of a toy company stated that the increasing labour cost gradually lessened profits in the toy production due to the low added value. The reason is:
The labor-intensive model is mostly adopted in developing countries due to the low requirements. (Lu, 2002) Nowadays, SMEs of Jiangsu's import-and-export industry have met the biggest issue. The reason is that most of the SMEs in the industry adopt labor-intensive model, and due to the low technology, the difference between product trends is tiny, thus the only way of survival is to implement the Low Cost strategy (Lynch, R. 2006), which means the price war is unavoidable.

For example, in the expo of S city (located in eastern part of Jiangsu Province), all of the labor-intensive SMEs met the critical issue. It is hard for them to export the product. The low-technology-contained products didn't have strong competitiveness, and the SMEs could not even rise 4% of the price; otherwise the overseas customers can easily turn to other suppliers (China News, 2011). Moreover, under the inflation, the price of raw materials has increased. Lumber and lacquer, for example, have increased 6~8% compared to that in 2010 (Mao.W, 2010), but SMEs could not pass it to their overseas customers because the overseas customers are quite sensitive to the price. As a result, the profit margin becomes smaller, and this forces the SME owners to leave the market.

5) The weakness of crisis resistance
In 2008, the crisis had affected most of Jiangsu's SMEs, especially the import-and-export industry. The total export amount had decreased substantially. According to the official figures of the survey of Jiangsu's SMEs, 35.9% of SMEs claimed the crisis caused high level of negative influences and 40.1% of SMEs claimed the crisis caused medium level of negative influences (B2B Research centre, 2009).

Moreover, the surveys showed the crisis caused harm to import and export businesses most, and the main issues were the loss of customers, the inappropriate promotions that barely influenced customers, and the increase of cost (B2B Research centre,
2009). These figures illustrate that the SME sector is easy to be affected by external changes. Whereas, most of the big enterprises have the department of crisis management in order to reduce the loss when crises happen, such as provision of backup plans, separating of business investments, and preparing press conferences in terms of contrived crises. SMEs should also comply with what the big enterprises have adopted. It can increase the viability in crises and enhance the agility of SMEs.

According to the questionnaire, only a few of the SME owners stated that they were familiar with the crisis management, for example, the manager F of company K stated he hadn’t heard about crisis management, and the company didn’t have any backup plans corresponding to different crises.

### 4.3.2.2 Lack of sustainable development

The concept of sustainable development hasn’t been seriously considered by most of the interviewed SME owners. When the authors asked about the reason, the owner of company L claimed that the profits were low; the company was not able to spare money to the pollution purification or social activities. Moreover, the manager Mr. Lu of KF Solar (a battery company) claimed that the liquid waste of company polluted the environment, but they did not intend to solve the problem due to the financial difficulty.

However, SMEs need to consider sustainable development in their business activities.

Sustainable development can be seen in two aspects: the attitude to environmental protection and the social responsibility (Yu& Bell, 2007). These two perspectives represent the global business development tendency due to the limited resources and pollution issues. Sustainable development also benefits business entities. For instance, the pollution purification system that has been adopted in the metallurgy industry is able to extract and reuse the minerals from contaminated water (Yu& Bell, 2007).
Moreover, the energy-saving system can save 12%-23% of electricity usages in factories. According to Professor Yu and Bell’s survey (2007), in Jiangsu’s import-and-export-oriented SMEs, only 17% are willing to apply sustainable strategies such as reusing and recycling paper, which means the concept of “being green (environment-friendly)”. Sustainable development is still a difficult task to implement, especially in the SME sector. The reason is that most of the SMEs are lack of credits and assets, and finding a way to save costs becomes a critical factor in the development for SMEs.

In addition, according to the figures, 79% of the companies in the survey have not adopted any policies related to sustainable development yet (Yu& Bell, 2007). The main reason can be the lack of consciousness in stainable development, and this may lead to a disaster for the whole industry. For instance, in 2008, the melamine issue of dairy products brought an extremely serious problem to the industry, and in the dairy industry, most of the producers are SMEs (Fao News-Room, 2008). The reason is that most of the producers were not regulated by social morality. People involved in the issue only focused on immediate profits. But the punishment was unmerciful. The whole dairy business had been destroyed, and all of them went bankruptcy after the exposal (FAO News-Room, 2008). The case can be seen as the carelessness of social responsibility as well. The carelessness of stakeholders and consumers never bring anything valuable to business entities. Moreover, the influence of that disaster is already there, and no one is willing to buy any dairy products from China even today. Till now, the producers of dairy industry have more or less realized how important sustainable development in business activities is. But what’s worse is that the contaminated food and commodities have been found in different industries, such as the toxic rice, bleached breads, and reused oil (Okumura, 2008), etc. It can be understood as the shortage of ethics.

On the other side, the realization of sustainable development in Jiangsu Province also needs the macro conditions and the government’s support. As Karl Marx (1867)
claimed in the *Capital*, the accumulation of capital started with violence …and productive forces determine production relations. In the authors’ opinion, the implementation of sustainable development in Jiangsu’s import-and-export-oriented SMEs depends on the total social productive forces. China is a developing country, and based on Karl Marx’s opinion, Jiangsu Province is located at the primary stage of capitalism; and the accumulation of capital hasn’t been finished yet. Thus Chinese government has failed to consider numbers of social issues (human rights, pollutions, working conditions, and quality monitoring, etc.), which are closely related to the economic development. Moreover, quite a big part of Jiangsu’s business entities only consider the profit; and it will not be changed until the productive force comes to a high level. These are the reasons why it is difficult to realize sustainable development in Jiangsu Province.
Chapter 5 Case study

Among these 10 case companies, the thesis will mainly focus on and research two cases in terms of the basis of the qualitative research, and make the 2 companies as examples in order to observe their survival situation and operation strategies.

This chapter will focus on the analysis of the 2 selected companies in order to make a contrast of how the internal and external influences are represented in these two companies.

The reason why the authors chose these two companies is that they have similar characteristics. For instance, they were almost founded in the same year; both of them manufacture textile products, and they all deal with foreign customers. From the strategies adopted by these 2 companies after the change of the internal and external environments, the authors can see that different attitudes have led to different futures of the companies; if the companies do not adapt to the environment, they will finally be knocked out of the market by the environment.

Although the 2 companies are quite similar, in fact, the gap between their yearly revenues is huge. Figure 4 shows Comparison of two companies in year 2010. It’s valuable to research the two cases by focusing on the influence of external and internal factors, it can help the authors analyze the reason of difference and observe their survival situation.
The authors will analyze the positive and negative factors in internal and external environments for the two cases; these factors are shown in Diagram 5 and Diagram 6. The diagrams show comprehensive overviews of the factors which influence the development of the companies through four parts, and the analysis in the following context represents the situation in reality; it also contrasts with the concepts in Chapter 4.
Diagram 5 External and internal factors for Case A
Diagram 6 External and internal factors for Case B
5.1 Company SG (Case A)

Jiangsu SUGAO (‘Company SG’ for short) Ltd is located NanJing (N) city, Jiangsu Province, and was founded in 1995.

Company SG is a small-sized enterprise which produces and exports different types of textile and silk products. Most of the products are exported to European and Middle-East countries. Till 2010, the annual revenue was 2.6 million Yuan, with the employee number being 35, and the average salary being 2000 Yuan/month. The company had two factories. In 2009, it moved the factories from N city to a small city in western China to save cost. The company had two limited production lines, which are located in the western part of China, approximately two thousand kilometers from the harbor of N city.

5.1.1 External influence analysis

- Positive factors

Law and regulation

Chinese government has constituted the law of tax refund for textile export companies. Compared with its competitors, most of the products of Company SG had met the requirements of tax refund, thus SG could have advantages in tax refund.

- Negative factors

a) Crisis resistance

In 2008, the company encountered the same situation as others. The economic crisis dragged down the profit, and the company had a big loss.

b) Yuan appreciation

The appreciation of Chinese Yuan had affected SG in 2009. The company did not dare to accept big orders from its customers due to the unstable exchange rate. The crisis made the big loss of the company, with the revenue of 2009 being minus 1.3 million
Yuan, and most of the loss was caused by the expense of pre-produced products and labor cost.

The weakness showed SG had not established strategies for sustainable development, and most the existent development plans were made according to the market trends. SG relied heavily on the market, but it could be easily influenced by the external changes.

SG has confronted various difficulties, and the biggest one was from the external economic environment, e.g. the appreciation of Chinese Yuan. In general, each deal made by SG could make 15%—25% interest in 2005. Due to the increasing appreciation of Chinese Yuan, the profit had decreased by 3% yearly. In 2009, the profit was 4%—8% before the innovation of company, and they still had to suffer the loss caused by economic crisis in 2008.

In the spring of 2009, the company had moved the factor from Nanjing city to the western part of China in order to reduce the cost, and the strategy was successful. Till 2011, the profit had been recovered to 9%—14% due to the stabilization of Chinese Yuan. The manager said “It’s the last way we could figure out. If the currency tends to appreciate again, I am afraid that we have to close our company.”

c) Inflation

The inflation has not influenced the company’s business due to the stable price of cotton and silk, but the inflation did influence the working attitudes of their employees. The average salary was 2000 Yuan in 2010. The owner of the company did not intend to increase the salary, thus the internal working atmosphere was quite messy. The boss claimed that, “I won’t increase the salary, because everybody earns the same in this industry. If they leave, I can easily find someone else to replace them.”
5.1.2 Internal influence analysis

- **Positive factors**
  
  **a) Flexibility**

  Company SG was capable of making rapid reactions due to the market trends. “We are able to make what the market needs,” said Zhang, the salesman of SG. SG was an agile company. The advantage enhanced the overall speed, and the company was able to sell the products to customers faster.

  **b) Product Quality**

  SG emphasized the product quality. It knew that a long-term relationship was the most important thing for the company’s sustainable development. It had a quality check department, and the quality of raw materials such as silk and cotton has been checked after procurement. Thus SG had a large number of fixed customers in Germany, Italy and France.

  **c) Customer Relationship Management**

  Another opportunity is that SG has fixed customers and enjoys high reputation among its European and Middle Eastern customers. In 2008, the number of orders decreased dramatically, but the company had maintained the customer relationship and finally gained long-term corporation with the customers.

  The company put great emphasis on the relationship with customers and the relationship with customers became the first priority in daily works. The manager claimed that the company had its own standpoints with the customers, i.e. to tell truth as much as they could.

  For example, in the business of export of silk products, the company always told the customers the real factors of the product, gave extra products in case of loss during transportation, and focused on quality checks.

  Moreover, in the first deal with a new customer, the company always double checked
everything, and offered a lower price in order to build a trustable relationship. The manager said, “The first contact is very important. Sometimes we don’t even earn any profit in the first business, because we are focusing on the long-term relationships with customers.”

This idea had brought profits to the company. Even in the economic crisis in 2008, the company got some orders, and till 2010, the loss in 2008 had been recovered by the profits earned from their old customers.

- **Negative factors**

  a) **Business strategy**

SG had its development strategies. The boss would invest money in building a new factory in the small city F with low land rents, but he was hesitating due to the stagnant export business and the appreciation of Chinese Yuan. In 2010, the achievement of the company was good; it covered the loss of 2008 and the early 2009. Thus the boss intended to open a new factory in the spring of 2011. At last, the plan was aborted due to the unconfident foreground of import and export business.

During the economic crisis in 2008, the company realized that most of the loss was from the reduction of orders from the European customers, thus in the early 2009, the company started to look for different customers around the world in order to reduce the damage of the specific region. Till 2010, the company had different customers in Middle East countries, Europe, South American, and Austria. Even though the customers were not fixed customers, they were capable of dealing with the risk of international business. Moreover, the manager could not make long term sales strategies due to the loss of human resources. He claimed the company could only make monthly strategies because he did not know who would quit and when they would quit.

The company didn’t have a strong competitive power compared to its competitors. In
the textile and silk industry, the high technology is not required; most of their products are simply processed from the raw materials, such as the dye-working and stitching. But their competitors can also provide the same products. Therefore, the company decided to minimize the cost in order to offer a more competitive price to their customers. But the “price war” might not be a good choice. The less the company offered, the less profit it gained, as the manager said, “It’s complicated. Our profit margin becomes smaller.”

According to the three business strategies (Lynch, 2006), the company should adopt other business strategies to replace the low-cost strategy, such as the differentiated strategy, which means doing something different from their competitors. But the true situation was that the company reacted slowly in the market, because the manager was afraid of investing new department to do something else or changing the product lines due to the small size of the company.

b) Employee loyalty
The company should sign labor contracts with employees, including five types of insurances and the tax deduction of house loans paid by employers (NJGL, 2007). In the small-sized SMEs such as SG, the boss would not pay the money for the employees, thus the problem arose. The employees worked without the labor contract or partly got paid of the above mentioned insurances, which caused the non-employee loyalties. Besides, many employees had left the companies, with one resigning each three months on average (Manager Lu, 2011). For a company, it is not the loss of employees that accounts; if the number of employees who leave the company is larger than the number of newly-recruited employees, it is really dangerous (Shi, 2008). In this company, however, the number of employees who leave the company is quite large.

The loss of employees is a common problem for labor-intensive import-and-export enterprises. Prof. Yang mentioned in his works that the biggest factor influencing the
loss the employees was “future and development” (Manager, P93). SG only had a small scale and employees almost had not higher promotion in the company, so it was inevitable they would leave. What’s more, the non-employee loyalties led to the lame working attitudes; it brought no enterprise cohesion and thus hindered the company’s development.

c) Management

Nonstandard procedures could be found in the company’s daily work. The manager claimed nonstandard procedures were a common problem for Chinese SMEs, which are represented in different aspects, such as the nonstandard of labor contract, and nonstandard of the working procedure. In Jiangsu, many large-scale manufactories today have all adopted advanced managerial ideologies, e.g. cell production (Lang, 2011). This model of managing the operation of factories makes the production line go around the operator in the shape of a “U”, having reduced the cost to the largest extent, increased the efficiency and saved the space. But managers of SG didn’t adopt the advanced management model of other similar factories, focusing only on how to reduce cost by reducing the salaries, which had caused the disadvantage of SG.

d) Skilled employee

In SG, most of the employees were high-school graduates or technical college graduates, and only few of them had relevant professional knowledge. They all learned from the work or their colleagues continuously, and none of them held a bachelor’s degree or higher in management or business administration. The human resource changed frequently due to its nonstandard labor contracts. These employees were less paid than degree holders, as they could not provide creative business plans or contribute to the management of the company. Moreover, the low salary also brought the high leaving rate of employees. Many of them came to the company only to accumulate experiences, and after half a year, they went to another well-paid company.
e) Brand recognition

Brand recognition is quite important for the future development. In the European countries such as Denmark, even though a tiny enterprise has its own brand, their brands are quite impressive and contain different meanings which are delivered to customers. The authors of this thesis have consulted one small enterprise in Denmark, and the manager said the brand was specially designed and it cost twenty-four thousand DKK. It means that in Denmark, brand is emphasized in organization cultures, and each brand represents the unique characteristics of a specific company. On the other hand, Chinese SMEs pay less attention to brand recognition, which to some degree represents that the Chinese organization culture “copy” and” duplicate” others. For example, the Chinese word SUGAO means nothing but close to the famous Chinese brand SUGO. The reason of giving SUGAO is to appear similar to a famous brand. It is the same with the SUGAO products. They are quite similar to those made by other companies. Therefore, making the company different from others would be a new development approach for Chinese import and export SMEs.

5.1.3 Case conclusion

The case shows how the internal and external factors have influenced the operation and development of the enterprise. According to the authors’ analysis, Chinese Yuan appreciation, inflation and unreasonable management, etc. have a comparatively strong impact on the enterprise, and caused the decline of the enterprise since 2008. In the traditional operation model of import-and-export SMEs in Jiangsu, cost-based strategies have been dominant, however, the traditional economic model with the low-cost strategy has met the biggest challenge as the economic development brings the increase of labor cost. People pursue a better life and consider more about life quality, and they are not content with the salary of 2000 CNY per month. Moreover, India and other developing countries tend to replace China to be the world
factories due to their lower labor costs (Friedman, 2005), and by that time the import and export SMEs will not have any advantage in the low-cost strategy at the global stage. Thus the import and export SMEs need to change their development strategies. Furthermore, the internal mess should also be solved. As the Chinese wisdom says, “To resist foreign aggression we must first get rid of the internal enemy”. The internal integration creates the organization value, and a mature organization value promotes the organic development.

5.2 Company HT (Case B)

Company: Jiangsu HANTANG LTD (HT for short), Location: Nanjing (N), founded in 1996

Company HT is a small-sized enterprise. It had three factories in the development base which is located in the western part of China, and the number of employees had been 55 till 2010. The main transaction is female-clothing producing and exporting; the main customers are women in North America and Japan. The total revenue in 2010 was 14 million Yuan; the average salary was 3400 Yuan per month.

5.2.1 External influence analysis

- Negative factors
  1) Crisis resistance

The company was easily influenced by the external environment. For example, the economic crisis in 2008 and the Japanese earthquake in April of 2011 had affected the sales achievement. These two crises are common problems for all the import and export SMEs, because the SMEs depend on the market and rely on the market due to their limitations of resources.

2) Access to finance
The difficulty of getting bank loan was another problem. In the past, either customers prepay first or the seller delivers the products first. It was risky in the international business. After China became one member of WTO, the import and export industry had adopted the new way of balancing in international business which is called credit balancing. It means the third party like an international bank presents the grantee of the international business, and the customer need to pay an amount of money to the bank first; after the delivery of products, the money will be automatically transferred to sellers. It changes the traditional international business. Therefore, the company should have sufficient assets in order to prepay the production and its relevant costs before the customer pays. SMEs usually have not enough floating assets, and as has mentioned before, SMEs have difficulties in getting bank loans, thus HT usually loaned through unofficial ways, but the interest rate was higher; it was risky.

3) Insufficient labor forces
HT also had the problem of insufficient labor forces in recent years due to the locations of its factories. The increasing labor costs also narrow the profit. In N city, the normal labor forces became difficult to recruit due to the one-child policy and the development of western China. According to official figures, the labor cost has doubled compared with that five years ago (NBSC, 2011).

4) Law and regulation
Most of the threats for HT were the competition from big enterprises. In Jiangsu Province, the imperfect competition law cannot protect the SMEs benefits, and big enterprises can also make a federation in order to unify the prices. For example, in the house appliance industry, there was a scandal in the 1990’s. The TV was sold at a triple price than that in western countries, and the truth leaked from the internal “price war” between big TV producers.

5) Yuan appreciation and inflation
The Yuan appreciation and inflation were the problems to HT; the situation has been almost the same as in company SG due to the commonness.

5.2.2 Internal influence analysis

- Positive factors

1) Skilled employee

Company HT was a private-owned company with strong organization value. The manager of company graduated from a university in England with a master’s degree of business administration. All of the employees were required to be able to speak English in order to better communicate with foreign customers, and some of the employees held bachelor’s degrees in International Management or Marketing. The total employee quality was high. The company also held annual festival in order to promote the passion at work. Moreover, the company signed contract with every employee, thus most of the employees worked over two years for the company at least.

2) Employee loyalty

In HT, the incentive system was also adopted. Compared with the situation in other companies, every salesman was able to receive higher percentages after each international business. Due to the good internal atmosphere, the employees were conscientious at work. The manager said, sometimes people worked at the company till eleven o’clock without extra paid. The reason was that they wanted to work hard in order to get the boss’s appreciation, promotion and incentive.

3) Management and internal crisis management

HT had its own uniform. Every employee, including the manager was required to wear the uniform in daily work. The organization value integrated the company to be one unit; the manpower was not wasted and misused. Therefore, after comparing the
official figures, it is found that the revenue of the company in 2010 was higher than the rest of the import and export SMEs.

The company had long-term strategies and crisis management. The long-term plan was brought by the manager, and the crisis management was brought by the boss. According to the long-term plan, the company could have continuous development plans, such as the expanding project with which the company gradually bought new land in order to grow the raw material directly and integrate it to its production lines. The crisis management was also important. The company had the backup plan which treated their customers in different regions equally on purpose. In 2008, they still had 300 thousand incomes and reached to break even due to the backup plan.

4) Customer relationship management

HT had the customer service department, so the company had gotten feedbacks from its customers frequently. The manager claimed that the company was always penitent to hear what customers need in order to improve the service quality. The business strategy depends greatly on the customers’ needs. In addition, the company had monthly meetings that were specially held to research the feedbacks and questions, which improved the overall reputation and fame of company.

5) Flexibility

In 2009, the company had changed the production lines from directly buying the raw material from other companies to producing the raw material in its own company. The company was one of the few companies which had its own raw material farms, thus the cost had been decreased, and the company could offer a lower price to its customers. Furthermore, the company had made a new business, i.e. the outsourcing with Japan. In 2010, HT had become the sub company of a Japanese enterprise, and 13% of their annual profits were contributed by the fixed outsourcing business. The manager said they believed that they could do the outsourcing business with more Japanese
companies, and the business could be bigger in the future.

In addition, HT had joined the federation of Nanjing SMEs. Till 2011, there were over 15 members, and all of them were SMEs from textile or clothing industries. The purpose of joining the federation was to defeat the competition of big enterprises and keep their profits. Moreover, when there were new orders which could not be digested by a single company, the company would bring it to the federation in order to make a corporation and reach a win-win situation.

- **Negative factors**

  **Business strategy**

  The company’s business strategy was the same as the first case. The low cost strategy had been dominant in the company since the first year. But this issue was bigger for HT. In the female clothing industry, there were other big enterprises which produced the same products. Apparently a small-sized enterprise could not defeat big enterprises in the price war, and at last, HT could only survive in the gap between big enterprises. The manager said that to expand their market and find new customers were difficult due to the competition, thus HT had to focus on retaining the old customers, and then gradually look for new customers in new regions.

**5.2.3 Case conclusion**

This case is quite different from the first one. HT is more or less close to the western enterprises due to the quality of the owner. But in enterprise management, HT had adopted militarized management model like that in Japan together with the humanized model like that in western countries, which could be seen in the enterprise uniform (Japanese-style) and employee incentive mechanise (Western-style) (ref), and the organization culture combined the Eastern and Western values. It seemed HT still adopted the low cost strategy, in fact, the low cost strategy slowly terminated the
company, for example, the manager of HT have been to the expo of G city, and he claimed that the Western customers were aware of the cost and the profit margin, and they depressed the price almost to the same as the cost.

On the other hand, the company has realized that it should focus on other perspectives in order to make it different, e.g. the company has joined SME federation, focusing on CRM, and relying on famous Japanese brand, etc. It is a good symbol of the transition of organization value in Jiangsu's import and export SMEs, as enterprises have been aware of the brand recognition and the enterprise image in international business.

5.3 Case comparison

The figure 7 and figure 8 shows the comparison between two cases, the revenue gap between two companies is quite big.
The disproportionate labour cost is an issue in Jiangsu Province, even though the revenues are relatively high; the salary standard is approximately 1/6 ~1/7 of that in developed countries.

**Figure 8 Average monthly salary employee during year 2006 to 2010(Yuan)**

The following Figure 9 shows that the number of employees tends to grow; these two companies are all developing slowly.

**Figure 9 Comparison of employee number**

The three figures show the difference between two companies. As has been mentioned at the beginning of this chapter, these two companies had the same level of capacity when they were founded, but after 15 years, the differences in revenue and employee number are quite big.
Table 5 and Table 6 below have compared the internal and external factors of the 2 case companies.

<table>
<thead>
<tr>
<th>External Negative factors</th>
<th>Company SG</th>
<th>Company HT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yuan appreciation</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Inflation</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Crisis resistance</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Access to finance</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Labour force</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Law and regulation</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>External Positive factors</th>
<th>company SG</th>
<th>Company HT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laws and regulations</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 5 Comparison of case companies’ external factors

<table>
<thead>
<tr>
<th>Internal negative factors</th>
<th>Company SG</th>
<th>Company HT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business development strategy</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Management and Employee loyalty</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Skilled employee</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Brand recognition</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal positive factors</th>
<th>Company SG</th>
<th>Company HT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexibility</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Product quality</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>CRM</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Employee loyalty</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Skilled employee</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Management and internal crisis management</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 6 Comparison of case companies’ internal factors

From the comparison of the internal and external factors of the 2 companies as shown
in Table 5 and Table 6, objective reasons leading to different development situation of the 2 companies can also be seen. The main reason could be the different management concepts and development strategies. One of them accepted changes, while the other was not sensitive to the market. In the authors’ opinion, apart from the inevitable influential factors (inflation and currency appreciation, et.), the most direct factor influencing these 2 companies was the management concepts. The well-managed company HT had more advantages and opportunities than the problematically-managed company SG. Thus the management of company should be taken into consideration in daily operations. Besides, the overall educational level of the employees is also another factor. Those who have received advanced Eastern and Western education of management concepts are more capable of managing the company than those who haven’t received such kind of education. As believed by the authors, with the continuous exchanges between China and other countries. The educational level of employees will play a crucial role, because the former type of people can more easily absorb advanced management concepts, thus leading the development of the enterprises.
Chapter 6 Conclusion

This chapter will cover 3 parts: First, find a solution to the focus problem in this thesis; second, find out what research this thesis can extend to; third, make some suggestions for the research.

After the research and analysis, the thesis is able to answer the research questions regarding to the 10 case studies:

1. What are the most important positive and negative factors for import-and-export-oriented Jiangsu’s SMEs in the external perspective?

2. What are the most important positive and negative factors for import-and-export-oriented Jiangsu’s SMEs in the internal perspective?

In the previous chapters, through the analysis of secondary data, the authors have found out many factors influencing the development of import-and-export SMEs in Jiangsu; and through the analysis of primary data, the authors have observed how these factors are represented in the ten case companies. Through the study of these ten companies, the authors have got to know how these factors have affected these companies to a comparatively great degree. For example:

1. The authors believe that among external positive factors, the one with comparatively important positive influence is the series of supporting policies made by the government for the import-and-export SMEs. These policies have improved the survival environment of the import-and-export SMEs, reduced the tax, and presented certain incentives. Therefore, the authors think that in the future, import-and-export SMEs in Jiangsu should closely attach importance to the influence of policies on them, analyze the policies and lead the policies to have positive impact on them.

2. Among external negative factors, the ones with most extensive influence are Chinese Yuan appreciation and inflation. In the thesis, the authors have said a lot about the influence of these factors. In the Jiangsu today, these 2 external factors
almost affected all the import-and-export SMEs. But the most formidable is that
the influence is inevitable for traditional export-oriented enterprises. Therefore,
how to reduce the impact of these 2 factors on SMEs is the problem to be
overcome by the import-and-export industry in Jiangsu with first priority. After
combining with the knowledge in books, the authors totally agree with the opinion
held by Prof. Lang (2009), i.e. if the export-oriented enterprises don’t seek
changes from their own structures and management, and then the road for
traditional import-and-export SMEs in Jiangsu will be narrower and narrower.

3. Among the positive internal factors, the educational level of employees is a very
important influencing factor. At the end of the Qing Dynasty (the last dynasty in
China) when it was about to perish, there were many persons with lofty ideals
who aspired to learn advanced scientific ideas in the West. They helped change the
future of China through the knowledge they had obtained from the West. However,
in this ever-changing information-and-technology-based era, Chinese still have to
continuously learn advanced management concepts and technologies from all
corners of the world to enable China to have a great impact on the global stage.
Jiangsu is a big coastal province, and the favorable conditions of being close to
the sea have contributed to Jiangsu’s frequent connection with the world ever
since the ancient times. Therefore, every import-and-export SME in Jiangsu
should popularize the learning of Western management concepts and technologies,
enabling the import-and-export SME in Jiangsu to make more economic profits.

4. Among the internal negative factors, the authors think brand recognition and
industrial structure are two aspects the current import-and-export SME in Jiangsu
need to be more aware of. In the thesis, the authors also elaborated the attaching
importance to these factors would help the enterprises to improve their image and
even industrial structures. These two factors are very important for enterprises.
But the scale of the import-and-export SME in Jiangsu has determined that it is
very hard for them to persist in doing things unrelated to direct profit, thus making these two factors a paper talk.

4.1 Brand recognition

After having analyzed the ten case companies, the authors found that most of them have moved their factories from the eastern to the western part of Jiangsu Province in order to reduce the cost, and some of them have seized the production process from the beginning of the raw materials. In the authors’ opinion, the low-added value is the most important thing which needs to be solved immediately, and the consideration of brand recognition can lead a way out because creating self-owned brands can improve the value of the enterprise from a lower position to a higher position, and last earn profits through their brand value and services, walk from pure OEM (Original equipment manufacturer) to OBM (Original brand manufacturer) (Wright et al, 2007). In Jiangsu, there has not been the recognition of intellectual properties, such as brand recognition. Most of the SMEs just copy the design from famous brands in order to take advantages of the influence of the famous brands. In fact, this business strategy would not be feasible in the future due to the replacement of other developing countries, such as India. They have cheaper labor cost than China, and they have plenty of labor resources.

Import-and-export-oriented SMEs in Jiangsu Province should change the global impression from “cheap and bad quality” to “self-owned brand and self-owned design style” in order to increase the competition power on the global stage. And Japan has been a successful example. Japanese cars are economical with favorable quality, and the Japanese companies were almost under the same situation as that for Chinese companies after the Second World War. Therefore, if Japan can develop its own style of products, Jiangsu Province can do the same.

Another example is the clothing production. Take the brand of H&M for example,
most of their products are produced in Jiangsu Province, and the dyestuff is extracted from chemicals which pollute the environment. At last, the producer and exporter could only gain little profit compared with the selling price of H&M in Europe. The figure shows the cost of one H&M product such as cloth in Jiangsu Province was about 15 Yuan, and the selling price in Europe is over 100 Yuan (Ryans, 2008). Although most of the works are done in Jiangsu Province and the environment has been polluted, the profit that got by Jiangsu’s SMEs is much less than European sellers. Therefore, the import-oriented and export-oriented SMEs of Jiangsu Province should focus on the promotion of their own brands. When the fame of brand has been well built, the value chain can be prolonged, and the added value can be increased.

4.2 Industrial Structure

Industrial structure is also a very important factor. After the research of the import-oriented and export-oriented SMEs of Jiangsu Province, the authors believe that the industrial structure of China has a vital weakness, i.e. the low added value and labor-intensive economic model. Especially in the manufactures, most of the Chinese manufactories are producing low-technology-contained products, including the textile products, toys, and clothing, etc. One decade ago, it might look good due to its contribution to GDP, but now, the inflation and scale of internationalization is quite low. Moreover, according to the analysis of the value chain, it is not suggested that so many low-technology-contained products exist in Jiangsu Province in terms of the pollution and added values. For example, the LEGO toys are produced in Jiangsu Province by many toy manufactories located in the western part of Jiangsu Province. But the production procedures of toy are complicated. Ten procedures should be gone over in order to complete a toy (LEGO, 2010). When a toy has been produced, most of the work is completed in Jiangsu Province, but Jiangsu Province only gains one tenth of the profit. The reason is that the added value
from the toy promotion, branding, service and selling are in Europe. SMEs of Jiangsu Province could not get the same profit as the Europe, even though most of the work is completed in Jiangsu Province.

At last, the thesis has studied the import-oriented and export-oriented SMEs of Jiangsu Province through internal and external aspects, and the authors believe the factors listed in the thesis are all worthy of consideration by important-and-export-oriented SMEs in Jiangsu, and all these factors are critical for the research of SME development.

6.2 Discussion

After having defined these important factors, the authors believe it is not a complete list, and future research should be conducted to replenish the factors having been found. Besides, among the factors that have been found, some are worth further discussion, e.g. access to finance. It is difficult for import-and-export SMEs in Jiangsu to get loans, but if the government lowers the requirements, consideration should be taken regarded to whether these SMEs can repay on time, whether these loans will become bad loans, or whether these SMEs can confirm that they will use the money for the enterprise development. It goes further beyond lowering the requirements.

What’s more, under the overall situation of Jiangsu Province, people become utilitarian, with such things as poisonous milk and poisonous rice emerging one after another. Therefore, it is worth discussing how many on earth import-and-export SMEs will adopt the strategy of sustainable development.

6.3 Suggestion

Owners of SMEs can get a general understanding of the analysis made in this thesis, thus avoiding some obvious problems, e.g. SME owners can try to reform the manufacturing departments of the enterprise, making them more reasonable and effective. The cases of successful development introduced in this thesis can offer
some references for other SMEs in the same industry.

This thesis analyzes the problem by collecting relevant data and contrasting them. In the authors’ opinion, this approach can also be applied to other studies. In this thesis, the authors adopt the form of case analysis to contrast the influences of various factors on each case company; before each analysis, the authors have considered whether the factor would have any impact on the enterprise. In this way, the authors can find the core problem exactly. This is also why the authors think this approach is very conducive to other research.
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April 2011)


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Appendix

Questionnaires of Under-investigation

The questionnaires are showing as follow:
The figures what have been collected are only used for research purpose, and if anything involves business secrets can be left as blank.

Question 1
What are the main transactions of company? Please state
____________________________________________________________________

Question 2
The company revenue, total employee and total assets from 2006~2010
____________________________________________________________________

Question 3
Average salaries of the lowest rank of employees from 2006~2010
____________________________________________________________________

Question 4
What do you think about the current import-and-export industry? Do you feel confident of the future market? Please clarify
____________________________________________________________________

Question 5
What business strategy has been adopted in you company? Have you had an emergent strategy if your company meets any critical issue?
____________________________________________________________________

Question 6
What factors do you feel threatening your company? If yes, how do you solve these problems?

Question 7
What are advantages of your company? How do you feel about these advantages?