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The impact of financial crisis on company financing in typical Chinese and Finnish SMEs

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<p>The global economy continues to be in a sluggish condition these years, both Western and Asian countries are not the exceptions of this global trend. Since the number of small-to-medium sized enterprises almost exceeds that of large-sized corporations all over the world, and the survival of these SMEs could have a solid influence on one nation's economy, the author intend to study the performance of SMEs through conduct research on their financing issues. Especially in economic depression and financial crisis period.</p> <p>China and Finland, in Economic aspect, one is developed country and the other is developing country; in Geographic aspect, one is Nordic country and one locates in Far East. The two have quite different culture, policy and business environment. The author is interested in finding out some differentia as well as common grounds by doing this research. Therefore, the SMEs in both Finland and China are studied in this thesis.</p> <p>The research problem in this thesis is to find the impact of financial crisis on company financing in typical Chinese and Finnish companies. The research is done based on the researcher's own interests and also in a way benefiting international companies those focusing on both Chinese and Finnish markets, especially new entries, to understand the global environment and trends.</p> <p>The research will be mainly qualitative with some quantitative supports. Since the researcher's approach is more like a business behavior study, the data will be collected by study how the companies work in financial crisis time. The researcher will go deep into the topic by conducting survey and collect secondary resources instead of collecting large amount of data and getting the statistical results.</p> <p>Interviews are conducted both in China and in Europe to get reliable primary resources. Other resources are mainly secondary economic reports from books and articles published.</p>	
Keywords Corporate financing, Equity, Managerial Accounting, Financial crisis, Economic trough	

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1 Introduction

The global economy continues to be in a sluggish condition these years, both Western and Asian countries are not the exceptions of this global trend. Since the number of small-to-medium sized enterprises almost exceeds that of large-sized corporations all over the world, and the survival of these SMEs could have a solid influence on one nation's economy, the author intends to study the performance of SMEs through conduct research on their financing issues, especially in economic depression and financial crisis period.

China and Finland, in Economic aspect, one is developed country and the other is developing country; in Geographic aspect, one is Nordic country and one locates in Far East. The two have quite different culture, policy and business environment. The author is interested in finding out some differentia as well as common grounds by doing this research. Therefore, the SMEs in both Finland and China are studied in this thesis.

The research problem in this thesis is *to find the impact of financial crisis on company financing in typical Chinese and Finnish companies*. The research is done based on the researcher's own interests and also in a way benefiting international companies those focusing on both Chinese and Finnish markets, especially new entries, to understand the global environment and trends.

1.1 Background

The author took significantly long time to read articles, books and theses that written by both bachelor and master graduates in recent years, as the preparation for this thesis.

The basic reason of doing this research is due to the author's personal background. As a Chinese national who takes higher education in Finland, and intends to start future career in China, it is good to study the environment in both countries. This research generated from personal interests and personal career planning. Nevertheless, companies those are interested in operating business both in Finland and China could also find something useful from this thesis.

The author did not spend any time to seek for a commissioning company for this research. The reason is that the research is not conducted for any individual firm's goals or benefits, and does not involve any internal data, conditional information or any other support from a specific company. Otherwise, the author studies for personal interests and is not willing to be restricted or requested by any other party. The research result should be shared to the public. The author hopes it could guide more entrepreneurs and managers.

1.2 Thesis topic

The impact of financial crisis on company financing in typical Chinese and Finnish SMEs

RQ: How does a financial crisis or economic trough affect Chinese and Finnish SMEs in financing aspect?

IQ1. What are the main financing methods in typical Chinese SMEs during financial crisis or economic trough period?

IQ2. What are the main financing methods in typical Finnish SMEs during financial crisis or economic trough?

IQ3. What are the main differences between the results of IQ1 and IQ2?

IQ4. What are the changes in company financing methods during financial crisis and normal time?

1.3 Demarcation

The aim of this research is to understand the different financing methods in Chinese and Finnish companies during financial crisis and economic trough. Since the influence of financial crisis in China and Europe are on different level, this study would be meaningful in a way that finds the reason of it. In another way, the research will benefit international companies that focusing on Chinese and Finnish market, especially new entries, to understand the exact situation in their target market. These companies will find a way to survive in the crucial financial crisis time, regardless of in their local market or in the foreign market.

The thesis focuses on corporate financing but not financial crisis or economic trough. Therefore, the cause or the characteristics of financial crisis is not studied in the thesis. There will not be too much explanation related to the financial crisis.

In addition, the study is on the impact of financial crisis on SMEs, but not how SMEs work in specific financial crisis time. This means, the bad economic environment caused by financial crisis is also in this case. The impact of financial crisis can still exist even though the crisis has already gone.

The researcher is focusing only on the financing methods in China and Finland; other markets are not taken into consideration. The impacts of financial crisis on company sectors except financial sector are also not studied in this research. Financing methods in normal time other than financial crisis time will be mentioned but not as a main part. This study also does not give answers of how companies could handle financial crisis or economic trough but only study the changes in business financing.

1.4 International aspect

The thesis includes research in both Chinese and Finnish business world. Chinese and Finnish SMEs are studied in order to get the results in different market condition. Both primary research and secondary research are conducted with international resources. In addition, the research result on the two countries will be using for comparison. The study reflects the differences in culture, economic condition, business environment and many other aspects. Therefore, this is a highly internationalized research.

1.5 Anticipated benefits

As this thesis is research-orientated. The results are common applied. All the companies (generally the companies being interviewed as primary resources) conducted in the research process can take benefit by looking at the market trend and the final evaluation. Especially when the company has willingness in entering Chinese or Finnish markets.

The final thesis would help these anticipated parties find a suitable way of financing in economic trough, thus would more likely to survive in the tough business environment. Both China and Finland are currently experiencing an Economic depression. Therefore, the thesis would be quite valuable for the SMEs at the moment.

1.6 Key concepts

Financial crisis: A specific situation that the value of financial institutions and financial assets are dropping down rapidly. People tend to sell or withdraw their financial assets from banks as it is thought they will devalue in short period. (Investopedia)

Corporate finance: Corporate finance is a field that studies companies' funding and financial assets allocating in order to get best return on investment to their investors and keep suitable equity. Basically, it depends on the company's assets and liability. The development of a company is a process of financing → development → financing again → development again. While there is a shortage in capital, a company should raise enough capital with the lowest costs. While there is a surplus in capital, a company may output it in somewhere, of course, with possibly the lowest risk, in order to maximize the capital return.

Economic indicators: An economic indicator is statistics based on certain economic activity. It follows business cycles and allows analysis in order to measure certain economic performance.

Financial market: Broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade. (Investopedia)

Some financial markets only allow participants that meet certain criteria, which can be based on factors like the amount of money held, the investor's geographical location, knowledge of the markets or the profession of the participant.

Economic trough: A nation's economic condition usually follows an economic cycle. The cycle is waving and periodical. It contains growth, peak, depression and trough. An economic trough is the lowest point in the economic cycle. At this specific period, a country's business environment is apparently unsatisfactory. The unemployment rate goes up and the purchasing power goes down. Many companies' profit rate decreases or even makes deficit. A lot of SMEs faces severe survival crisis.

1.7 Risks and risk management

Since most part of the research is conducting with secondary resources. The risk may occur when the resources are out-of-date, or even the secondary resources themselves are not reliable enough. Between, in primary research like interview, misunderstanding of each other will also lead to reliability risks. In certain situation, the respondents could be somehow reticent. This is also a problem.

In order to reduce risks, the author chooses secondary resources that are of high reliability level and academic standard. Most of the resources being chosen are published within five years. The interview questions are designed in an understandable way to avoid misunderstanding of the interviewees. The author also communicated actively with the interviewees to share the opinion, in order to understand each other better.

Some Internet resources are used as well, but all of the information are published in reliable website from professional organizations. Nevertheless, the majority of resources are still academic books and articles.

2 Theoretical frame of reference

The theoretical frame consists of:

- 1) Theories of general financial crisis. For instance banking crises and panics, credit frictions and market freezes, and currency crisis.
- 2) Theories about business financing in corporate finance area.
- 3) Macroeconomic trends
- 4) Basic business model of SMEs
- 5) Banking and financial institutions (very tiny)

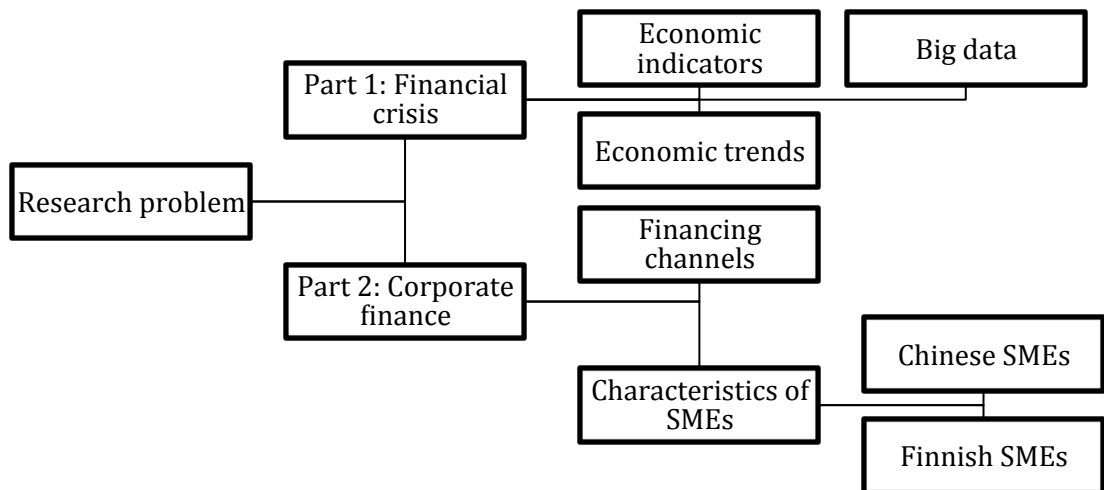


Figure 1. Theoretical frame of reference

Figure 1 shows the theoretical framework of this thesis. The figure indicates the key concepts and their correlations. The two basic modules of the thesis are financial crisis and corporate finance. The author will explain the theoretical frame logically in the following chapters.

2.1 The financial crisis and economic trough and its impact

As mentioned before, the cause or nature of financial crisis is not the study direction of this research. The author will not explain the theory further more but will show the real condition of economic environment.

The most nearly financial crisis occurred followed the collapse of Lehman Brothers, a sprawling global bank, in 2008. This incident almost brought down the world's finan-

cial system. At that time, Lehman Brother took huge taxpayer-financed bail-outs to shore up the industry. Nevertheless, it failed to prevent the credit crisis getting to the worst condition within 80 years. This financial crisis's impact can be seen all over the world. Despite of several years' recovery, in the year 2013, GDP was still below the pre-crisis peak in many rich countries, especially in Europe, where the financial crisis has evolved into the euro crisis. (The Economist, 2013)



Figure 2. EU GDP growth rate (Source: Eurostat)

Figure 2 may visualize the impact of financial crisis on the Euro area. There was a sharp dropping in the EU GDP growth rate after the crisis occurred in 2008. Afterward, the growth rate turned to be positive again. The Euro area started to experience slow recovery till this year. Fortunately, this trend might continue.

The GDP growth rate could somehow indicate that the economic condition is getting better these years. Seems like the terrible time has gone. Nevertheless, the financial crisis's impact still exists these years. The business environment is not that optimistic.

2.2 The business environment

The overall economic trend has an uptrend both in Finland and in China, but these years after financial crisis, the business environment in both countries are not quite satisfactory. At least, it could not reach the level before the financial crisis occurred.

2.2.1 The business environment in China



Figure 3. China NBS manufacturing PMI (Source: National Bureau of Statistics of China)

In China, the NBS Manufacturing Purchasing Manager Index measures the performance of the manufacturing sector and is derived from a survey of more large-scale, state-owned companies. The Manufacturing Purchasing Managers Index is based on five individual indexes with the following weights: New Orders (30 percent), Output (25 percent), Employment (20 percent), Suppliers' Delivery Times (15 percent) and Stock of Items Purchased (10 percent), with the Delivery Times index inverted so that it moves in a comparable direction. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction; while 50 indicates no change. (Trading Economics)

Since manufacture industry takes significant portion of the Chinese industry, this indicator reflects the business confidence of Chinese business managers. Apparently, even the lowest point in the cycle before the year 2008 is still higher than recent four years. It means the overall business confidence in China is low from 2013 till now.

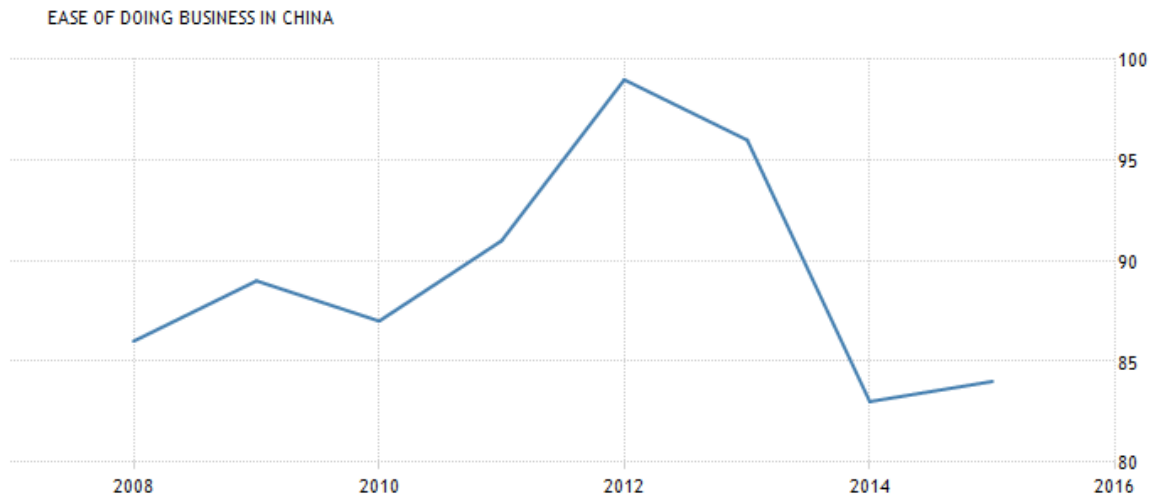


Figure 4. Ease of doing business in China (Source: World Bank)

Figure 4 shows the ease of doing business in China. The Ease of doing business index ranks countries against each other based on how the regulatory environment is conducive to business operations. Economies that scored from 1 to 20 usually have simpler and more friendly regulations for businesses. (Trade Economics) Both economic and regulatory issues lead to decrease of this indicator. It is easier for SMEs to survive successfully at this moment than several years before. The reason may not link directly to the financial crisis in 2008. Since the political situation changed rapidly in China in recent years (Basically because of the president reelection), the positive effect can be a result of political changing.

2.2.2 The business environment in Finland



Figure 5. Finland Business Confidence (Source: European Commission)

The overall trend of business confidence follows similar route in Finland and China. The economic trend tends to be globally applied. After the financial crisis, the business confidence level of Finland experienced an obvious recovery and reached a small peak in 2011. However, similar to that of China, the business confidence began to remain on a relatively low level since 2013 till now.

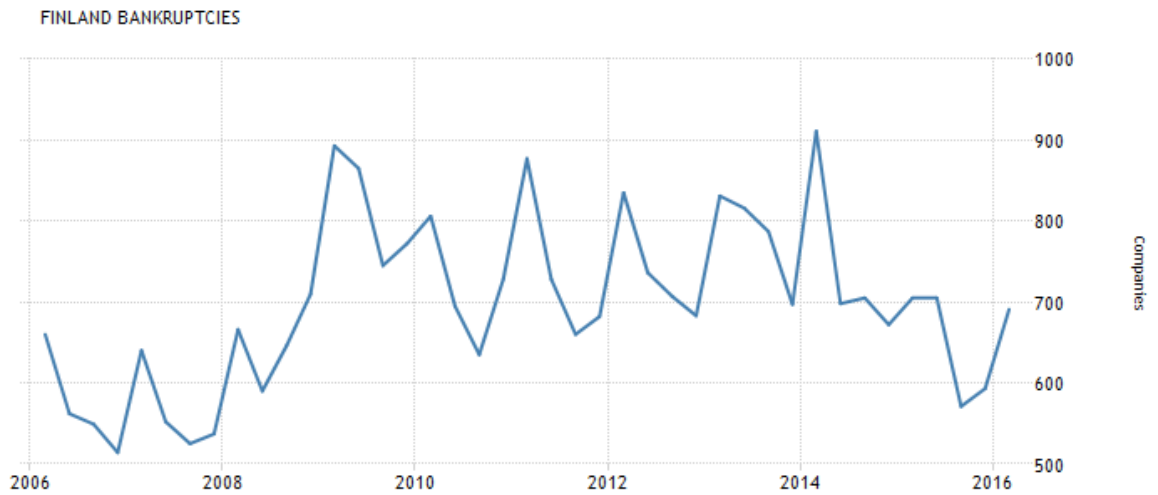


Figure 6. Finland Bankruptcies (Source: Statistics Finland)

A bit different from the business confidence graph, the actual bankruptcy rate decreases a lot since 2015. This trend means that the business environment may not be as pessimistic as the business managers predicted.



Figure 7. Ease of Doing Business in Finland (Source: World Bank)

Doing business in Finland is much easier than in China. Even in financial crisis time, the Ease of doing business indicator was only 16, still belongs to good condition level. The reason is the political support to SMEs in Finland. The law is quite friendly to start-ups in Finland. The company registration in Finland requires only a few straightforward steps. The laws are very encouraging to the investors who want to start a company in Finland (as an example in the north where local authorities have special interests to attract foreign investments or domestic, some facilities are granted) (Company Formation Finland).

2.2.3 The business environment comparison

The global economy is still in a depression stage compared to the year 2011 and 2012. The business environment is not satisfactory enough in many nations. Many companies, regardless of their scale, are facing severe financial problems. The firms tend to be more conserving in recruiting people. As a result, Finland's unemployment rate increased to around 12% last year. The unemployment rate in China is relatively stable and low (around 4%), mainly because of the social welfare differences.

The low unemployment rate does not indicate that the Chinese business environment is better. Since China is a fast developing emerging market. The economic growth in the previous decade was surprisingly high. Therefore, the economic depression in recent years led to panic in the business world. On the contrary, as a developed and saturated economy, the Finnish business environment is relatively stable. In addition, the Finnish government provided an excellent environment for entrepreneurs. The difficulties that SMEs face in Finland would be less than in China. To summarize, at least at the beginning stage of start-ups, the business environment in Finland would be better.

2.3 The corporate finance

Before a company can invest in an asset, it must obtain finance, which means that it must raise the money to pay for the investment (S.A.Ross, R.W.Westerfield & J.Jaffe 2013). SMEs are not the exceptions.

Corporate finance is a big subject that covers short/long-term financing, cash management, credit and inventory management, capital budgeting, etc. In this thesis, the author would only focusing on raising capital, short-term and long-term financing area, in order to understand the business behavior in this specific corporate finance area.

2.3.1 Raising capital in early-stage

The first problem an entrepreneur would face when she or he decides to set up a new company is the start-up capital. In most of the situations, in order to start a new business, the entrepreneur has to invest certain amount of capital as assets. There are several main channels that the founder usually chooses to finance the new venture.

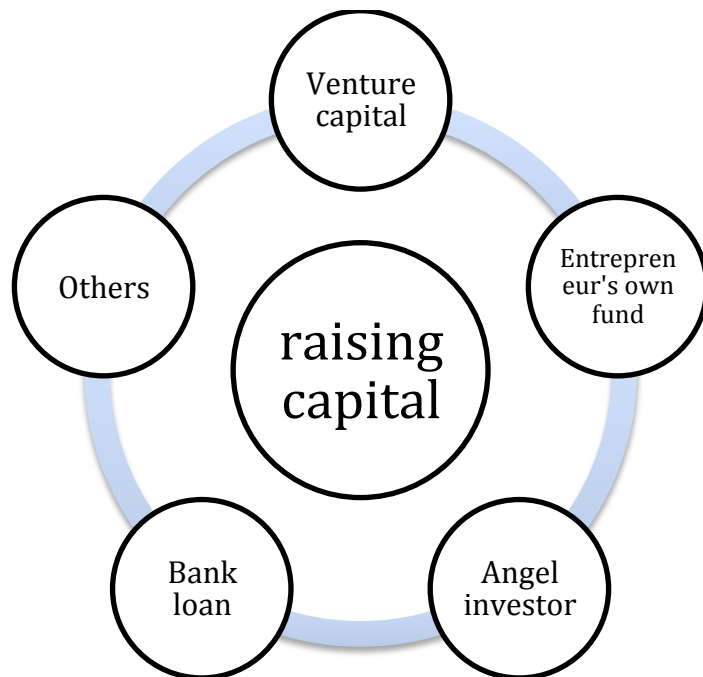


Figure 8. Channels of raising capital in early-stage

Entrepreneur's own fund

This is the most common way for start-ups to raise capital. The entrepreneur invests her or his own savings into the new company. Nothing has to be prepared if use one's own money. The founder also does not need to worry about the capital return in short period.

However, in many cases, an entrepreneur may hold a good business plan or have perfect professional skills but does not have enough savings to invest into the business. Therefore, he or she needs to consider other channels.

Angel investor/ Business angel

An angel investor or a business angel is an individual or group of people who invests money in an unlisted company with potential for growth. Many of these companies are start-ups and need external assistance and financing. This kind of firms might be too risky for banks, venture capitalists, or government owned financing institutions. Business angel's capital invested can be a crucial factor for a company's survival. It also helps to establish the connections and experiences. (Finnish Business Angels Network 2015)

An angel investor can be people who have very limited knowledge in the product's industry, but may also be more knowledgeable people who have already invested in a number of previous ventures.

Venture capital

It is also possible to seek fund in the venture capital (VC) market. While venture capital does not have a precise definition. There are some common characteristics that venture capitalists usually have, especially the following three characteristics:

1. VCs are financial intermediaries that raise funds from outside investors.
The VC firms are usually limited partnerships. This feature separates VCs from angel investors as the latter are typically just invest their own money.
2. VCs play an active role in overseeing, advising, and monitoring the companies that they invest- the principals in VC firms are generally quite experienced in business.

3. VCs usually do not want to hold the investment forever. They tend to look for an exit strategy, such as taking the capital invested public or selling it to another party. (S.A.Ross, R.W.Westerfield & J.Jaffe 2013, 622)

Bank loan

Although sounds to be quite normal, but in reality start-ups can seldom get money successfully from the bank if they have no assets. Many countries give legal supports on SMEs thus they could get a bank loan easier. Nevertheless, it is still not a wide-using way of financing a new venture.

Others

The four that mentioned before are definitely not all of the financing channels. For example, in China, it is quite common that individual entrepreneur finance her or his business by borrowing money from family members and friends. Sometimes it can be treat similar to the entrepreneur's own funding since many of the family members and friends are not expected to get so called "return on investment" in this case.

Some new ventures may also finance through grey channels, which are usually not legally accepted, for instance private usury.

2.3.2 Short-term financing

Short-term finance is primarily concerned with the analysis of decisions that affect current assets and current liabilities. Therefore, short-term financial management is also called working capital management.

The most important difference between short-term and long-term finance is in the timing of cash flows. Generally, short-term finance deals with cash flows within one year, whereas long-term financial decisions are required when the decision would affect the next five years. (S.A.Ross, R.W.Westerfield & J.Jaffe 2013, 805)

Differ from the previous chapter; this chapter discusses company's financing channels when the business has already been operated for some time, which means, it owns some assets and equity.

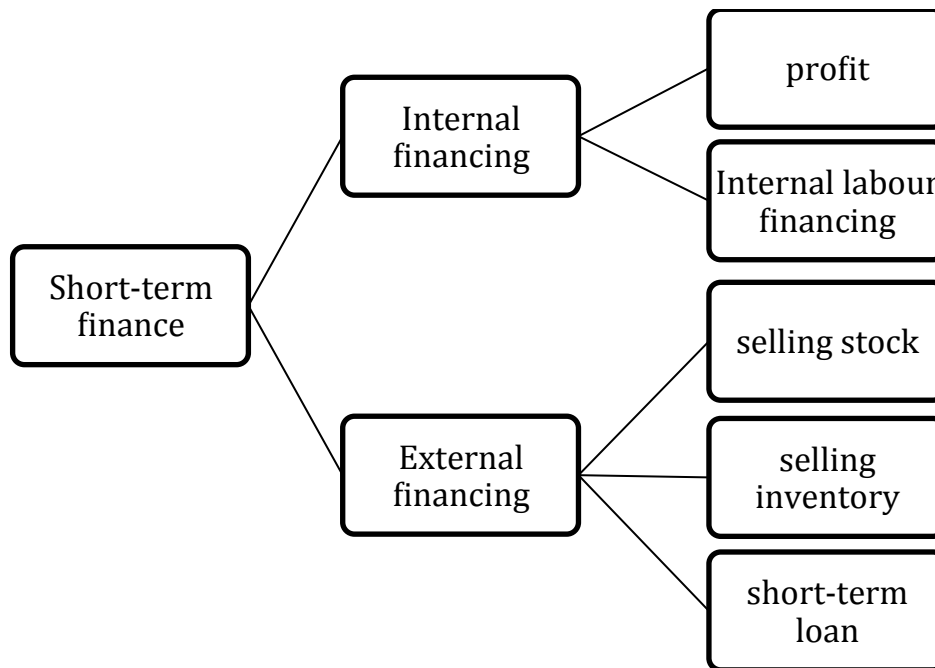


Figure 9. Short-term finance channels

There are basically two different types of short-term finance. One is internal financing and the other is external financing. It is thought by many experts that internal financing is the basis of corporate self-development. (Bin Zhang 2004)

Currently, there are two main internal financing channels in SMEs: profit and internal labor financing.

The profit here is the net income after paying dividends. These profits can be re-invested into the company or taken to solve cash flow problems.

Internal labor financing can be separated into long-term financing or short-term financing. This type of financing is a financing method that raise fund from the employees while necessary. The money raised can be treated as investment, which stands for long-term financing. In between, it can also be treated as borrow from the employee, and then it is short-term financing. (Y.Zhang & M.Zhang 2011)

Internal labor financing is mainly conducted in small enterprises. This way is uncommon in larger-sized companies.

Moreover, external financing means that the company finance itself through outside channels. In order to get quick return, the firms may sell inventory, sell stock or borrow short-term return. All of these three ways can raise cash. Selling of inventory would turn the assets into cash and selling of stock would turn equity into cash. These would benefit the company's working capital management.

2.3.3 Long-term financing

Except raising capital at the beginning stage, there are also other channels of long-term financing.

Usually, a company's stock is sold to interested investors in a cash offer. If the cash offer is a public one, investment banks are usually involved. Investment banks are financial intermediaries that perform a wide variety of services. They provide advice, market the securities (after investigating the market's receptiveness to the issue), and underwrite the proceeds. They accept the risk that the market price may fall between the date the offering price is set and the time the issue is sold. (S.A.Ross, R.W.Westerfield & J.Jaffe 2013, 628-631)

However, it is not that easy for SMEs to get fund from such investment bank. This channel may be considered after the company grows stronger.

2.4 Characteristics of SMEs

Small-Medium Enterprises (SMEs) are usually classified according to their size, which refers to the number of employees, value of assets and financial turnovers. Different countries have different standard to measure company size. SMEs form the majority of many economies. They are usually considered as key engines of competitive and efficient markets as well as key creators of jobs. Globally, it is rough estimated that SMEs

account for approximately 95% of global businesses and contribute roughly 40% of GDP. (The Open Group)

2.4.1 The Finnish SMEs

In Finland, 99.5% of all firms are SMEs (Totally 113 368 in 2013). These companies employed approximately 60% of the labor force in the year 2011. Almost 85% of these SMEs are micro-enterprises with less than 10 employees. (OECD 2013)

Table 1. **Distribution of firms in Finland, 2011**

Firm size (employees)	Number	%
All firms	113 988	100.0
SMEs (1-249)	113 368	99.5
Micro (1-9)	96 518	84.7
Small (10-49)	14 542	12.8
Medium (50-249)	2 308	2.0
Large (250+)	620	0.5

(Source: Statistics Finland.)

Table 2 shows clearly the significance of SMEs in Finland. The percentage of SMEs of the whole economy in Finland is even higher than the global average (95%). The reason is that Finland is a highly SMEs friendly economy. SMEs are both politically and socially appreciated. The difficulty level of starting a business in Finland is quite low, and the survival rate remains on a high level.

Percentage of workforce in different sectors in Finland

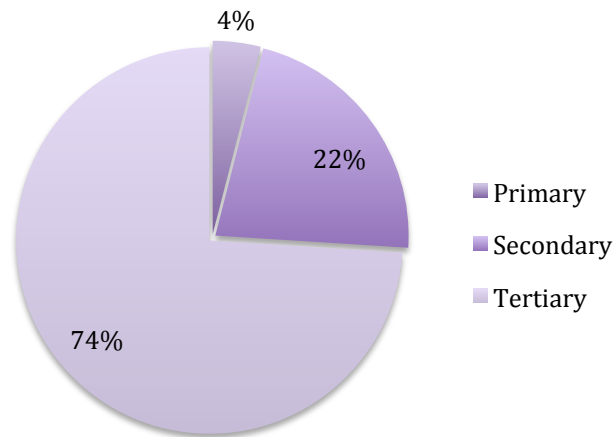


Figure 10. Percentage of workforce in different sectors in Finland (Source: The Statistics Portal)

According to sectors, of all employed people in Finnish labor market, around 74% are working in the service sector, around 22% are working in the secondary sector and only about 4% are working in the primary sector (The statistics portal). Same in business, SMEs in service industry are the main component of the Finnish economy.

2.4.2 The Chinese SMEs

Although both geographic and economic differences are huge, the SMEs in China take significant place as well as those in Finland. The SMEs take more than 98% of all the companies in China.

Bureaucracy is a big problem of many Chinese companies. The result of it is communication barrier and rigid decision-making process. These problems lead to low efficiency in Chinese large corporations, especially government owned corporations. The starting point of Chinese SMEs is later than the western countries. The first batch of small enterprises was born around 1960s.

The number of SMEs in China experienced rapid growth in the 21st century. The flexibility and quick decision-making process of those SMEs were ability that government owned corporations unable to reach. The SMEs benefit the Chinese economy by offer-

ing large amount of jobs, optimizing economic structure, increasing market efficiency, applying new technologies and improving taxation system.

However, differ from situation in Finland. As a developing country, the supports that government could provide to those SMEs are limited. Despite of government subsidiaries, many SMEs faced severe problems in capital, technology, labor and information. Since the year 2007, due to increase in material price, increase in labor cost and changing of exchange rate, it became more difficult for SMEs to financing themselves.

The business environment for SMEs in China is not as good as that in Finland. Many SMEs faced bankruptcy these years. (Shangquan Gao 2012)

Table 2: **SME standards of Chinese business (Unit turnover: ¥)**

	Micro-enterprise		Small-enterprise		Medium-enterprise	
	No. Employees	Turnover	No. Employees	Turnover	No. Employees	Turnover
Agriculture, forestry, animal husbandry and fishing	Null	<500,000	Null	≥500,000	Null	<200,000,000 ≥5, 000,000
Manufacture	<20	<3,000,000	≥20	≥3,000,000	<1000 ≥300	<400,000,000 ≥20,000,000
Construction	Null	<3,000,000	Null	≥3,000,000	Null	<800,000,000 ≥60,000,000
Wholesaler	<5	<10,000,000	≥5	≥10,000,000	<200 ≥20	<400,000,000 ≥50,000,000
Transport	<20	<2,000,000	≥20	≥2,000,000	<1000 ≥300	<300,000,000 ≥30,000,000
Retailer	<10	<10,000,000	≥20	≥1,000,000	<300 ≥50	<200,000,000 ≥50,000,000
Hotel and catering	<10	<1,000,000	≥10	≥1,000,000	<300 ≥100	<100,000,000 ≥20,000,000
Software and Information Technology	<10	<500,000	≥10	≥500,000	<300 ≥100	<100,000,000 ≥10,000,000

(Source: Sme.gov)

As in table 3, the recognition of SME in China is very complicated. There are different standards in different industries.

3 Research design and methods

3.1 Research methods explanation

The research will be mainly qualitative with some data support. Since the thesis's approach is more like a business behavior study, the information will be collected by studying how the companies work and through interview. The author will go deep into the topic by conducting interview and collecting secondary resources instead of collecting large amount of data and getting the statistical results.

In the primary research, the research is targeting people working with finance and accounting in Chinese and Finnish SMEs, since they know how the financing system works. They can give information about the business financing methods in financial crisis and in economic trough using their experiences of working. The main goal of the study is to know the business financial behavior. That is the reason of choosing these interviewees.

The author decides to have 3 interviewees in each country to bring some qualitative responds in practical business world. The author will organize their answers and report the final findings in a way that fulfill the academic requirements.

3.2 Research phase

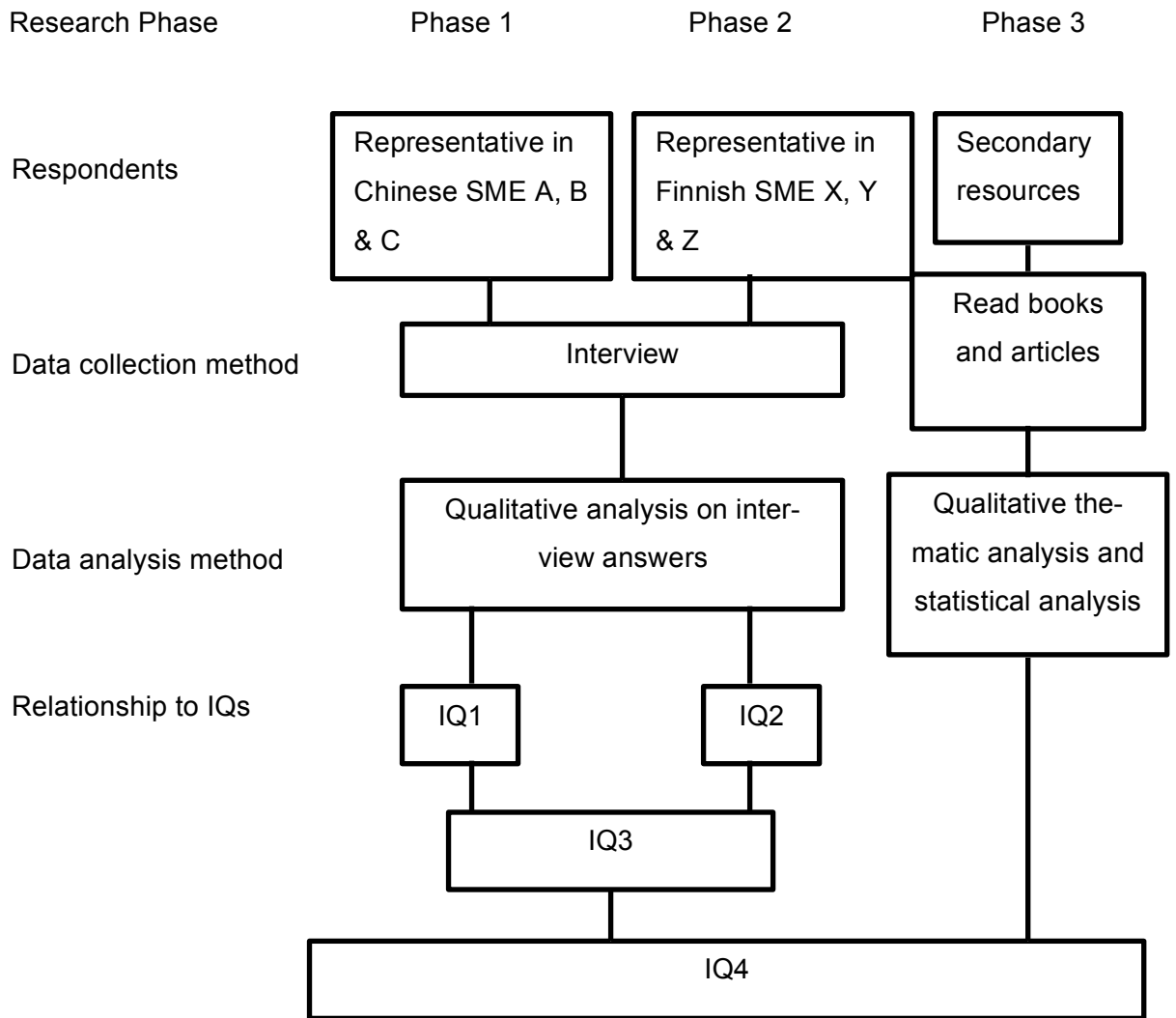


Figure 11. The research phase

4 Results and discussion

The author interviewed three business managers in China and Finland respectively, collected their answers and organized the answers in a logically suitable way, reporting in this thesis. This chapter would show the answer of the research problem: How does a financial crisis or economic trough affect Chinese and Finnish SMEs in financing aspect?

This chapter would also introduce the financing channels that the real companies are using. Therefore, the result can be different from the theory chapter. It shows the practical way of corporate finance.

In addition, since the author has agreed with one of the interviewees that the company information will not be published in the thesis, this company's name is not indicated in the following chapter.

4.1 The impact of financial crisis on Chinese SMEs' financing

The companies conducted in the interview in China are all operating in service industry.

4.1.1 Company information

Company A (Simo-media Ltd.): A small enterprise currently employs around 25 employees (full-time and part-time). The company is operating like a "fashion studio". It is a fashion company that its main business is to do style design for its customers.

Company A rented an office in a commercial building. It has collaborations with some other businesses such as wedding host companies, photographic studios and some small entertainment and media companies. The styling designer team takes responsibility to design a satisfactory appearance for their customers (contains hair style, dressing, jewelry and make up). The company is currently operating not quite well; the profit sometimes is not able to cover its costs.

Company B (Blue rain café Ltd.): A medium-sized café close to the city center. Most of its employees are part-time workers, thus the labor turnover rate is quite high. The owner of the café has to re-train new employees frequently. Due to the location issues, the rent of the café is high. Currently the customer volume decreased. The owner of the café is thinking to invest some more money in advertising.

Company C: A medium-sized company doing international cosmetics trade with South Korea. The founder and managers of this company are business school graduates that do have some useful skills in business management. The company's turnover is stably increasing each year. Currently the management team is trying to attract more investment for further expansion.

4.1.2 Results and evaluation

China is still in economic depression period, but the business environment is definitely better than the time of financial crisis. All the three companies I interviewed has experienced the financial crisis in 2008 or 2009 (Company A was founded in 2009).

To summarize the research results, the manager in each of the three companies is not satisfied with the Chinese political strategy, and feels very difficult to make the business survive at the beginning. The financial crisis in 2008 makes the banks in China realized the potential risks. Therefore, although the government has legal rule that encourages the banks to provide financial support for young entrepreneur, the banks were still very careful in offering loans. As the result, most of the small enterprises failed to get bank loan.

In the first half years of 2008, there were already about 60,000 to 70,000 companies got bankruptcy, mainly are SMEs. (Y. Zhang & M. Zhang 2010)

Actually, regardless of any time, it is always difficult for Chinese SMEs to raise capital. From the answers the author got in the interview, the author found that the bank's risk management strategy is not the only reason of the difficulties in financing.

The Chinese market is not developed enough despite of the rapid economic growth in the previous decade. The Chinese way of doing business is completely different from that of the Western countries. The Chinese multinational corporations may be highly connected with the world business environment. However, the SMEs in China have not yet established modern business system. The management of the company is not standardized, as well as their financial system. As a result, the risk of offering loan becomes much higher, not only for banks, but also for other financial institutions. Therefore, the local SMEs should firstly standardize their financial management in order to get finance successfully.

The financing channel of typical SMEs in China is still internal financing. The founder(s) invest the starting capital. Then, the main financing channel is the retained profit. The Chinese SMEs rely more on equity rather than liabilities.

All the Chinese interviewees in this research stated that the financial crisis aggravated the difficulties in financing. The impact seems to be most serious in company C. Since company C is doing international trade, its supplier in South Korea faced severe cash flow problems and the supply chain was broken down. The profit margin decreased rapidly due to an increase in supply chain costs. As these SMEs highly rely on internal financing, the shortage in net income will lead to financing difficulties.

Company C grows stably in recent years and is being increasingly standardized. At the same time of business developing, the difficulty of financing also decreased. Currently, company C is able to gain risk capital and bank loans.

Table 3: **Financing channels selection in different stages of company**

Stage	Start-up	Infancy	Developing	Saturated
Financing channels	Personal investment	VC	Risk capital	Issue bonds
	VC		Bank loan	GEM
	Government investment		Issue bonds	Bank loan
			GEM	Retained profit

GEM = Growth Enterprise Market

After organizing the information collected in the research (both primary and secondary), the author found that the suitable financing channels might vary in different stages of company development. While the company becomes more stable, standardized and trustworthy, banks would be more willing to offer loans. In addition, further expansion will bring more capital (but if not SME any more, it will not be discussed here).

4.2 The impact of financial crisis on Finnish SMEs' financing

Compared to the interviewees in China, the companies the author interviewed in Finland are more internationalized. Two of the three companies are doing business with China. The interviewees also want to know more about the Chinese market.

4.2.1 Company information

Company X (Vintura Oy): An individual entrepreneur who is exporting the Finnish wine to the Chinese market. The interviewee frequently travels to China to attend wine parties. The business condition is very stable and Finnish styled. It follows all the rules in business world, thus there is a stable net income. The business is operating on a very low risk level. In between, the financing channel of company X is mainly owner's own savings.

Company Y (Bright Sky Consulting Oy): The company where the author used to take internship in. The company deals with Finland-China business visiting and kids education projects. The interviewee is the founder of the company, a professional with abundant past experiences and knowledge in business management. Company Y was found not long time ago. The profit earning is not very stable since it highly depends on the projects.

Company Z (Otus Oy): A medium-sized software company established 4 years ago and is currently developing successfully.

4.2.2 Results and evaluation

The whole Euro zone experienced currency crisis in the previous couple of years. This year the economic condition is still not recovering very well, but overall Finland still has a relatively friendly business environment for SMEs.

The Economist ranks Finland as 9th of the best business environment economies between 2014 and 2018(EIU). However, Finland has similar problem to China if large quantity of capital is needed in the beginning stage of a company.

The Finnish government raises start-up grants for new entrepreneurs. This stands for start-up money to promote new businesses and the employment of a person. Start-up money safeguarding the entrepreneur's income during the period in which the business start-up and consolidation is expected to last a maximum of 18 months. (TE-palvelut) However, compared to financing, it is more like a “protective basis”. For many entrepreneurs, the government grant is not enough to cover the financing issues.

At the start-up stage, the most possible way might be finding out an angel investor. The impact of financial crisis here in Finland is that all the people tend to be more careful in investing, the angel investors either.

The financial crisis affects the banks’ decisions as well. The statistics provided by the bank of Finland shows that banks are unlikely to offer loans up to EUR1 million after the financial crisis, but are more likely to offer loans over EUR 1 million.

Year	Loans up to EUR 1 million		Loans over EUR 1 million		Total	
	EUR (million)	%	EUR (million)	%	EUR (Million)	%
2010	7,761	14,4	45,963	85,6	53,724	100,0
2009	9,944	19,6	40,905	80,4	50,850	100,0
2008	11,881	21,9	42,486	78,1	54,368	100,0
2007	11,576	27,1	31,122	72,9	42,698	100,0

Figure 12. Share of new business loans up to 1 million EUR of all new business loans (Sources: Bank of Finland)

The change in the bank loan provided generally can be explained that they prefer offer loans to large companies rather than SMEs. This led to many SMEs applying for public

financing instead of traditional bank loans. For example, the number of new SME clients of the state-owned financial institution Finnvera increased 12 per cent in 2009. Furthermore, SME finance granted by the Finnish Funding Agency for Technology and Innovation increased 15 per cent reaching 200 million euros. (Jari Huovinen 2011)

Financial institutions such as Finnvera are common choices of financing channel of the SMEs. Generally, public financing plays a more important role than the other sources during the financial crisis time.

4.3 Comparison between Chinese and Finnish SMEs' financing

Both of Chinese and Finnish SMEs face challenges in financing during the financial crisis period. After the discussion in the previous chapter, it is obvious that SMEs would be better to choose specific financing channels that are more suitable to them, but give up those are difficult to handle.

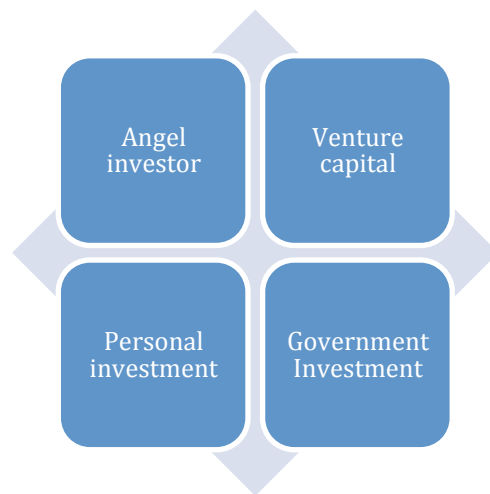


Figure 13. Most common financing channels of the Chinese and Finnish SMEs

To summarize, figure 13 shows the most common financing channels of the Chinese and Finnish SMEs. Comparably, the support from the Chinese government is more limited than the Finnish government. Therefore, the beginning step of the Chinese start-ups is harder than the Finnish one. Except of the country's regulation, another reason is the Chinese SMEs are not as standardized as the Finnish SMEs. As a result, the Chinese financial institutions tend to be more careful to avoid risks.

Otherwise, the Finnish government is also not providing large amount of capital for entrepreneurs, thus if one wants to get better financing, one may need to try other channels as well. when the SMEs grow further, both in China and in Finland, there would be more chances to get finance.

5 Conclusion and recommendations

The impact of financial crisis is globally applied. As the main component of almost all the modern economy, SMEs are not possible to avoid the negative impact of the financial crisis. It is necessary for SMEs to find suitable financing channels both in Finland and in China.

Currently, the business environment in Finland is better than that of China, basically due to the legal regulations. In Finland, public financing would benefit SMEs a lot in financing, whereas in China, it is better to seek for private investors. In addition, at each stage of business development, there are different financing channels.

The Economic depression might continue in 2017, similar to the financial crisis time, this time is also challenging for SMEs. This thesis could be used as a general guide of financing by SMEs in economic depression period.

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Appendices

5.1 Appendix 1: Interview questions

Financing channels

1. How does your company usually financing?
2. What are the main channels?

Deeper understanding

3. Why do you choose these channels?
4. Do these financing channels work efficiently?
5. Will you consider finding new financing method?
6. Why do you/don't you consider?
7. What do you think are the best financing channels?
8. Why?

Impact of financial crisis

9. Have your company ever faced financial crisis?
10. How does your company usually financing during financial crisis period?
11. Do you think the situation is different from normal time? In which way?
12. Do you think the financial crisis has impact on business financing?
13. How do you solve it?

Opinions

14. What do you think about company financing?
15. What is the most difficult thing in financing?
16. What do you think are the reason of it?
17. Will you try other methods when face difficulties

5.2 Appendix 2. Overlay Matrix

Investigative Questions (IQs)	Theoretical Framework ¹	Measurement Questions ²	Data Analysis	Results ³
1. What are the main financing methods in typical Chinese SMEs during financial crisis or economic trough?	Corporate finance, funding, equity management, culture and business behavior	1. What are the financing channels of the company during the financial crisis and economic trough time? 2. What benefits do these channels bring to the company in this special time?	From interview results and other secondary results. Mainly qualitative analysis	The financing methods and channels in Chinese SMEs during financial crisis and economic trough, Using as one variable.
2. What are the main financing methods in typical Finnish SMEs during financial crisis or economic trough?	Corporate financing, funding, equity management, culture and business behavior	1. What are the financing channels of the company during the financial crisis and economic trough time? 2. What benefits do these channels bring to the company in this special time?	From interview results and other secondary results. Mainly qualitative analysis	The financing methods and channels in Finnish SMEs during financial crisis. Using as another variable.
3. What are the main differences between results of IQ1 and IQ2?	Analysis and assessment	How does cultural and economic differences affect the financing methods?	From interview results and other secondary results. Mainly qualitative analysis	Compare the two variables to know the differences between two countries' funding methods.
4. What are the changes in	Financial crisis, Economic indi-	1. What are the financing methods in	Overall analysis and as-	Compare the funding methods in

<p>company financing methods during financial crisis and normal time?</p>	<p>cators, Macroeconomics environment</p>	<p>normal time? 2. Why does the methods change from normal time to financial crisis time?</p>	<p>assessment from the results of the previous IQs. Mainly qualitative with quantitative supports.</p>	<p>crisis time and normal time to know the impact of financial crisis on normal SMEs in different countries.</p>
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