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# RISK MANAGEMENT IN TEXTILE INDUSTRY EXPORT FROM JIANGSU TO FINLAND

Delivery risk for Printed cotton bedding

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Abstract		
<p>Risk management is an important part in international business which includes various facts about marketing. The first factor to be considered in export is risk management and the key risk is delivery risk. Commissioner is an agency company named Chengdu Titans Trade Co., Ltd which is connect between buyers and suppliers and this thesis can help to do some research about risk and understand the market.</p> <p>Textile industry is an important export industry to earn foreign currency for the Chinese national economy, and export volume of textile industry has exceeded more than 15% of total national exports. Because of the huge sum of favorable balance for textiles import and export trade, this trade became an important channel for increasing foreign currency and accumulating funds. Textile industry occupied an important position in Chinese national economy.</p> <p>After China joined the WTO, the value of textile industry exports has been phasing out and Chinese textile industry exports is still faced with various forms of trade barriers.</p> <p>All in all, textile export is worth to study because it has mature market in international business and it can be a potential career. Risk management plays a significant role in business and it can be an interesting part, especially delivery risk.</p>		
Keywords		
Risk management, textile industry, export, Finland, Titans Trading Co., Ltd		

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## 1 INTRODUCTION

Risk management is an important part in international business which includes various facts about marketing. The first factor in export can be considered is risk management and the key risk is delivery risk. My commissioner is an agency company which is connect between buyers and suppliers and this thesis can help to do some research about risk and understand the market.

Textile industry is an important export industry to earn foreign currency for the Chinese national economy and export volume of textile industry has exceeded more than 15% of total national exports. (Foreign trade of China's textile industry 2014) Because of the huge sum of favorable balance for textile import and export trade, this trade became an important channel for increasing foreign currency and accumulating funds. The textile industry occupied a significant position in Chinese national economy.

After China joined the WTO, the value of the textile industry exports has been phasing out and Chinese textile industry exports is still faced with various forms of trade barriers. (Summarization of China's textile industry trade in 2014 2015)

Chinese textile exports have following problems : (1) More and more inventors join the textile market because textile quota was cancelled in global market; (2) The cost incidence of textile industry was raised by wages, land, raw materials and energy prices which crippled price advantage of textile exports; and (3) the overall technology has been hovering at a low level, which makes Chinese textile exports facing a greater outlet pressure technology problem which directly impact both the long competition ability and Chinese textile brand building. In spite of this, The Chinese textile industry exports acquired development unceasingly and trade surplus has been further expanded.

Faced with a huge international market, enterprises, especially SMEs are going after export scales which need to pay attention to strengthening risk awareness and risk control in order to avoid heavy losses.

All in all, textile exports are worth to study because it have mature marketing in international business and exporting industry can be a potential career for me. Risk management plays a significant role in business and this can be an interesting part to study, especially delivery risk.

The objectives and purpose of the project are analyzing the risk in textile industry export from Jiangsu to Finland to avoid the exiting risk as possible as we can solve. Another way is to understand the market of textile exports in Finland though market surveys to meet the market demand. The key risk is delivery risk which will be researched as the main direction of the thesis.

Qualitative research is conducted by interviews through e-mailing with different subjects. The key concepts are risk management, delivery risk, export modes, textile industry, market fact and customer demand.

The overall methodological approach is qualitative method. The approach is relevant to the research question as I want to get different sources of data from Finnish company and Chinese company in textile industry, hotels in Helsinki region, Chinese people or Chinese company doing business relating to export in Finland and my commissioner.

An interview with a prepared set of questions is used as the method of data collecting, the interview might be taken though e-mailing as there are at least 3 interviewees to be interviewed. The data collected from different subjects will be classified into different categories such as existing risk, market fact and customer demand. The theory part will be combined with the results. No statistical analysis will be involved. The practical limitations of this approach are that the e-mail interviews might not be accepted by some companies and the questions might not be answered in the desired way.

The interviews require the knowledge about textile industry and export, besides, there will be no technical devices or financial budget required because the interviews will be implemented through e-mail.

The result will be presented based on risk management concepts especially delivery risk. The other content of risk management needs to be mentioned as well as export section.

The research will focus on risk management and textile exports so none of the ethical concerns need to be resolved. Potential risk problems could be studied based on the research which is not mentioned in theory section. The thesis is related to export, some sources such as specialist databases or particular research software will be needed. There might be some issues of commercial confidentiality and intellectual property rights because there are some interviews from companies.

## 2 ANALYSIS FOR EXPORTING RISK OF CHINESE PRINTED COTTON BEDDING

Risk usually refers to the financial loss caused by a great deviation due to some subjective uncontrollable factors which between actual results and expected destruction of parties. Risk management is the identification, assessment, and prioritization of risks followed by coordinated and economic application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events. (Hubbard 2009, 8-11.) Perfect risk management is a consecutive and priority ranking process, which priority processing the risks deemed most likely to occur or bring the biggest loss.

Main flow of risk management is the following, first is analyzing the risk identification. Risk identification means that the risk is identified before the risk accident. People use various methods to realize the different risk they might face as well as analyze the potential reason for risk accidents. It can be used to make sure which kind of risks might affect the enterprise. The most important part is quantifying the level of uncertainty and the possible loss caused by each risk. There are many risk identification methods such as production flow analysis, financial table analysis, insurance survey method. Risk analysis needs to proceed after completion of the risk identification. Next is risk measurement and risk assessment. The method of risk measurement is produced based on the imperfection of VaR(Value-at-Risk) measurement methodology. This method first was put forward by Rockafella in 1999. Operational approaches of risk analysis include knowledge-based analytical method, model-based analytical method, qualitative analysis and quantitative analysis. Again, management need to focus on risk control. Risk control refers to transfer the possible risk or minimize the loss.

There are two main risk control theories. The one is the domino theory. The famous domino theory was proposed by H.W.Heinrich 1936 after studied lots of industrial accidents in American in the 1920s. He noticed that 80% of accidents were caused by artificial unsafe operation, other 20% were caused by non-human factors such as equipment trouble. He pointed out that all accidents are the result of a chain of events. This theory emphasizes the

importance of behavior adjustment management. Strengthening and attaching importance to manage human safety management in order to avoid accidents. The other theory is pointed out by W.Haddon (1963) named energy release theory. In his view, accidents are caused by the transfer of energy with such force that bodily injury and property damage result. This theory focuses on controlling the management of non-human factors which can offer a more safety external environment. In practical risk control, we need to focus on both theories which means human factors and non-human factors need to be considered.

Risk management is mainly divided into two categories. One is the risk management of operation management which studies the risk management for enterprises in different areas such as political, economic and social transformation. ( Krause 2006, 707) The second one is risk management of insurance. This risk management puts insurance management at a core position and uses safety management as a supplementary measure.

The research methods of risk management are using qualitative analysis methods and quantitative analysis methods. Qualitative analysis method is the process of making logical judgment though investigating the risk. Quantitative analysis methods usually use the method of systematic theory by using probability and statistics or other mathematical tools drawing the best risk management method. The first step for the enterprise implement risk management is collecting data. This data consists of the international economy information, industry information, market demand condition, information on competitors, suppliers, customer information and any other business. In addition, enterprises need to screen information. After clarification and combination, the risk assessment includes risk identification, analysis and valuation. Then, formulating the strategy of risk management combine both the result of risk assessment and self-condition of enterprise.

### 3 RISK FOR EXPORTING IN INTERNATIONAL TRADE

#### 3.1 Payment risk

Trade settlements of payment risks are increasing dramatically because Chinese foreign trade of export scale is expanding. Nowadays, there are three basic ways of common international payment methods such as credit, remittance and collection.

One of credit risks might be the credit line of bank. Although bank is the place for credit operation, it does not mean that bank itself is safe. Many foreign banks are private bank, it is possible that export enterprise collude with bank. Another one is the provisions risk on letter of credit. There are lots of rigid provisions on letter of credit such shipment, beneficiaries, period for presentation and so on. (Hinkelman & Mansergh 2008, 17) Even any tiny details changing will bring a great trouble for enterprise. Third one is document risk, bank does not care whether the goods will meet the customer needs, they just focus on whether documents comply with credit terms or not. Bank will pay directly to exporters if there are no differences. Some enterprises use letter of credit to set soft terms because of this exploit.

The possible risk for remittance can also be divided into three types. The first one is credit sale, credit sale which means delivering goods and offering the documents of shipment to importers without promissory warranty from importers. Whether the payment for goods can be received just depends on the level of importer's credit. Bad faith of the importer undoubtedly causes the business to suffer. Second is cash on delivery. In this way export enterprise need to take a risk of refusing payment from importers. Last one is payment in advance. Importers have advance money on a contract without any delivery. If the deposit is prepaid but goods have quality problems or exporters stop delivering goods, it will be a risk for the importers. (Zhenxi 2012, 22)

Dealing with an import country suffering from uncertainties such as war, strikes and so on, might be the cause for insolvency and a policy risk; another one is financial risk. If importer neither accept the goods nor pays for goods, then exporters need establish a sleeping account, insurance expenses even

covered return voyaging when goods arrive at the destination port. At the moment, the frequently-used payment is LC (this is the payment for unfamiliar customers) and TT (this payment is for customers who trust each other). Many exporters, in order to avoid risk, use both TT and LC.

Including the above-mentioned risks, payment risk also comprises of the following common types. First one is when the exporters cannot receive payment or cannot receive payment on time after exporting goods. Second one is when the quality or other requirements of goods cannot meet the standard expected by the importers, and the importers will refuse to pay or make a claim. Third one is the common currency settlement risk. International business settlement holds a very high position and function in international business. (Nan 2009, 1-2.) Currency of settlement in international business is dollar. When the change of monetary exchange rate is oversized, it can be a great loss for exporters. This is due to the fact that it can be a few months from order form to posting and during this period the currency can change significantly by the influence of international environment.

In addition, the risk prevention of payment needs to pay attention to the trade terms used in contracts such as FOB (free on board) prices and CIF (cost, insurance and freight) prices. FOB prices do not contain the freight and insurance, all the fees before boarding need to be seen to by exporter. CIF prices mean exporters need to commit costs, insurance and freight to named port of destination. There are lots of different trade terms such as EXW (EX works), CFR (cost and freight), CIP (carriage and insurance paid to) and so on. We need to focus more on choosing the means of payment.

### 3.2 Currency risk

Currency risk refers to the variation of currency produced economic losses. Exchange depreciation might stimulate export, however, the appreciation of exchange rates reduce the international competitiveness of products.. There are five factors that influence the exchange rate movement which are domestic inflation rates, international balance of payment, financial revenue

and expenditure, changes in exchange rate policy and the intervention from government and interest rate.

In 2011, the growth rate of Chinese export depends on international marketing demand condition and range of RMB interest rate appreciation. (RMB interest rate appreciation impact China's import and export trade 2015 ) Chinese export enterprises mainly focus on currency risk caused by RMB interest rate appreciation. Dollar is the main currency of settlement in the export enterprises and China burdens the United States with huge trade deficits making the RMB increase in value.

The turbulent exchange rate movement in international marketing cause currency risk was the general problems for export enterprises. A great number of foreign trade enterprises suffered heavy losses caused by financial distress and management difficulties. (Yutaka 2013, 82) The changes of currency related to the directly the quantity and total value of Chinese textile export, so export enterprises must remain vigilant against currency risk. The figure 1 and figure 2 below reflect the changes of exchange rate of RMB against the US dollar.



Figure 1: Exchange rate of RMB against US dollar from 2011 to 2015

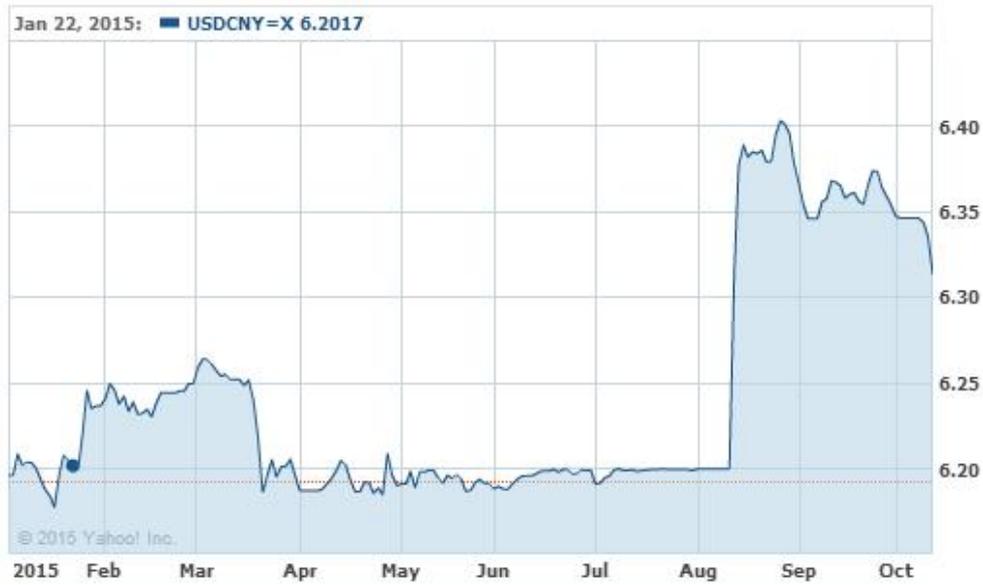


Figure 2: The exchange rate of RMB against the US dollar in 2015

Because the dollar is the main method of settlement in the Chinese export trade, it is mentioned here, the Euro exchange rate also needs to be emphatically analyzed and studied due to business done with European countries. As we can see in Figure 3 and Figure 4, the exchange rate of RMB against Euro has changed much these years and the average drawn from the data shows that during these recent months, the rate has reached its lowest point in five years.



Figure 3: Exchange rate of RMB against Euro from October to December in 2015

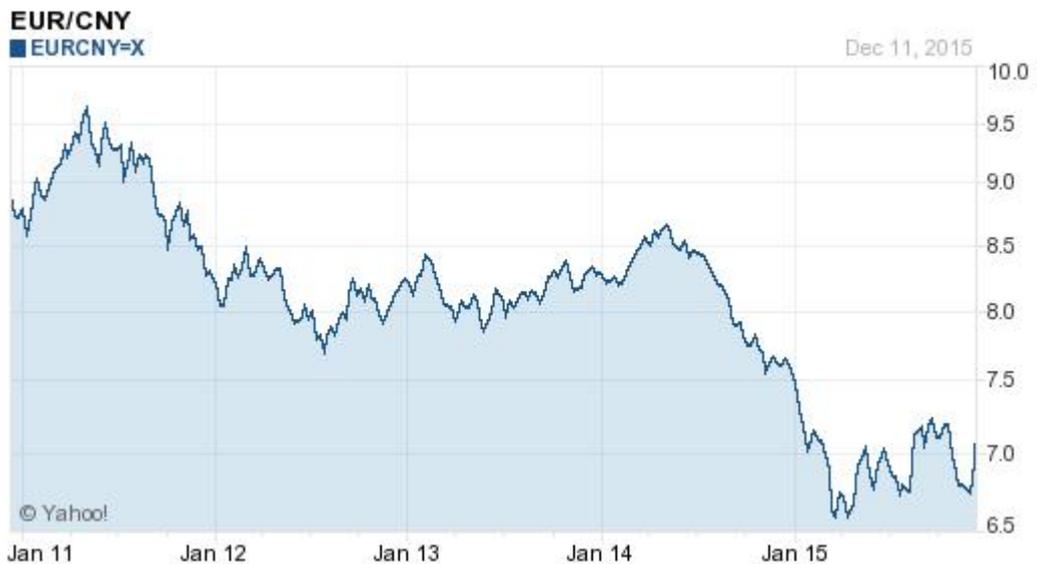


Figure 4: Exchange rate of RMB against Euro from 2011 to 2015

The currency risk for export enterprises includes the risk in product exporting delivery and converting currency after receiving the payment. The imbalance between foreign exchange receipts and payments structure might cause a decrease in enterprise income and benefit. Chinese enterprises need to know how to prepare themselves for reducing the currency risk. There are lots of methods for avoiding risk. For example, using financial instruments, adopting

better settlement modes and stable currency, increasing exporting price and so on. Export credit insurance is one option in the circumvention of currency risk. Export credit insurance is similar to the trade credit guarantee instrument, the advantage of export credit insurance is to avoid risk by getting money from the bank in advance. It can also help export enterprises prevent credit risk and accidents in export trade. Enterprises use insurance for financing so it has become one of the most common methods.

### 3.3 Export policy risk

The main export policy risk for enterprises is export trade policy. In 1985, in order to encourage enterprises to export and improve the product competitiveness and national income, China began to implement the export tax rebate policy. The export tax rebate is a universal implementation policy against trade exports, and China began to introduce the export tax rebate policy. Frequent variation of this policy impacted a significant influence for the Chinese export trade in the last 20 years(Yuqin, 2015, 5).

Export tax rebate policy regards as a leveraged tool for national macro-control(Seyoum, 2009, 7). Export tax rebate policy is an encouraging policy but due to the change of policy, it makes the enterprises to consider the risk of policy. An opposite to the export tax rebate policy, China implemented the export restriction policy on some products. Export restriction policy is the policy used to protect political and economic benefit by government by putting a restriction on certain export product on the certain products to export. Export enterprises need to figure out whether the export products belong to restriction export products and is there a lowest limit, otherwise the loss is inevitable. Export enterprises should understand the export restriction policy and wary of risk prevention.

### **Price risk**

Price risk is the risk of fluctuating commodity prices. Commodity price risk refers to unknown benefits or losses due to uncertainty in market value. Price is mainly influenced by the price of raw materials and quantity demanded. Price risk is influenced by factors such as politics, macro-economy, season, emergencies and so on.

### **Risk of quality control**

Quality control begins at quality management of raw materials purchase and ends at the completion of the management of packaging inspection. Quality control management before production includes the evaluation of the fabric vendor, sample affirmations and fabric rest, quality control of fabric and quality management of sample. ( Wen 2006, 5) In product processes, quality control refers to the quality management of every procedure including quality control of printing, tailoring, sewing, ironing, packing and other additional procedures.

### **Selection supply risk of raw materials**

Selection of raw materials directly relates to the quality of the product, if the quality of raw materials cannot meet the customer requirements, then there might be a risk of rejected delivery by customers. ( Lisheng 2014 ) For cotton products, enterprises need to confirm yarn density, width, material structure and so on when ordering from the suppliers. Enterprises still need to face the difference between end product and sample, the choice of raw materials and any factors during the produce period will lead to different quality.

Supply risk of raw material needs to be considered by the enterprises. First is price risk , normally the price of raw material is stable but it can be difficult to estimate due to the effect of other external factors such as market monopoly. Second one is the delivery time for raw materials supply. Raw materials affect the whole production design depending on whether suppliers will supply in

time. If the delivery time is delayed too many times, then the enterprises need to face the risk to losing customers. Third one is supply quantity. The shortage of supply quantity leads to the decrease of production quantity, which cannot reach the number as stipulated in agreement. Customers insist on indemnity or resume production will influence directly or indirectly for enterprises.

### **Internet risk**

E-commerce plays a significant role in today's enterprises. Internet shortens the distance between the different countries which makes international trade easier and more convenient. E-commerce changed the traditional mode of international trade based on paper receipts or document spread. E-commerce reduces unnecessary intermediate link for time saving and increasing efficiency but also brings abysmal risk. (Lulu 2005) All the enterprises rely on internet for business whether looking for suppliers or potential customers. The receiving and dispatching of enterprise e-mails as well as the transaction of payment and receipt between enterprises took place online. The security protection of internet is important because it will bring the great losses for enterprises if there is a network paralysis or data theft. Export enterprises need to beware of internet risk when doing business with overseas enterprises.

With the rapid development of network, an increasing number of enterprises are using e-commerce platforms. Network problems have also become business risks; huge third-party e-commerce platform - such as Alibaba, Dunhuang network - has strong technical team and thorough management mechanism, therefore, security risk is relatively small. However, more SMEs establish their own e-commerce platform which are attacked by hackers due to the lack of technology and weak safety awareness. Thus, export enterprises should realize that the network security issues happen all the time and need to strengthen the security of e-commerce platforms. First is choosing the hardware device, high quality and high memory configuration of the computer equipment will be beneficial to security; next is the security of software system. Software systems such as running secure of operating

system. Except the software and hardware security, safety of website information needs to be considered as well as transaction data. Some security factors are the device factors, some are caused by human factors. Companies can increase security funding, the establishment of safety management system, hire technical personnel, run antivirus checks regularly to maintain and build a solid network platform. By implementing these measures enterprises can avoid losses and continue to develop in the security stability.

### **International environment risk**

Every foreign trade enterprise export products are carried out under the international environment. At macro level, the international environment is undoubtedly the international economy and international political environment. In microcosm, it refers to the different target market segments of the local economy, political and cultural characteristics as well as other environment. In 2008, the global economy has been seriously disadvantaged by the financial crisis. Although the storm has subsided gradually in 2010, the devaluation of Euro and EU helped meet an urgent need caused by Greek debt crisis expressed as global economic risk still exists. Contention between the countries in the international market increased intensely, resurgence of trade protectionism became better and harder to break than the previous protection. In addition, the big event such as a major earthquake occurring in Japan shocked to the economy in recent years, fires caused domestic food export prohibition policy in Russia, the U.S. quantitative slack policy, Malaysia Airlines incidents to further close relation between Russia and China, all these international events will bring economic risks for export business.

Except the large foreign economic and political risks, there are some environmental risks. Nowadays, environment protecting is a major theme among many countries, however, China is a manufacturing-based country and many countries refuse to import a number of relevant products because China does not meet the environmental standards or Chinese products do not reach the green indicator. Textiles are facing risks of this kind and challenge.

## 4 RISK FOR EXPORTING PRINTED COTTON BEDDING

The objectives and purpose of the project are analyzing the risk in textile industry export from Jiangsu to Finland to avoid the exiting risk as well as we can. Another objective is to understand the market of textile exports in Finland through market surveys to meet the market demand. The key risk is delivery risk which will be researched as the main aim of this thesis.

### 4.1 Climate risk

The raw material of printed cotton products is cotton so the difference from other products is climate affected. Because cotton has a water absorption characteristics and Chinese southern region in July and August is in the middle of the rainy season, pure cotton is in danger of absorbing moisture without special treatment. (Shihong 2014, 6) Damp rate exceeds the prescribed standard but without carrying out proper drying processes, after the cotton product is packed into plastic bags it will easily gather mold as it is shipped abroad. Normally, it spends one or two months en route, and when the containers arrive at the destination port, customers will reject the goods because of fusty cotton textiles. The losses caused by climate reason just happen among export enterprises, so climate risk for cotton textile export enterprises is a risk that has to be taken precautions against and dealt with.

### 4.2 Price risk for raw cotton

Cotton is the main raw material of cotton textiles, fluctuation of cotton prices affects the export price of finished products which relates to the amount of export transaction. Cotton prices have been relatively stable until September in 2010. Cotton prices suddenly rose sharply, the price of cotton was 22385 RMB per ton on 29<sup>th</sup> September and price rose about 40% to 31300 RMB per ton. This sudden rise led to the loss of advantage in the Chinese low price

competition, and many signed order forms of export enterprises stopped production or lost due to the rise of raw material. Cotton price changed from 2010 to the end of 2011 and then became stable. ( Lijie & Li 2012, 5-6.) The reason for prices of cotton rising suddenly and sharply not only because of a great gap between market supply and demand but also affected by international cotton price changing, under-stock and push fluctuation of cotton prices. We can see from Figure 5 that the price of cotton changed considerably even within 15 days.



Figure 5: Domestic and overseas cotton spot price contrast in 2013

Chinese cotton production is facing some prominent problems such as price fluctuation and area changing as well as messy varieties, poor infrastructure, severe pest damage, low level of mechanization and so on, these factors restricting the stable development of cotton production which needs comprehensive measures to solve. The instability of cotton production and the increase in international cotton prices directly increase the cost of production and operational risk, reducing the competitive advantage of foreign export enterprises. As cotton prices are abnormally high, they make the normal

market operation activities messy, enterprises dare not rashly receive orders, buyers dare not place an order easily. Some orders move to Southeast Asia and the Indian market, which cause the Chinese market to become a ' free city' situation. Therefore, enterprises need to consider the fluctuation of cotton price risk when offering and receiving orders.

#### 4.3 Indirect risks from other industries

Cotton bedding is consumer goods which depends on the income level of the public and power of consumption. Consumption ability of consumer goods is influenced if other industries are in recession. For example, Nokia is a famous company around the world, but due to the appearance of Apple, it seems to be in a hopeless situation at the moment and lots of employees have faced unemployment. The consumption ability of the unemployed doubtlessly dropped considerably, for instance, purchasing a set of bedding once a year can turn to once in 3 years or even longer. The population of Finland is not large, sales volume of some consumer goods such as bedding may be affected indirectly. Furthermore, foreign trade in China has been stagnant during the past two years, influenced by the ship building industry to a certain extent. The quantity of crew is large and they are facing unemployment at any time. Once faced with unemployment, everyday consumables will decrease accordingly. The influence of indirect risks from other industries for export enterprises needs to be focused on at all times.

#### 4.4 Risk analysis for exporting printed bedding based on PEST method

##### **Political environment**

It can be seen from Figure 6, Finland still kept its first position among the EU member states although since last year Finland has gone down one position when it was ranked third overall. Competitiveness of economies includes institutions, infrastructure, health and education, labour market efficiency,

technological readiness, innovation and business sophistication (The Global Competitiveness Report 2015 2015).

In 2014, Finland occupied the top position in the primary education, the higher education, health, innovation and training. It was also ranked high in institutions. However, Finland was lacking in macroeconomic environment, market size and labour market efficiency.

GCI 2014–2015				
Country/Economy	Rank (out of 144)	Score (1–7)	Rank among 2013–2014 economies*	GCI 2013–2014 rank (out of 148)†
Switzerland	1	5.70	1	1
Singapore	2	5.65	2	2
United States	3	5.54	3	5
Finland	4	5.50	4	3
Germany	5	5.49	5	4
Japan	6	5.47	6	9
Hong Kong SAR	7	5.46	7	7
Netherlands	8	5.45	8	8
United Kingdom	9	5.41	9	10
Sweden	10	5.41	10	6

Figure 6: The Global Competitiveness Index 2014–2015 rankings and 2013–2014 comparisons (Top 10)

RANK	COUNTRY	2014 SCORE	2013 SCORE	2012 SCORE
1	Denmark	92	91	90
2	New Zealand	91	91	90
3	Finland	89	89	90
4	Sweden	87	89	88
5	Norway	86	86	85
5	Switzerland	86	85	86
7	Singapore	84	86	87
8	Netherlands	83	83	84
9	Luxembourg	82	80	80
10	Canada	81	81	84

Figure 7: Corruption Perceptions Index 2014: Results

The Corruption Perceptions Index ranks countries and territories based on how corrupt their public sector is perceived to be. A country or the territory of

score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean). The Figure 7 reveals that the score for Finland is around 89 from 2012 to 2014 and it is ranked third for three years which means the political environment is very safe and stable.

## Economical environment

As for economic environment, the Figure 8 shows the strengths and weaknesses in Finland. From the chart country rating, we can see that Finland has very strong business environment. Other strengths include high R&D spending, low fiscal deficit and contained public debt. However, Finnish trade sector is highly dependent on Russia which can be seen in trade structure. We can guess that Finnish economic environment is dwindling competitiveness, loss of export market share, rapidly deteriorating current account balance and high private debt.



Figure 8: Country rating and trade structure in Finland

## Social environment

The culture of Finland combines indigenous heritage, as represented for example by the country's Uralic national language Finnish and the sauna, with common Nordic, Russian and European culture. Finnish culture may be seen to build upon the relatively ascetic environmental realities, traditional livelihoods and a heritage of egalitarianism, and the traditionally widespread

ideal of self-sufficiency(Triposo.com 2015). In the twentieth century, a falling birthrate and emigration led to very low population growth. In 2014, the mean age of males was 40.7 years and that of females 43.4 years( 2015).

### **Technical environment**

There are three main process steps for Cotton printing bedding. The pre-treatment technological process of gray cloth, printing technological process and after-treatment technological process. (Chunyu & Wen 2011, 8) For the export product of cotton printed bedding, we need to arrange testing before exporting through SGS third party to make the project. The results of these projects through the test, we can know how to meet the technical needs.

## 5 ANALYSIS AND ASSESSMENT FOR EXPORT RISK

After risk identification of printed cotton bedding exports, it requires a combination of various risk factors and the reasons for occurrence of conditions to judge the probability and impact of risks. The decision-making level of risk management only through analysis and assessment can take appropriate control measures by preventing or reducing maximum degree of risk.

The risks which were mentioned in the main article primarily refer to the occurrence of injury or destruction of the possibility and uncertainty. Uncertainty means it is unknown that whether or not it happens and occurrence time is also unclear, the results of loss cannot be estimated. Generally, risk is composed of risk factors, risk accidents and losses. Risk factors increase opportunity for the risk accidents. Risk accidents are the direct reason for losses. Normally, risk losses refer to the economic losses or other additional losses.

There are four types of risk control: first one is risk aversion which means designedly discarding the risk project; second is loss control which refers to trying to control losses to lowest degree even if something is unavoidable; third one is risk defection which need to use insurance or contract to other participants. Last one is risk retention which refers to self-insurance with or without plan. Unplanned means bearing the loss by enterprise after risk occurrence. Planned means found compensation can be acquired through insurance or other methods before risk occurrence.

### 5.1 Identification of export risk

Export risk analysis requires identifying all the potential risks that may exist in the export business behavior, then analyzing the risk and finally evaluating the

level of risk to control and avoid the export risks. Export risk types can be classified according to the reason for losses which can be seen in the table 1 below.

Manufactured risk (International)	Manufactured risk (Domestic)	Natural risk
International financial environment risk	Domestic economic risk	Earthquake
International political risk	Domestic policy risk	Drought
International legal risk	Internal control risk	Fire accident
International market risk	Domestic technology risk	War
International currency risk	Domestic financial risk	Man-made sabotage

Table 1: Export risk of pure cotton printed bedding

International environment risk refers to the risk such as economic recession caused by the financial crisis which reduced the export products; International political risks include quotas, exchange controls, anti-dumping and countervailing measures caused by government protecting domestic enterprises; International legal risk is the risk caused by misunderstanding the trade terms because of the different laws and policies; International market risks such as changes in product demand, risk of price fluctuations caused by varying degrees of other alternatives; International currency risk refers to changes in exchange rates and the dollar exchange rate from time to time for a drastic change in the export business to add a lot of risk. (Xia 2015, 9)

Chinese national policy risks as the new foreign taxation, banking and foreign exchange system reform and so on affected export trade to a certain extent. Domestic economic risk is due to the sharp rise in raw material cost and the development of regional differences caused by the imbalance leading to a sudden rise in the cost of export enterprises that have encountered the

situation and suffered losses. Internal control risk also has considerable influence risk such as financial mismanagement, poor staff management, operation management, and inventory management confusion. Details determine success or failure and these are no exceptions, the slightest mistake will bring damage to the interests. Furthermore, technical risk is one of the major risks, at present, many developed countries especially in some European countries have a very high requirement for product quality, technically slightest mistake lead to the entire order void because of the failure product.

Force majeure risk refers to unforeseeable risks which is difficult to resist and control such as natural disasters, floods, earthquakes. Cargo transport encounter natural disaster then these losses are difficult to avoid. At the same time, the man-made sabotage risk also belongs to one of the non-normal risk factors.

## 5.2 Risk assessment methods

Risk assessment is the risk hazard assessment or safety evaluation. The purpose is ensuring the enterprise economic interests' security for export enterprises which use quantitative analysis or qualitative analysis. Controlling the possibility for risk and damage degree will develop appropriate management decisions. Currently, the commonly used risk assessment methods are qualitative evaluation, quantitative assessment methods, probabilistic risk assessment methods, risk assessment software and so on. (Hester, Barbour, Anthony & Harrison 2007)

Qualitative assessment method is the ability to assess based on the experience and technology of production systems, equipment, environment, personnel, management and other aspects of qualitative evaluation. Included in this type of assessment method are Safety Checklist, Preliminary Hazard Analysis, fault type and hazard analysis and other research methods that affect operability.

What is characteristic of this method is being simple and yielding intuitive results. Quantitative assessment method means assessing the risk on the basis of quantization which mainly relies on historical statistics, and mathematical method of constructing mathematical models for evaluation. Quantitative evaluation methods includes probabilistic assessment method, mathematical model calculations and relative valuation method.

Probabilistic Risk Assessment Act is based on the probability of calculating the risk accidents. Risk assessment software through software to help people find out the cause of the accident, understanding the severity of the potential risks and identifying risk mitigation approaches. There are four main types such as hazard identification software, consequences of accidents modeling software, accident frequency analysis software and comprehensive quantitative risk analysis software.

## 6 THE PRESENT EXPORT SITUATION OF CHINESE PRINTED COTTON BEDDING

### 6.1 Overview of Chinese printed bedding production

Bedding products mainly include quilt cover, pillowcase, pillow, bed sheet and bedding. Bedding is the product that directly touches skin, so the textile materials must meet four basic premises and four links. Four basic premises are reusable renewable resources, pollution free productive processes, harmless use process and products must be able to break down by themselves instead of risk of pollution. Four aspects are environmentally conscious purchase of raw materials, non-toxic dyeing and finishing, safe and reliable product and being waste pollution free. (Renzheng 2013, 6)

Cotton fabric uses the the natural cotton fiber as raw material, nature cotton fiber has favorable moisture retention and smooth texture, absorbency to skin, abrasion performance, hygroscopicity and air permeability. Bedding printing means applying various dye stuff on textile to get patterns. The process of printing contains design forming table, paste color matching, pattern printing and after treatment. Divided by technology, printing has direct, resist, discharge and ink-jet printing. The good or bad of printed cotton bedding need to be focused on and other parameters of bedding should also be known such as lining, yarn density, shrinkage rate and color fastness. Color fastness refers to degrees of fade after wash and reaction under regulation water temperature. Bad color fastness means dyestuff easily permeates in the skin and threaten shealth. In addition to the reference above mentioned technical parameters, the quality of bedding can be felt by external workmanship and comfortable hand feeling.

#### 6.1.1 Production process and characteristics of cotton printed bedding

Cotton printing bedding need to go through pre-processing, printing, finishing and product testing four process. The first is the pre-treatment of cotton fabric production process. Good cloth weaving factory weaving cloth is generally

referred to above. Before proceeding to the pre-processing, there is a need to test cloth and sewing. Inspection includes the width of the cloth, gram heavy weight fabrics. After taboo yarn fineness, yarn tensile force the length, density and other physical indicators. Mainly test jump yarn, cotton knot, holes, break and other defects. Ring sewn seams sew two ways of peace in order to ensure continuous batch processing cloth. (Zengrong 2007, 5)

According to the introduction of dyeing and printing, there is a wide variety of printing processes, which mainly include the following: Direct printing, discharge printing, resist printing and anti-Indian printing. Direct printing is the method that using printing paste directly on bleached cloth to obtain the tread pattern. It features printing process simple and easy, low cost and easy quality control. Therefore, this method is widely used in the industry. Discharge printing is after printing on fabric before dyeing methods. Which is characterized by high printing costs, printing process is complicated and long period, generally used in high-grade fabrics. Resist printing method is cast on the cloth after the first color congregation resists staining. This process properly controls pattern vulnerable, although the ratio of discharge printing process is simple, but the pattern is not fine. Anti-stamp is printed on a printing machine dial dye or resist manner as overprinting colored. Which is characterized by short process, the easiness to control the quality more stable, gradually decreasing the use in the printing process.

After the completion of further cloth printing there is a need to arrange, the reason is that cotton pretreatment and dyeing process makes cloth vertical direction stretch and horizontal direction shrink and causes it to feel rough to the touch. The first step is softening the fabric, generally by using chemical or mechanical method. The width of textile should be neat and unified, dimensionally stable form and improve the feel to make it soft.

First improve the softening feel, soft again to pull the contraction. If there is setting machine, it can be much more convenient. Secondly, preshrunk process should be carried out for dimensional stability. The elongation of the fabric in the manufacturing process should be controlled in allowance range. Once again, improving durability such as mildew treatment is performed in

order to prevent sunlight or rain, bacteria or other microorganisms damage to the fibers.

After sampling is finished on the fabric, it usually will go through third party testing. Test items are values of harmful substances, formaldehyde, heavy metals, pesticides, dyes, plasticizers and anti-biotic finishing agent. Other test items include shrinkage, color fastness, dry friction and anti-friction of the wet friction, shape dimensional stability and tensile anti-pilling level and so on.

### 6.1.2 Supply chain of cotton printing bedding

For the entire supply chain, each company stands both on the buyer's and the supplier's side. After design sample, printed cotton bedding processing side must first purchase gray cloth, then take purchased lining to printing and dyeing mill to print, after printing, it is shipped back to the factory for post-processing to make finished products. (Zhuhua & Junyu 2006, 10) After the inspection of finished fabrics according to customer requirement size and the fabrics are sent to tailor, Sewing, ironing and packing. Bedding production process is based on orders from the beginning to the planned discharge tailor bedding then to the sewing and packaging, the last is inspection.

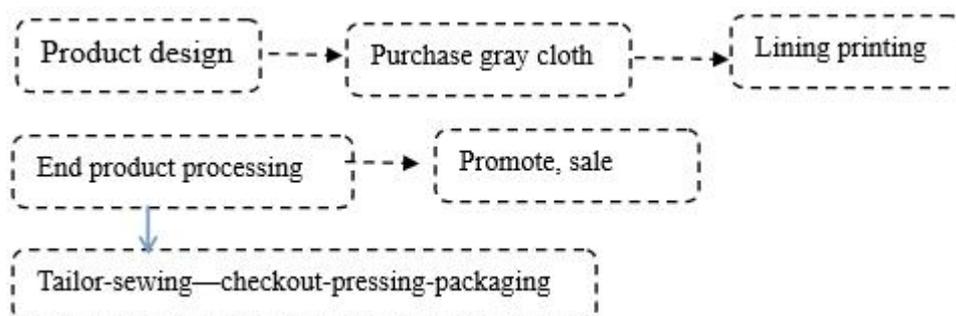


Figure 9: Supply process of pure bed linen

Inspection refers to quality inspection, only a product that has passed the inspection can be shipped. The raw material is cotton fabric, which means from the beginning the cotton needs to be selected carefully, not only to get

good quality, but also to get a good price. Because procurement costs proportion of the total cost is very high. Fabric quality, printing technology level and post-processing to obtain quality and service have a direct impact on the downstream supply and export, the risk is likely to increase exports is a detail which leads to the upper reaches of procurement. Many companies consider purchasing as an important part in supply chain. High-level and high-efficiency purchasing plays a very important role in the ongoing business development and competitiveness aspects. Therefore, at the upstream supply chain, companies must break the original concept, optimize and reform the purchasing department and supplier management to get better promotion downstream.

Simultaneously, with the rise of the network, e-commerce has swept the world. From Amazon to Taobao, from abroad Facebook to the domestic social networking Wechat, they make people's life and shopping become more and more convenient. As supply chain downstream which are the suppliers, the traditional model of the supply chain has been changed. Under the retail front, there are two main methods. One is the traditional distribution model: Joining store, store counter or large supermarket counters. Establish a number of sales outlets and increase market share through developing the franchise. The way of affiliate has disadvantage is that some franchisees make own discount, it makes the same kinds of products with different market price. The difference is too large to reduce the trust of brand. Another way is the traditional direct sales model: Direct stores, shopping mall counters and a large supermarket counters. Direct store outlets can ensure a unity in pricing, and help establish a good brand image. Similarly, the online mode has corresponding two ways: Online direct marketing and online distribution. Online direct marketing is to create a site for their company's own branded products' direct sales on network. Online distribution is usually selling their products through a third-party e-commerce platform such as Alibaba, One store, Jingdong Mall, Taobao, the Amazon and Dangdang.

Now if only use offline modes, then it is easy to be swallowed in other brand market share. Offline mode and online two-pronged approaches will improve the overall effectiveness of the supply chain system. This mode is also

applicable to the export business, Alibaba is a good third-party e-commerce platform to promote domestic products to foreign online platforms. In addition to Alibaba there is also Dunhuang, made in China, Hong Kong's international procurement website. The offline traditional large-scale includes international exhibition, professional seminars and journals. There are some international exhibition in China such as the domestic large-scale exhibition of the Canton Fair twice a year, Chinese International Home Textiles and Accessories Fair, Chinese International Textile yarn exhibition as well as some well-known foreign large-scale international professional exhibition and so on.

## 6.2 Chinese cotton printed bedding export situation and enterprise distribution

Textile has great competitive power in Chinese traditional industry and international markets which contribute to the Chinese export foreign currency earnings. According to related data, annual production value of textile is 109 billion dollar, with year-on-year growth of more than 20 percent. (Chinairn 2013) In 2014, Chinese textile exports total amount reached 298.42 billion dollar, with year-on-year growth of 5.09 percent. (Chinabgao 2014) For export countries, textile amount of exports in America is 44.74 billion dollar, year-on-year growth is 7.5 percent; amount of exports in European Union is 58.66 billion dollar, year-on-year growth is 13.6 percent; amount of exports in ASEAN (Association of Southeast Asian Nations) is 36.1 billion dollar, year-on-year growth is 5.5 percent. (Cottonchina 2014)

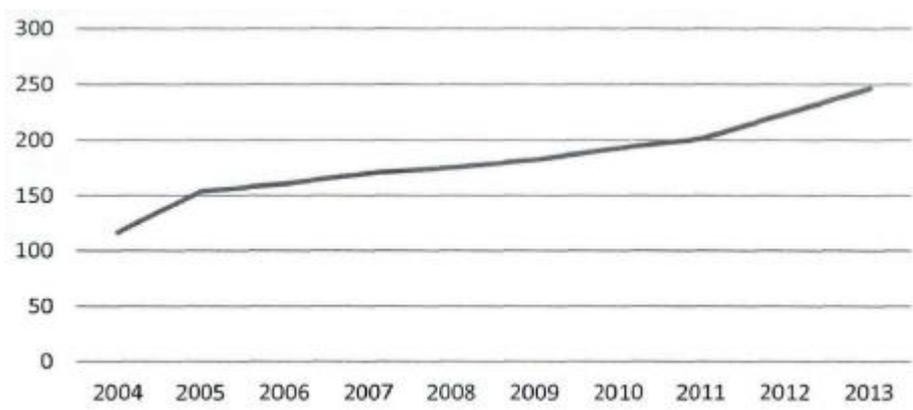


Figure 10: 2004-2013 Trend chart of Chinese textile products export total amount

As can be seen from the above figure 10 of total export amount over the years, from 2004 to 2005 the export trade increased much, the main reason is the cancellation of quota system which provided opportunity for textile export. Although total amount of export keeps increasing steadily, the speed of increasing is slow, other factors such as the political and economic environment need to be considered as well; in 2006 America used anti-dumping, anti-subsidy measures against Chinese textile export, in 2008 financial crisis broke out among the world and in 2010 Chinese cotton price drastically improved. What is said about the blocked rapid expansion of Chinese textile export trade. 2011 to 2013 textile took a favorable turn, the speed of growth exceeded that of before. This depends on picking up in America and European market, better trade structure and Chinese used measures to make trade increase steadily.

Xinjiang cotton industrial district is the focus of attention area among the textile enterprises in China. Zhejiang covers most export share which is 26% and second one is Jiangsu which covers 22% (General administration of customs of the people's republic of China 2015). We can see from table 3, regionality of textile enterprises is very obvious, good economic benefit areas mainly concentrate among Jiangsu, Zhejiang and Shandong district. Zhejiang and Jiangsu are restricted textile area from Ming dynasty. Jiangsu textile industry has very impeccable industry chain. The export shares of Jiangsu, Zhejiang and Shandong cover 62.7%, other provinces do not shown in table if they cover less than 2% of the export share.

Number	City	Export value (RMB)	On year-on-year basis	Share
1	Zhejiang	656103.3	12.6	26.6

2	Jiangsu	552763	9.7	22.4
3	Shandong	337867.3	3.7	13.7
4	Shanghai	199355.3	2.5	8.1
5	Guangdong	124084.5	8.7	5
6	Xinjiang	98031,7	7.4	4

Table 4: Export statistics of textile in various province in 2014

### 6.3 Overall advantages and disadvantages of printed cotton bedding export business: Based on SWOT method

The main advantages of Chinese printed cotton bedding are discussed in the following aspects. First, China is a large agricultural country, superior geographical environment and climatic environment have created a high-quality and cheap raw cotton. Second, China is one of the most populous countries among the world, Chinese low labor cost is the advantage that many other countries cannot match. Third is Chinese output of textiles. With the growth of investment, improvement of industrial chain, development of expanding the scale and internal stability political and economic environment makes Chinese textile production at the top of the list.

However, there are some problems with printed cotton bedding. First, check and analysis of the appearance. The size of cotton bedding and whether it meets the requirement and whether the size matches the size displayed on the package. The lining of products use an ordinary cotton yarn or combed cotton. Combed cotton products seem rather smooth and of good texture. Although both of them are cotton, but the bedding has different levels of softness and hardness to touch. Usually, the product after soft handling will feel better. Also attention needs to be paid there is a serious bedding odor problem. If there is a serious odor, it is mostly due to the use of bad dye or not

being completely blow dry and placed in bags has caused mildew emit unpleasant musty in rainy weather.

In addition, whether the printed pattern is clear, color is continuity and if there are break point, break line and unclear pattern. The other question is the bedding package, water wash trademark and logo font is clear or not and whether there is specific instruction, package bag is using environmentally PP bag or PE bag or not.

Secondly, analysis the inherent existence question of product. Product and the quality of used materials in product whether meet customer requirements; Washing according to the water temperature based on the requirements of the water wash, whether bedding will appear fade and stain; The shrinkage of bedding after washing need to be considered, it can affect the normal use or not; after washing several times whether the product will be played ball phenomenon; Whether it contains formaldehyde, softener, heavy metal, chlorophenasic acid and other harmful substances. (OEKO-TEX100 2015)

The overall development of Chinese exports of printed cotton bedding can be obtained by the following SWOT analysis. It is mainly from internal strengths and weaknesses, external opportunities and threats which four aspects of analyzing Chinese exports of printed cotton bedding's current situation. Through SWOT analyzing some corresponding strategies can be recommended, which are shown in table 3 below.

<p>Internal factor</p> <p>External factor</p>	<p><b>Strengths</b></p> <p>Labor cost is cheaper compare with European countries; import of foreign advanced technology and top talent; high total production quantity; long history of spinning and weaving</p>	<p><b>Weaknesses</b></p> <p>The price of cotton and other raw material is increasing; high demand of printing technique; appreciation of the RMB; deficiency of skilled worker; lack of self-dependent innovation; small enterprise scale</p>
<p><b>Opportunities</b></p> <p>Foreign trade has lots of room to grow; global economic integration; improvement of e-commerce network platform; selection of high quality product; access to emerging market</p>	<p><b>SO strategy</b></p> <p>Remain total production quantity; strengthen exchanges and cooperation of international business; import new technology; study new management idea; make full use of e-commerce network platform; stimulate the trading volume of high quality product</p>	<p><b>WO strategy</b></p> <p>Control the cost of manufacturing management; study advanced printing technology; import and foster professional; build self-owned brand and apply for a patent, design own uniquely pattern; scale up</p>
<p><b>Threats</b></p> <p>International competitors seize market share; export market excessive concentration in European countries; lower labor cost; great volatility of RMB; strengthen of technical barrier; network security</p>	<p><b>ST strategy</b></p> <p>Set up factories in other countries; expand the new market; build own famous brand; transaction currency use RMB or other stable currency; import advanced equipment; research new technology; network maintenance</p>	<p><b>WT strategy</b></p> <p>Increase the additional value of export product; strengthen consciousness of trade protection; expand and open export market; coping strategy for anti-dumping; strengthen brand management; enhance productivity; technological innovation;</p>

Table 3:Printed bedding export competitive SWOT analysis

## 7 RESEARCH IMPLEMENTATION

### 7.1 Research method

There are two types of data collection methods: qualitative method and quantitative method. The type of data collection methods must be chosen based on what kind of data is to be collected as well as the emphasis of the study and the purpose of the thesis (Ghuri & Grønhaug 2010). Method chosen for this thesis is the qualitative research method which is implemented, implemented by semi-structured qualitative interviews. Compare with other investigation methods, interview is the survey has the most extensive scope of application. No need to consider about gender, age, occupation and cultural level. For interviewees, there are not many restrictions or concerns as questionnaire do.

The questions asked in qualitative research always begin with “How”, “Why”, and “What” (Hesse-Biber & Leavy 2011, 3). For the purposes of this research, the questions are divided into 3 or 4 sections with 2 or 3 questions in one section. The answers were recorded by taking notes during two interviews then translated into English. Question designed based on thesis content, however, there are always some points was missing or no answer related to. The question is flexible because it can be added if needed to get more information or help interviewees to understand the question.

### 7.2 Sampling and Procedure of Data Collection

According to the Ghauri and Grønhaug, (2005) the research design is the overall plan for relating the conceptual research problem to relevant and practicable empirical research. In other words, the research design provides a plan or a framework for data collection and its analysis.

The question design plays a very important role in the whole interview. Before interview, question preparation must be paid a lot of attention and it must be made sure all the questions help researchers to analyze and understand the theory and meet the goal of the thesis.

The question design is not only based on research questions but also should relate to the framework of the thesis. The questions should be created according to the knowledge mentioned in theoretical part which makes it easy to understand the purpose of interview and support the theoretical part. The topic of thesis is exporting textile industry from China to Finland, so at least two companies should be interviewed both in China and Finland who are doing business in the export trade.

First company should be the commissioner, a textile company doing business in China that have exporting experience but without exporting to Finland. However, it is not significant whether or not business is done in Finland, other countries or areas can acquire some knowledge related to the risk in exporting textile product. The video interview was recorded and the whole interview proceeded more than 30 minutes. The interview for Titans took place in November, 2015.

The main questions for interview commissioner- company named Titans are as follows:

What kind of risk ever happened in exporting textile?

Which kind of delivery method can be chosen?

What method can be used to avoid risk?

Second company is Chinese company doing business in Finland. The company is a food trade company located in Helsinki, and because the name of company is not allowed to be mentioned in thesis it has been named the R company. R company is a great scale food trade company, it mainly exports food from Asian area especially from China. R company offers material for Asian restaurants in Finland. The competition between food trade companies is big. There are three big food trade companies in Helsinki and R company is one of them. The information, data, the price of product and the name of

company is always asked to be kept secret no matter interviewer or the employees. The interview for R Company also took place in November, 2015.

There are three bosses in this company and all of them from China but they have hired employees of different nationalities. As I can see, the lack of employees puts the whole company under a lot of stress and everyone has to work for the whole day and six days per week, they even just have 30 minutes to have lunch so I just have a few minutes to conduct the interview. The method of interview is face-to face interview which only takes 10 minutes. They were so busy and they rejected to answer some question such as how to select the buyers and suppliers, the answer from them was that they have their own way. After the interview, we can see there are three main risks for R company that they are facing these days.

The main questions for R company need to be based on the questions asked from Titans, so the questions are quite similar for both companies such as:

What kind of risk even happened in exporting food or other product?

Which kind of delivery method can be chosen?

Does Finnish economic/political environment/culture affect company's operation?

There should be a sub interview to support the goal of thesis which is local textile company in Finland. However, even though after sending e-mails to five different companies in Finland both in English and Finnish, there was just one company reply which said they declined to be interviewed because they only do business in European countries although I listed some questions about market factors in Finland. Furthermore, there is nothing from other four companies. Nevertheless, it is also helpful to get some recommendations for the commissioner.

### 7.3 Method for analyzing the interviews

Data analysis is, in a sense, more difficult and complex than data collection. A good interview needs to be analyzed thoroughly in order to turn the data into a meaningful conclusion for the researchers, thus reaching the goal of research. Researchers need to break down the information, reconstruct and concentrate it, finally explaining the data in a meaningful way. These processes can be summed up as "organization" and "link" in two parts, the former is the finishing process of the information, the latter is a further analysis of the information and explanation. But in the actual process, the two are closely linked and interwoven.

The difference to the quantitative method, qualitative research is not a simple linear process, but a circulatory dynamic process. Study design, data collection, arranging, the analysis, testing and reporting process is cyclic. Therefore, collation and analysis of data show the following characteristics:

#### 1 , Synchronization

Collation and analysis often cross each other and carry out simultaneously, while limited by other parts of the study. On one hand, collating information seems mechanical and monotonous, but in fact it itself is a very important analytical process. Through combining the data, researchers can often get a lot of unexpected revelation. On the other hand, it is bound to establish on some sort of analytical basis.

#### 2 , Timely

Collation and analysis are regarded as a whole, therefore, collation and analysis of information should be early or it will be late to analyze after accumulating a lot of information.

#### 3 , Integrity

The integrity of transcripts which means finishing the recording materials generally require content material verbatim record, because seemingly unimportant things may be very valuable in the analysis, and if it was not recorded, it may never be recovered.

The way and method of analyzing the interviews should be based on the collection and design of interview, which makes analysis more convenient and effective. Generally, design of interview for Titans was divided into four parts. First section is about risk management in exporting; the questions for second part are based on Porter's five forces; third part is related to risk management tools or policy to avoid risk and last part is based on PEST environment. However, Titans mainly answered first part of questions, some questions Titans just discussed in few sentences.

As for R company, the question design was also similar with question for Titans which means question is asked in groups. Not only the method of design is the same as interview for Titans, but also the specific questions are the same. The only thing different is that the question related to the process for exporting for R company was not presented to Titans. In addition, R Company spent much less time than Titans but R company also paid more attention to the risk part.

The method of analyzing the interviews is fractional analysis although the team design is different with data collection. After finishing both interviews, it was easy to see that Titans and R company both focus on the risk and risk management that also help the research. Because of this situation, the interview analysis will be divided into different risk groups. As for R company, the risk most often mentioned by interviewee is customer risk, so the risk analysis will focus on customer risk such as payment time risk. As for Titans, the data analysis will focus more on different kind of risk.

#### 7.4 Results of interviews with Titans

After the interview, I have an overall knowledge of how to do business in China related to the exporting textile. The delivery method always chosen is the ocean shipping and it takes one month but there is a coordinated process service for delivery offered by special company.

Titans is a manufacturing-type enterprise and agency company, from the interview we can know that both formulation and implementation of production

plan are easy to have risk. Production includes the 5 M: Man, Machine, Material, Method and Measure as well as Environment. The formulating of production plan needs to meet the delivery time and quality demand from customer, furthermore, the plan and arranging of production factors ' material, man and machine' need to be considered. There are some main aspects of production plan risk, first is the design of material demand which includes the quantity of material and the requested delivery time. Second one is personnel placement and machine arrangement such as arranging the number of machine and related people according to the order quantity. Third is first-phase preparations including what kind of product should be produced, how many products, where to produce, how much time can be spent working. If production plan is not thoughtful, the efficiency and progress of the whole production line can be affected. Meanwhile, the risk of these plan is that a plan may not be able to keep up with changes, so the only way to avoid this risk is to plan more carefully to prevent risk.

The implementation risk of production plan is that production plan is formulated perfect, but the operating process in practical production line cannot execute it to the letter which influences the normal operation of the whole system. Not all the personnel can understand the production plan very well to give the biggest executive support, even all the personnel produce according to the production plan, there are still implementation risks of production plan because of different production ability and work efficiency.

Inventory control risk is the quantity control of inventory. Normally, enterprise will prepare the present storage amount according to the last year storage amount and sales quantity. However, inventory control does not only consider these two factors but also other factors. Analysis from external environment: How was the national economic environment? Is there direct or indirect influence by financial crisis and what is the incidence; how was the national political environment? Whether the environment is stable or not, does government push related policy to support enterprise; how was the marketing environment? Such as market demand of cotton printed bedding. Analysis from internal environment: Can the pattern be best-selling or not? Whether or

not the production capacity and scale of production lead the limited production quantity? How about the factory area and storage amount for inventory?

The mode of operation of Titans can help to avoid risks of this kind because when the customers ask for a large number of products which Titans cannot offer, Titans can change to the agency between the buyers and suppliers which also solve the problem of storage. But not all the enterprises have the same business practice as Titans, one of company named N company that operates with Titans had the inventory control risk several years ago. N company overrated quantity of sale and ignored the change of external environment which led to the overstock and slid into loss for few month, the capital turnover was a very big problem in N company. The lack of cash flow made it difficult to pay workers' wages. In order to maintain the survival and development of enterprise, N company had to borrow usury which means huge losses could not be avoided. Therefore, inventory control risk can be said to be very close to enterprise survival and development.

Almost all the entity enterprises referred to capital raising. Capital raising can make enterprise bigger and strengthen or make enterprise get into trouble. Financing risk is the main risk for enterprise especially SMEs( small and medium-sized enterprises) such as Titans. The financing risk faced by SMEs during the development processes are bound with financial policy, environment and enterprise own factors inextricably. Because of the combined action, it makes it difficult for the SMEs to avoid the financing risk (Lulu 2005). Firstly, financing risk is the risk that enterprise cannot be raise capital or it is difficult to raise capital because of the own factors. From the internal resource, enterprise mainly rely on raising funds by themselves, but in China lots of SMEs have limited resources and they have poor consciousness to transform the benefit to capital turnover, it is hard to support the sustainable development of enterprise if they only rely on their own funds. Except for the bank loan, SMEs cannot find other financing channel easily. Moreover, bank loan has quota and bank loan need guarantee or third party guarantee to offer short-term loan to enterprises. Secondly, the financial risk is the risk of repayment. Plenty of SMEs invest everywhere after raising capital without good arrange of funds which causes lots of losses. Under this situation, they

keep borrowing usury and sink into vicious cycle between borrowing money and repayment.

Titans encountered this problem in 2013 which caused a great loss for the factory. One of the customers' capital turnover was difficult, they were late in making payments for days. Factory needed funds to continue to prepare producing for next order. But the quota for bank loan was full and the factory had to borrow usury. When receiving the payments from customers, besides the personnel wages there were only left for bank interest and usury. Going round and round for several months, the order for factories not only made no profit but also lost a great amount of money. Therefore, if the financing channel cannot be fixed and financing operation cannot be properly regulated, the financing risk can follow closely behind.

Difficult recruit workers is the main recruit risk faced by enterprises in China. The reason for recruit risk in China is different with European countries. So why is it difficult to recruit workers especially the skilled workers in China? There are four parts need to be thought of thoroughly. First one is educational mechanism in China, China is churning out more qualified people but still lacking really technical personnel. Second is the developed service industries. Compared to with other industry in China, service industry has advantages on hardware facilities along with matched environment as well as compensation. Third one is Chinese traditional ideology, lots of people who have chosen employment will eventually escape from factory under the influence of ideology. The last one is the environment and security of factory. Negative news keeps unveiling easily making people worry.

In addition to the difficulty of recruiting workers especially lacking of skilled workers, Titans is also faced with the risk of personnel management after recruiting. All the printed cotton products need to be taken to printing and dyeing mill to be processes, then brought back to company to make after-treatment. Printing and dyeing mill in China is independent factory. Titans dispatches a quality inspector to printing and dyeing mill to follow the tracks of product printing and dyeing. The quality inspector is responsible for supervising and Titans found that workshop staffs make a profit in troubled

situation. They do not supervise strictly according to the various processes, and cheating on workmanship and materials leads to products that are not washable and there can appear a severe fade phenomenon. Customer directly refused this order and asked for re-printing, Titans spend lots of money to obtain customers which turned this order into loss instead of making a profit. The quantity of staff and scale is too much in entity enterprises, so there are lots of management risks. It might bring destructive losses if there are no precautionary measures and control.

There some are aspects of technical risk faced by Titans: first is the risk of shrinkage rates. The feature of pure cotton products its high shrinkage rate, customer always ask for less than 5% shrinkage rate, but if factory do not deal with water processing the shrinkage rate will be over 6%. Second one is the amount of chemicals risk. The dye of printed product is chemical, if the dosage percentage is undeserved there will be risk of chemicals being over the approved limit. Bedding is the products that directly touch skin, so people are focusing on the safe usage of the product. Third one is the risk of dyeing treatment. Some customer from European may ask for 60°C wash without fading, but comparing with Chinese washing temperature is 30-40°C, Titans need higher technical skills in dyeing treatment. Some customer may also ask for dark color pattern but it is difficult with the fading problem. It is easy to deal with light pattern in Chinese factory but there is a need to be careful with dark patterns or there will be a rejection risk meet the rejection risk from customers. So Titans have much more technical risk than other enterprises.

Network security risk is mentioned in the previous chapters. If intranet is attacked by crackers, not only the receiving and dispatching of email cannot work well but also the risk of lost of data, these things will bring the adverse effect. For example, the salesmen at Titans send an email to customers, but that customer keeps receiving the same email. It made that customer very angry and complain to the Titans and send the contract to another supplier because of the email problem. This risk does not always happen but can be prepared for in advance and avoided.

## 7.5 Results of interviews with R company

First is currency risk, the Euro has fluctuated greatly over the past years and the R company, R company cannot find any suitable method to fix the problem. Customers always complain about the price changing, the only thing R company can do is trying their best to communicate with customers. Fortunately, currency has not changed too much since two years ago, the stability of currency allows price of products to stay relatively stable. The currency risk became easier to control which is a better situation than before.

Second is inventory control risk, R company have different warehouses in different places. Because the orders from restaurants change every time and almost all the restaurant order at least once a week with different materials and different quantity, so it is hard to know how many products are needed for certain time. Because there are too many variables, so the inventory control risk always happen which can lead a great losses. The only way to avoid the inventory risk is making some on sale activities to promote the extra products.

Third one is about the risk of payment time or just payment. There are plenty of restaurants purchasing on credit or putting off the payment time for long time, normally R company will give customers two weeks to pay. But there is a restaurant that ordered for few years and after the last order, they cannot be contacted with some payments left which never happened before. Although some restaurants purchase on credit and order a new order without finishing payment for last order, at least they are continuing doing business with R company.

Except three main risks, there is also something important to consider when doing in doing business in Finland. First can be payment method, R company prefers to use net bank and the most common bank is Nordea bank. However, some customers prefer to pay by cash. The time for net bank payment is two weeks and different deadline for cash payment. About the delivery method is the same as Titans choose which is ocean shipping, because it is cheaper than other methods. If there are some losses during delivery, R company will discuss it with suppliers and come up with a solution.

## 7.6 Preliminary summary for interview

Basically, Titans offered much more time than R company but both companies focused on risk part. Titans was willing to give more details compared to R company that shows R company has too many limits. During the interview, not all the questions could be answered in detail or in long sentences even some questions were refused to be answered.

As for R company, they do not have a perfect system of arranging the whole process, especially customer management. R company has some risk related to customer risk but they did not try to think about the solution for customer risk, like payment time, normally the time for payment is two weeks but some customer delay payment up to one month.

As for Titans, Titans is a new company but they have some risk management awareness which makes them more willing to think about risk management and how to avoid risk. Although they mentioned different risks, the discussion can not only mainly focus on which kind of risk. It means that Titans need to pay attention to different risks instead of a specific part.

Titans has more patience for interview but the answers given by R company and Titans are credible. The answers offered are very helpful which both focus on risk part. However, there should be one more interview for a local company doing business related to textile. Few e-mails were sent asking for interview and three of them just answered such as ' your subject is very interesting but unfortunately we cannot accept the interview ' or ' we cannot help you with interview because we never have any business with China or Asian area'. One interview was missed resulting in a lack of many important information and one of the research questions cannot be answered.

## 8 CONCLUSION

China is the biggest producer of textile in the world, which has full range of product chain of textile, printing, dyeing and finished product manufacture. The advantage of textile export trade is obvious. However, with the raising of labor cost and raw material cost, unstable cotton price and fluctuant currency, government cancel the preferential policy for overseas-funded enterprise makes more and more overseas-funded enterprise evacuate from China, which also transfers lots of Chinese order to India, Vietnam, Turkey and other countries. A great number of SMEs doing business with textile export is unable to continue even faced with the bankrupt situation. This thesis selectively analyzed the involved risk factors for printed cotton bedding export trade, through the research of related risk theory combine with the status analysis for Chinese printed cotton bedding export and export risk. Based on risk research with R company and Titans simultaneously, finally got the following conclusion:

### 1. Export trade risk needs to focus on macroscopic external environment

Macro external environment mainly refers to economic, political and social environment. Economic environment such as the outbreak of the financial crisis caused by the global economic recession, EU sub-prime crisis issues; Political environment such as whether the target country political situation is stable, is there a war situation chaotic conditions and other problems with other countries, domestic policy is to support export trade or not, how was the relationship between domestic and export trade countries and so on. Social environment such as export trade cultural characteristics, location, consumer habits and values.

### 2. Printed cotton bedding product needs to focus on the risk from microcosmic external environment

The first is the natural environment of climate risks, here mainly refers to the characteristics of cotton products easily impacted by climate to cause the moisture problem. Basically there is no problem in Chinese northern regions because it is relatively dry, but the air is humid in southern region, in the rainy season it is easy to get damp and if not thoroughly dried and placed in bags, then after a month or two of floating in the ocean mold begins to form on the fabric. Enterprise certainly suffers a loss. Followed by the indirect effects of other industries need to guard against. The affects between industries are similar to the butterfly effect, even small changes can make a big loss. Then is the exchange rate risk. Currency risk is an inevitable risk in export trade income and expenses exchange.

### 3. Enterprise need to focus on internal risk

Internal risk of enterprise own existence need to be effectively controlled and preventive measures can be taken. General internal risks of enterprise include personnel management risk, capital turnover risk, financing risks, inventory risk, production management risk, payment risks, enterprise network security risk and so on. Enterprises need to be fully aware of these risks and establish effective risk management mechanisms for implementation.

## 8.1 Recommendation

Compared with the domestic general business, export enterprises are facing bigger risks. Compared with general product, cotton printing bedding itself have more risks. How to reduce the risk or avoid risk for export enterprises is the consideration that must be confronted with the topic.

Improving the quality of cotton printing bedding can strengthen and enhance core product competitiveness. With the improvement of living standards of consumers, most people purchasing goods first consider about the quality of goods, followed by the price. Nowadays, there is a lot of competition in the

world, in order to strengthen core product competitiveness one must improve the product quality.

Enterprises need to strengthen the risk management of trade finance. Export companies that generally export goods are required to purchase raw materials in advance and continue to invest capital in processing and production, because proper management of trade funds will affect the entire enterprise operating cash flow and production processes. Strengthening export enterprise risk management of trade finance can be done with several aspects. Any management cannot function without people, and finding a good financing and excellent responsible person for the operation is the key. Finances can help enterprises with reasonable tax avoidance, the operator can help companies control costs and increase revenue. In addition, the fund management system is also essential.

Export enterprises should establish risk based on theory prevention mechanism. The first step is to make all employees understand the risk so that they really are aware how the risk prevention is necessary. Then there is a need for establishing some scientific risk prevention mechanism.

Completing the evaluation standard for raw material suppliers. Supplier development and selection affect whether the modern enterprise to take advantage of quality service of suppliers, which enhance their core competencies. It will achieve sustainable development of enterprises. Therefore, improving the raw material supplier evaluation criteria and select good supplier business management is the most important work.

Supplier assessment generally includes the following elements: level management vendor evaluation; the quality of staff; the cost of structure( mainly include labor costs, material costs, manufacturing overhead costs and processing cost structure); the financial capacity and stability; production planning and control (for example, providers can ensure product quality on schedule according to supply); level of information management; the capacity for environmental protection; the location and transport capacity. The last one needs assessment research on how the partnership will form. Whether suppliers will sincerely cooperate and be willing to resolve the

question, whether the exchange of information includes future plans, whether there is a guarantee not to disclose some of the information or the resources to other clients. In short, perfect supplier evaluation standard will help enterprises to find long-term business partnership of mutual trust which is conducive to their own sustainable development.

Textiles are no longer simply regarded for practical purposes, now they are given more other features such as decorative appearance. Rising demand from the physical to the psychological level, creating demands need to seriously understand the requirements, should transfer from the relationship between man and commodities to interpersonal understanding. When developing new products, the understanding of what the customer needs before the user is essential.

List potential risk in the contract can also be the way to improve risk management. The matter needs to be discussed with customers concerning which part of risk should be taken by different parties when making contracts. Enterprises do not need to take all the responsible after risk has happened. This can be risk manage before risk, and there should be a way to avoid risk after it has happened which is communicating with customer to figure out the countermeasure according to the different risk.

## 8.2 Evaluation for the research

There should be at least three interviews, however, some of the invited enterprises were not willing to give an interview so the question "What is market demands in Finnish textile industry?" was not answered. Some questions for R Company are not answered because the data and information are not allowed to be mentioned in this thesis. Therefore, the interview did not allow the completion of the whole research problem, however, something can be learnt from the process. The questions for interview are easy to understand even without any explanation. The interview with Titans is longer than R Company and more detailed. Titans offer lots of views and opinions about risk management which is very helpful.

### 8.3 Further research

As mentioned, the question “What is market demands in Finnish textile industry?” is not finished yet, so there should be a research topic for one of further research. As for market demands, the research need to mainly focus on the market price and customer behavior. What is the average acceptable price for printed cotton bedding in Finland, are people willing to purchase by different brands from different countries can be the main two research questions for research. In addition, the design of bedding, the materials of bedding also need to be studied in combination with market demand. Market demand is a significant part for entering a new market, problematic structure better preparation can help avoid excessive loss and can be a way to improve risk management. In addition, Finnish people have highly loyalty to their local brand, they prefer to afford more money to purchase the same product which is local brand. So how under which situation, Finnish people will change the choice for brand is one of big subject. This topic can be a new direction for research to give more useful information and help for enterprises to enter Finnish market.

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## APPENDICES

### INTERVIEW QUESTIONS

Is there any loss caused by currency problem when export or import goods?  
Are there any solution to avoid?

Is there any reference for payment time and payment method? What if custom delay the payment time?

Is there any reference for storage and shipping for food or other product?

Which delivery method can be chosen? How about delivery time?

How to select and contact supplier and buyer? Is there any potential customers or competitors?

How to evaluation the influence cause by other exited competitors?

Is there any policy or method can avoid risk caused during delivery?

Is there any risk didn't mentioned is very heavy or hard to avoid?

Dose Finnish economic affect company's operation?

How about political environment?

And culture?