The financing of
Small Swedish companies established in China

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Abstract

Title: The financing of small Swedish companies established in China

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Keywords: Small Swedish companies in China, the Pecking order theory, the Financial Gap.

Specification of the problem:
How do small Swedish companies established in China experience the handling of financing?

Purpose: This dissertation intends to describe how small Swedish companies experience the handling of financing in China. Which include describing how small Swedish companies have chosen to finance their establishment, and whether Myers Pecking order theory is applicable. Further more, to show the inquired companies attitude towards external equity, and if any problems are experienced, connected to reaching long-term external finance.

Definition: The definition of small Swedish companies has been set to less than 100 employees, and furthermore, established in China under any of the entry modes WFOE, FICE, Joint Venture or Rep/Sales Office.

Method: To answer the specification of the problem a quantitative approach has been used. The data was gathered through a survey sent out to a number of small Swedish companies established in China.

Conclusion: The over all conclusions for this dissertation, are that internal finance is preferred, and in general is the use of external finance insignificant among small Swedish companies established in China. What can be concluded from this is that Myers Pecking order theory is applicable. Further more, there are strong indications that the inquired companies do not experience any financial gap, or in general any imminent problems surrounding reaching external finance. Important to add to the conclusion is that just because there are no imminent problems, does this not signify that companies do not experience any problems at all reaching external finance.
Sammanfattning

Titel: The financing of small Swedish companies established in China

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Nyckelord: Svenska småföretag i Kina, Finansiellt Gap, Pecking Order

Problemställning: Hur upplever svenska småföretag etablerade i Kina, hanteringen av finansiering?

Syfte: Uppatsens syfte ämnar beskriva hur svenska småföretag upplever hanteringen av finansiering i Kina. Vilket inkluderar en beskrivning av hur svenska småföretag har valt att finansiera sin etablering och om Myers Pecking order teori är applicerbar. Vidare, även visa på de undersökta företagens attityder till extern et kapital och om problem upplevs i samband med erhållning av långfristig extern finansiering.

Definition: Definitionen av svenska småföretag i denna uppsats är att företagen har färre än 100 anställda, samt att företagen är etablerade i Kina genom WFOE, FICE, Joint Venture eller Rep/Sales Office.

Metod: För att svara på problemställningen användes en kvantitativ ansats. Data samlades in genom en sureyundersökningen som skickades ut till svenska småföretag etablerade i Kina.

Slutsats: Uppatsens slutsats är att interna medel föredras av företagen samt att användningen av extern finansiering är generellt sätt obetydlig bland svenska småföretag i Kina. Vad som kan dras som slutsats av detta är att Myers Pecking order teori är applicerbar för företagen. Vidare finns det starka indikationer på att de undersökta företagen inte upplever något finansiellt gap eller generellt sätt några överhängande problem med att erhålla extern finansiering. Viktig att lägga till slutsatsen är att bara för att företagen inte upplever att det finns några överhängande problem är detta inte ekvivalent med att företagen inte upplever några problem alls med att erhålla extern finansiering.
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1 Introduction

This chapter intends to create an interest for the topic and present the discussion of the problem, specification of the problem and the purpose of this dissertation.

1.1 Background

A Quote from Fang (2005) says a lot about how it could be for foreign companies in China "it is no longer difficult to do business in China, it is just complicated” (Freely translated from Fang, 2005 pg 138).

China is today a land of opportunities when it comes to doing business, it has had a constantly growing economy during the last few years, and the economic booming seems to have no intentions of slowing down. China is today the fourth largest economy in the world (Anon, 2008). 2006 the population was over 1.3 billion (Internet 1). As for comparison to Sweden which in 2006, had a population equivalent to approx 0.7 per cent of China (Internet 2).

To understand the potential of the Chinese market, and to paint a mental picture, Sweden has approx nine million mobile subscribers. China during 2007 gained seven million new subscribers each month. And every 24-hour period 1.8 new mobile phone models were launched (1Anon, 2007). This shows the enormous potential the Chinese market has with its 1, 3 billion inhabitants, not only as a low wage country for business to cut cost in production, but furthermore the growing purchasing power of the Chinese people (Hähnel, 2007).

There are no longer boundaries when it comes to borders and companies operating globally, and it is almost possible to establish production or services anywhere in the world. And when globalization reached China through WTO (World Trade Organization) in 2001, it awakened an economic giant who rushed to become a super strong economy, where companies from the entire world tried to get a piece of the cake (Hähnel, 2007).

Hähnel and Rylme state in their report from 2007 that numbers as high as one Swedish company established themselves in China each fourth day. In 2007 there were approximately 400 Swedish companies in different sizes established in China, 50 per cent of the Swedish companies that were established during July 2006 and June 2007 were smaller business with less than 100 employees.

When companies are establishing abroad further financial resources are necessary. The need will vary depending on establishment form, and what market the company intends to establish on (Rundh & Gottfridsson, 1998). The first years are often critical for small Swedish companies in China, due to intense competition and negative results (Schwaag-Serger & Widman, 2005). It is therefore of great importance to have a steady cash flow, "You have to have good financial backing, especially in the establishing phase, because it
“always cost more then you think” says one of the Swedish entrepreneurs established in China (freely translated from Stockelberg, 2007 pg 46).

1.2 Discussion of the problem

There are different alternatives how to finance a company. The capital structure of a company could consist of one or a mixture of the alternatives, internal finance, and debt and external equity. The pecking order theory created by Myers explains how the capital structure is built up within companies. It also explains why firms prefer internal finance before debt and external equity (Brealey, Myers & Allen, 2006). There are evident facts that the capital structure of small companies is very similar to that of large companies. With the major difference that the equity in small companies often to a greater extent is injected from the owners own capital (Ang, 1991).

The pecking order theory could be seen as an explanation to why companies do not have a great demand for external finance (Brealey, Myers & Allen, 2006). A reason why small companies are avert of using external finance could be through out the fact that owners in small business often value equity to a great extent, and do not like to lose the ability to be their own boss. Further more lose control of the decision making of the business (Landström, 2003; Myers, 1984; Winborg, 2000). According to Michaelas, Chittenden and Poutzioris (1998) it has shown that some owners are against external financiers to the extent that they would rather ignore the opportunity of growth than letting in external owners.

It could further be argued that it is not only small companies that are avoiding external finance, but financiers avoiding small companies. Beck and Demirguc (2006) argue that it is a fact, that the lack of external finance is one of the major reasons why smaller companies are constrained in their operations and growth. When a business open, or move to China, it often gets more complicated to reach external finance. This could depend on several reasons. According to Schwaag-Serger and Widman, (2005) do Small Swedish companies’ face a more difficult time establishing on the Chinese market than a large company would. For example, small companies often go bust within the first years, often due to intense competition. Since the first years often are critical due to negative results, it makes it harder to find external financiers willing to invest. The lack of external finance experienced by companies is called the financial gap (Landström, 2003).

According to Herin and Sandén (2005) financing has been a recurring problem for foreign companies in China, this due to the fact that foreign banks were restricted not to lend money to companies. Additionally, Chinese banks have a tendency to prefer lending money to large Chinese corporations, and not to small companies (Herin, 2005). The largest risk in China according to Herin and Sandén (2005) has been that the supply side of external finance has not developed in the same phase as the economic growth. Further examples that could complicate reaching external finance in China could be political and cultural differences. Also differences in laws could cause difficulties. An example is the Chinese restriction of registered capital, which limits foreign companies to finance their activity with foreign external debt (Hähnel, 2007).
1.3 Specification of the problem

How do small Swedish companies established in China experience the handling of financing?

1.4 Purpose

This dissertation intends to describe how small Swedish companies experience the handling of financing in China, which includes describing how small Swedish companies have chosen to finance their establishment, and whether Myers Pecking order theory is applicable. Furthermore, to show the inquired companies attitude towards external equity, and if any problems are experienced, connected to reaching long-term external finance.

1.4.1 Contribution

Through this dissertation the authors wish to make it easier for Swedish businesses that consider an establishment in China within a near future. And furthermore, assist financiers with expanded knowledge of what small business regards as problems, when it comes to reaching external finance in China.

1.5 Definitions

1.5.1 Small Swedish companies.

The definition of small Swedish companies is that they are restricted to have less than 100 employees globally. This is based on several earlier studies that have used the same definition of small Swedish companies, e.g. Andersson and Gandemo (1993) and Winborg (2000). The definition of Swedish companies established in China is that companies either have a parent company in Sweden or are founded in China by Swedish owners.

1.5.2 Establishment

There are several different definitions of “establishment”, one of the most common one is the Uppsala model, which divides the establishment into four steps. Step one is sporadic export, step two is continual export, step three is to set up a subsidiary and step four is to set up production or manufacturing of its own in the foreign country (Johansson & Widersheim, 1975). In this dissertation the definition of establishment is delimited to step three and four from the Uppsala model.
2 Theoretical Framework

In the theoretical chapter the basic theory regarding small business financing is looked upon. To achieve a desirable result and to draw correct conclusions theories such as the pecking order theory and the financial gap are essential to discuss. Further to add value and develop the dissertation, problems regarding financing and the different entry modes are brought up.

2.1 Pecking order theory

Myers created the term *Pecking order theory* in his article from 1984. He wrote that the theory pecking order hardly was a new concept “...although I have not seen the term pecking order before” (Myers, 1984 pg 581). Myers states that the framework of the pecking order theory is when a firm seeks funding, it prefers internal finance instead of external. According to Myers and Majluf (1983) a behavior in relation to the pecking order theory could be explained through information asymmetry, this is when the owner has further information of the firm’s value and future plans, than the financier does.

Myers’s Pecking Order theory explains how large companies choose to build their capital structure. Ang (1991) suggests that the capital structure differs in small companies in comparison to large companies. The main difference according to Ang (1991) is that small company's most important financial source often is the owners own injected capital and soft money. The so called soft money is often gathered from friends and relatives (Bengtsson, Höglund, Sandgren, Tervik & Zetterlund, 2004). Even though the Pecking order theory is based on large companies, the theory is also applicable on small companies according to Ang (1991). Andersson and Gandemo (1993) made a research among small Swedish companies that established subsidiaries on foreign markets. Their conclusion was that the most common financial source used when establishing abroad was internal finance. To be able to only use internal finance for a company it has to be able to generate a lot of capital, and according to Myers’s Pecking order theory, do profitable companies generate the amount of capital to the extent that they are not in need of external finance (Myers, 2001).

Many authors identify that there exists a negative attitude towards external financiers within smaller business. A conclusion from a research made by Michaelas, Chittenden and Poutziouris (1998) indicates that owners of small companies often are avert to use external finance, such as bank debt and external equity. They further state that the majority prefers internally generated finance, and further more, it has also shown that some owners would rather ignore the opportunity of growth than letting in external finance. This negativity towards external equity could be explained through out the fact that owners in small business often value equity to a great extent. Consequently when a financier acquires a certain percentage of the firm for his investment, the owner of the company does not appreciate it. This since it will result in a loss of shares of the
ownership, and further more a loss of control of the decision making in company (Landström, 2003; Myers, 1984; Winborg, 2000).

Paul, Whittam and Wyper (2007) also examine the Pecking order theory. In their research they test the thesis whether newly started small firms actually prefer internal finance first, and than debt, and as a final solution external equity. The conclusion of the research was that small firms do not completely follow the Pecking order thesis. The research showed that companies first prefer internal finance, according to the Pecking order theory. But however as a second alternative the majority preferred to be financed through external equity in comparison to debt. This is explained through the fact that many newly started small firms try to avoid debt, because the owners then have to put down personal guaranties to receive bank loans. Another explanation that is mentioned is that external equity could contribute to knowledge and competence to the firm. For a newly started small firm knowledge and competence could be an essential part for growth and survival (Paul et al., 2007).

2.2 The financial gap

As early as in 1930 there was an observation made in the MacMillan report that there existed a problem for small companies to reach external finance. More recently a lot of research has been made within the small business environment (Landström, 2003).

Landström (2003) mentions that there are certain explanations how the financial gap could appear. To illustrate this he divides the explanation into two parts, this due to from which point of view the situation is viewed upon. There exist a supply side and a demand side, or as here described as the business owner and the financier. From the perspective of the financier it is possible to find the following reasons to why the financial gap could occur, the first is that the risk is too high. As an example of higher risk earlier studies have shown that a large part of the small and especially young companies liquidate or go bankrupt within a short period of time after establishing. Due to this many financiers refrain from invest in smaller companies since the risk is too high. A further reason is the lack of competence and financial instrument, this could further complicate for the financier to invest in small companies. The market’s competence and instrument are mainly suited for larger PLC’s (Public Limited Company), and not for small companies. This is further verified by a quote in Landström“..... small companies are not equivalent to a small version of a large company” (Freely translated from Landström, 2003 pg 46). The relative transaction costs could be seen as a third reason, since a small company often demands less capital then a large firm. Less capital includes higher cost for the transaction, along with regular check up and control of the investment, this in comparison to larger firms with larger investments. From the perspective of the small firm’s point of view, reasons such as the lack of knowledge on financial issues and how to reach external finance or what different options there are available (Landström, 2003).
According to Landström (2003) the fundamental explanation to why a financial gap occurs is that there exists information asymmetry between the owner of the firm and the financier, i.e. they have got different access to the information where one knows more than the other about the firm value and future plans.

In a publication from the OECD countries, a conclusion was made to determine how widespread the problem of the financial gap was. The research was done with a questionnaire for OECD members and non-members (over 100 economies) to see if, and what factors that influenced the financing of the SME (Small and Medium sized Enterprises) sector. The conclusion gave the answer that the OECD countries in general do not have problems with the financial gap, only in certain high-risk sectors such as the high technology sector. This conclusion is drawn from the fact that small businesses are generally able to obtain adequate finance from banks and other credit institutions. The article further adds that in some cases complemented with a modest quantity of official guarantees. It further describes the existence of the financial gap by stating “Whether any country experiences a financing gap will ultimately depend upon whether the business environment is sufficiently robust to enable borrowers and lenders to interact with confidence on an arm’s length basis” (2Anon, 2006 pg 9). But as a contrast, most of the non-OECD countries report a general shortage of finance for the SME sector. Even though the SME sector accounts for a large part of employment and output in development countries, numerous of them operate on an informal market, which leads to the fact that a majority of the SMEs are denied external finance (2Anon, 2006).

The debate concerning whether there exists a financial gap or not has been extensive. Many researches’ have been made regarding the topic with results that have been very diversifying, some have shown a wide spread financial gap for small companies, others have shown that a financial gap for small companies does not in general exist. This could be explained through the fact that the capital market constantly changes, and further more that it is different in different countries (Landström, 2003).

2.3 Problems regarding financing in China

2.3.1 Restriction of foreign debt

A foreign company with intentions to establish in China is required to receive a business license from the Chinese authorities. The business license is the final document that a company needs before it is allowed to do business in China. To receive a business license the company has to submit two kinds of documents. The first is The Articles of Association, which contains information about the company’s structure. The second document The Feasibility Study has to contain information of the business statement, time plan and budget for the investment (Hähnel, 2007).

In The Feasibility Study the company also has to estimate the total investment as well as how the company chooses to finance their business activity during establishment, between capital injection and loans. The total investment consists of registered capital
and foreign debt. There are Chinese restrictions that regulate the amount financed with foreign debt of the total investment. The quantity of foreign debt is controlled by the amount of the total investment (Hähnel, 2007).

If the total investments do not exceed more than $3 million a figure as high as 70 per cent of the total investment must be registered capital. The consequence of this is that only 30 per cent of the total investment can be financed by foreign debt. Should the total investment instead be between $3 and $10 million the registered capital must be at least 50 per cent or $2.1 million if the investment is lower than $4.2 million. For a total investment of $10 to $30 million the registered capital has to be 40 per cent of the total investment or $5 million if the investment is lower than $12.5 million. And if the total investment is higher than $30 million but lower than $36 million the registered capital has to at least be one third of the total investment or a minimum of $12 million (Hähnel, 2007).

<table>
<thead>
<tr>
<th>The Total Investment</th>
<th>The Registered Capital</th>
</tr>
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<tbody>
<tr>
<td>&lt;$3 million</td>
<td>70 per cent must consist of registered capital.</td>
</tr>
<tr>
<td>3-10$ million</td>
<td>At least 50 per cent or with a minimum of 2.1 million</td>
</tr>
<tr>
<td>10-30$ million</td>
<td>At least 40 per cent or with a minimum of 5 million.</td>
</tr>
<tr>
<td>30-36$ million</td>
<td>At least 1/3 or with a minimum of 12 million.</td>
</tr>
</tbody>
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Figure: 1.1

2.3.2 Difficulties reaching external finance

Pukthuanthong and Walker (2007) write in their article that there are several factors that make it more risky for VC (Venture Capital) companies to invest in China, this in comparison to investing in small firms in the west. Even factors that contribute to difficulties for firms to receive external capital from VC companies are mentioned. This since these factors increases the financial risk and the costs for the VC Company. First, in China it is necessary to have a close relationship with the insiders and outsiders of the firm and further more, a higher level of personal oversight of the investment than what would be required in the west (Pukthuanthong & Walker, 2007). It is further more mentioned in a report from 2007 that from 174 VC companies in Europe 59 percent regarded China to be the country with the highest risk, this due to their IP (Intellectual Property) laws which contribute to a vast financial risk (Anon, 2007).

And further more, there are government restrictions and a lack of well-developed financial markets, which complicate for the VCs to realize a return on their investment. It is further stated that due to the fact that the stock market in China is not fully developed the exit possibilities are inadequate for VC companies. Another contribution to the problems for companies in China is that it is not common to hand out reports of the company’s financial situation, this since in China it is more common to focus on the production figures than on the financial performance. As a result, financial problem will not be detected until too late (Pukthuanthong & Walker, 2007). Swedish trade also
mention this in their recommendations to companies that want to establish in China, that financial reports are very difficult to get hold of (Internet 3).

According to Herin and Sandén (2005) financing has been a returning problem for foreign companies in China, due to the fact that foreign banks have been restricted not to lend money to companies. And additionally, Chinese banks have a tendency to prefer lending to large Chinese corporations and not to small companies (Herin, 2005). The largest risk in China according to Herin and Sandén (2005) has been that the supply side of external finance has not developed in the same phase as the economic growth.

2.3.3 Culture and Corruption

Other difficulties than the restriction of registered capital that foreign companies could meet when doing businesses in China, are the cultural differences compared to the west. Pukthuanthong and Walker (2007) mention that it is not that difficult for a business man or woman of today to adjust to a new culture, but further state “When setting foot into China, however, it is easy for Westerners to become overwhelmed by the cultural differences they suddenly face” (Pukthuanthong & Walker, 2007 pg 714). It is not just on a personal level, such as lifestyle or how to interact, it is also the business decision making process, with standards and routines, which in the western business world would be taken for granted (Pukthuanthong & Walker, 2007). The Chinese business culture has a well known concept called Guanxi. The social interaction within Guanxi is a network of members that can call upon each other to do favors. These networks exist on all levels in the society and it is unambiguously highly linked to corruption (Fang, 2005).

China is known to be a country that is very bureaucratic, all decisions that involves some form of government interference takes time. It is further stated that this is worth taken into consideration before doing any business in China today (Engvall, 2007). Things have to go through several departments to be approved, which could be very time consuming (Fang, 2005). A well know concept to speed up the process is to grease the wheels with bribes (3Anon, 2005). According to a report from OECD countries, the corruption in China is widely spread within the business world, and the corruption is growing at the same rate as the country’s economy (4Anon, 2005). Corruption is acknowledged to be a major problem in China, and actions from the government have been taken to try to decrease the wide spread corruption (5Anon, 2007).

2.4 Entry modes

When discussing establishment in China there are several different entry modes to take in to consideration, such as WFOE, FICE, Representative/Sales Office, Joint Venture, and Incubator. These five entry modes can be chosen dependent on what business to operate on the Chinese market (Hähnel, 2007). The Uppsala model describes the internationalization in four steps, the entry modes used in this dissertation fall under step three and four. Step three includes establishing a subsidiary, and four, to set up production or manufacturing of ones own (Johansson & Widersheim, 1975). In the
following pages the entry modes that go under the definition of this dissertation will be presented and explained.

2.4.1 WFOE

WFOE (Wholly-Foreign Owned Manufacturing Enterprise) has been the most frequent choice of the entry modes, 71 per cent of the Swedish companies that were entering China before 2005 chose to establish under WFOE. WFOE is an entry mode for companies that have the objective to produce goods. China’s legal definition of a producing company is that it has to add a minimum of 15 percent of value to the product. This is to sort out companies calling themselves producing companies when only labeling or packaging (Hähnel, 2007).

2.4.2 FICE

As a result of China’s entrance in WTO 2001, and of several adjustments of Chinese law it has become easier for foreign companies to establish on the Chinese market (Akana, 2006). One of the most important adjustments was the new entry form introduced in December 2004, called FICE (Foreign Invested Commercial Enterprise). This allowed foreign companies also to import and sell goods on the Chinese market. The entry mode FICE is very similar to WFOE, the main difference is that companies registered as FICE are not forced adding value to their goods, and they can operate as trading companies (Hähnel, 2007). FICE is less costly compared to WFOE, due to the fact that FICE usually requires less registered capital. The amount of capital required when opening a FICE is dependent whether the company is acting as a retailer or wholesaler. Since it was introduced in 2004, FICE has become the most common way of establishing in China for foreign companies (Akana, 2006).

2.4.3 Representative/Sales Office

To set up a Representative/Sales office is often the first step for companies that are interested in getting established abroad. If a foreign company set up a Representative/Sales office in China it receives the rights to rent facilities, set up bank accounts, and it can even hire staff. However the Representative/Sales office is not allowed to arrange and sign contracts for business deals (Hähnel, 2007).

2.4.4 Joint Venture

Zhangk, Zhang and Liu mention in a paper from 2007 that joint venture is a good alternative of entry mode for a foreign company that wants to establish in China, since this does not require such large investment. Still, this is not a regular phenomenon among Swedish companies established in China. According to Hähnel (2007) the main reason for this is that history shows that many Joint Ventures between Swedish and Chinese companies have failed. He further mentions that another important reason could be that simplifications of laws in China have been made, which allow and smooth the progress
for other entry modes. In some sectors there is no other alternative for foreign companies than to sign a Joint Venture agreement with a Chinese company. This applies within the industries where Chinese laws prevent foreign companies to fully own their company, e.g. within the assembling of automotive industry, and within the paper industry.

2.5 Summary of theories

To get a clear perspective of the theory chapter it will be summed up and assembled. The pecking order theory is based on the assumption that firms prefer internal finance in comparison to external finance, and when external funds are necessary, firms prefer debt before external equity. Myers created the theory on the basis of large firms’ perspective, but several researchers have proven that it also can be applied to small companies. Also mentioned, is that smaller firms sometimes prefer external equity to debt when it comes to external finance. This is explained through the fact that VCs often add essential contacts and competence, and when receiving a bank loan the owner often has to give personal guaranties in a small company. An interesting conclusion made by Myers is that profitable companies will generate the amount of capital to the extent that they are not in any need of external finance.

The financial gap consists of two sides, the supply side that could be explained as the financier, and the demand side as the business owner. The financial gap could occur under different circumstances depending on from which side you look upon it. It is often explained through asymmetric information, where the business owner has more information than the financier. According to many authors, another large reason to the financial gap is a negative attitude towards external financing from small business owners. The negativity towards external finance is based on the assumption that owners in small businesses often value equity to a great extent.

However it is being argued that the problems with the financial gap do not in general exist in any of the OECD countries, an exception would be in certain sectors of innovative SMEs (Small and Medium-sized Enterprises) i.e. firms within high technological sector. It is further more added, that on the other hand in the non-OECD countries it is a problem. This due to the fact that financial institute in developing countries do not want to lend money to SMEs on the domestic market though they often are active in an informal market. This could indirect affect foreign SMEs that want to lend on that typical market.

When acting on a foreign market a lot of things could complicate when it comes to reach adequate funds. Some of those difficulties on the Chinese market have been discussed. One is the Chinese restriction of registered capital, which could complicate for foreign companies that want to establish or are in need of external finance. Further more is that Chinese laws and culture complicate for VC companies to act in China, which could result in a more difficult time for small companies finding external financiers. Also brought up is the wide spread corruption that is almost considered as culture in China. All these factors could have a negative effect on small Swedish companies’ possibilities to reach external finance in China.
2.6 Hypotheses

Through the theoretical framework the following hypotheses have been created. The main hypothesis created will test whether Myers theory is applicable on small Swedish companies. Hypothesis two will test if it is possible to generalize the outcome of the main hypothesis for the different entry modes. Three and four are further created as underlying hypotheses to further strengthen and explain the main hypothesis.

**MAIN HYPOTHESIS 1: Myers Pecking order theory is applicable on small Swedish companies established in China.**

**Hypothesis 2:** There is a connection between companies’ entry modes and how they choose to finance their establishment.

**Hypothesis 3:** Owners of small companies have a negative attitude towards letting external financiers in to the company.

**Hypothesis 4:** Small Swedish companies established in China experience major problems reaching external finance.
3 Method

In this chapter is explained how the dissertation has been created, and what different methods that have been chosen to reach the outcome of this dissertation.

3.1 Approach

The outcome of the dissertation will be to obtain a result that can be generalized for all small Swedish companies in China with less than 100 employees. To be able to generalize the result in the dissertation a quantitative approach is chosen. To further support the selection of a quantitative approach, the dissertation does not intend to seek new theories, but describe the width of well-known concepts such as the pecking order theory and the financial gap, and further test the hypotheses created to answer the specification of the problem.

Jacobsen (2002) argues that this approach is to prefer since dealing with well known concepts from earlier studies and to make a generalization several observations have to be made. According to Svenning (2003) a quantitative approach could be divided into two alternative ways to reach the desirable outcome, it could be a causal or a describing research. This dissertation has made a describing research since the purpose is to describe and explain how the chosen companies experience the handling of financing.

3.2 Procedure

3.2.1 Primary data

The primary data has been gathered by sending out a survey to small Swedish companies established in China. Primary data is according to Jacobsen (2002) data that has been gathered for the first time and is collected directly from the primary information source. In this case the primary sources are owners and CEOs in small Swedish companies established in China. The surveys that were sent out consisted of thirteen questions regarding the specification of the problem.
3.2.2 Secondary data

Secondary data is data that has been gathered from other researchers work, such as books, papers and articles (Jacobsen, 2002). The method that has been used for gathering secondary data for this dissertation, such as books with relevant theories and theses, has been through Halmstad University’s library book-search Hulda, and the national book-search Libris. To further reach articles for this dissertation several different databases have been utilized to get a wider and more updated perspective of the topic. The databases used have been through Halmstad University’s library. The following databases have been used to reach articles, ABI/Inform, Affärsdata, Emerald, Elsevier, JSTOR and Sciencedirect.

To be able to receive articles and books within and around this dissertation’s topic, search words as the following have been used: Pecking order, the Financial gap, Myers, Capital structure, corruption, China, start-ups, SME, infants, foreign establishment in China, external finance. These words have also been used in Swedish in search for articles.

3.3 Selection

3.3.1 Companies

To be able to answer the specification of the problem as precise as possible the selection of companies are within the limit of 100 employees. Small companies have been chosen, in view of the fact that they often represent the ones having a tough time reaching external finance. An attempt was made to take part of the Swedish Trade Council’s list of customers, which involves companies from their program, step to export, this due to the fact that the criteria for a company to receive their assistance are the same as the criteria intended for companies in this dissertation. Unfortunately the list from Swedish Trade Council was confidential, and a new approach had to be made.

On Swedish Trade Council’s homepage a list was gathered including 560 company names. These were companies and organizations with a connection to Sweden, established in China. The list included all the companies’ work places, such as offices and factories. This concluded that for example ABB had 50 of those names on the list alone. Companies with several work places in China were only counted as one company. For example ABB was only counted once. By sorting the names of the list, 297 of totally 560 companies were removed, due to the fact that they had more than one office or factory registered. From the remaining 263 companies further 16 were eliminated since they represented organizations that were of no interest to our dissertation i.e. Swedish Trades councils own offices (7), Swedish Chamber of Commerce offices (3), Swedish General Consulate (1), and Swedish banks with offices (5)
Through research on Swedish business established in China on the database Affärsdata, 316 company names were found. These companies were compared with the list from Swedish Trade Council’s homepage. From the material from Affärsdata further 90 companies were found that were not on Swedish Trade Council’s list (Internet 5). The two lists that have been used in the dissertation were the only lists found not being confidential, and including Swedish companies established in China.

The total amount of Swedish companies established in China that was found amounted to 337 ea. Next step was to gather information about the number of employees for each company. To do this every respective company’s homepage was visited and was further complemented by collected information from Affärsdata. From the 337 companies, 30 companies were eliminated though it was impossible to reach information about them. Further 7 more companies were removed due to the fact that they did not have any direct connection to Sweden. As a conclusion, relevant facts were reached regarding 300 companies established in China. From the basis of these facts, 43 companies matched the criteria for this dissertation; small Swedish companies established in China with less than 100 employees. In view of the fact that the majority of Swedish companies in China have been tested to match the dissertation’s criteria, 43 companies could be argued to be the majority of this population.

The authors of this dissertation are well aware that 43 companies imply a low figure, and that there most certainly are further more small Swedish companies established in China. This number is lower than what was stated in Swedish Trade Council and SEB China Survey 2007. But since there is no complete list of registered companies active on the Chinese market available, it has been impossible to reach more companies. Further more, what could be taken into consideration as an explanation for some companies not being found, is that Schwaag-Serger and Widman (2005) state that small companies often go bust in China with in the first years. This is often due to negative results and fierce competition. And this is not mentioned in the Swedish Trade Council and SEB Survey from 2007. Based on the effort and the time spent finding these 43 companies, the authors consider it to be justified to generalize the conclusions in this dissertation for all small Swedish companies in China.

3.3.2 Entry modes

To be able to establish a company in China there are only five ways to do so. The selection of these is depending on the purpose of the establishment. The entry modes are, FICE, WFOE, Joint Venture, Representative/Sales office and Incubator. In this dissertation the entry mode incubator has not been taken into consideration since this are organizations that have as their main purpose to support and help entrepreneurs to develop and become successful companies. Due to this, they have been removed from the research.
3.3.3 Respondents

When choosing respondents for the survey it is of great importance to reach the person with the best knowledge and competence. This is to receive a truthful and reliable answer from the survey (Jacobsen, 2002). Since this dissertation is discussing small companies, the best person to answer the survey has been the owner/CEO or the Swedish person responsible for the company on the Chinese market. The reason for choosing the CEOs, Owners or the person responsible is based on the assumption that in a relatively new established small company they possess the best facts regarding financing. To reach the maximum desirable outcome and get the highest numbers of companies responding, an attempt was made to contact all the companies CEOs or owners by phone before sending out the survey. 28 of the companies were contacted and spoken to, the remaining 15 were not contacted due to inadequate contact details. To further increase the numbers of companies responding an extra three reminders were sent out.

3.4 Structure of the survey

When creating the survey, Jacobsen (2002) recommends four simple things to receive a higher number of answers, and these were taken into consideration. The first thing was to assure the respondents that their answers were completely anonymous and the data was only being used in this dissertation. The second thing was to clarify the purpose of the dissertation to the respondents and thirdly to keep the survey short and simple. To get the owners and CEOs, with no time to spare, to still answer the survey it was stated in the letter that answering the survey would take a maximum of five minutes of their time. Jacobsen (2002) further mentions a fourth and final way to get more respondents to answer, which is to hand out rewards for answering, which was not relevant for this survey. It was stated in the email sent to the respondents that for those who wanted to take part of the final result of the dissertation just had to mention this in the returned email.

In the survey questions one, two and three were created to assure that the respondents answering were within the definitions set up for this dissertation. Question one and two, will therefore only be presented under verification of data, and will not be analyzed any further. However, question number three will be used in the analysis. With questions four, five and six was intended to attain answers regarding the Pecking order theory. Question seven and eight were created as an attempt to analyze Myers statement, profitable companies will generate the amount of capital to the extent that they are not in need of external finance, and are therefore presented in the empirical work under the pecking order theory. This analysis failed, due to incorrect created questions. These questions will therefore only be presented in the empirical work, and will not be further analyzed. Questions nine, ten and eleven in the survey are regarding the financial gap. Questions twelve and thirteen were prepared to see whether the restriction of foreign debt is experienced as a problem, and whether small Swedish companies experience other problems in China. To get a wider perspective, and make the survey more interesting, two of the questions were created so that the respondents answered in their own words. These questions are six and thirteen.
3.5 Analyzing plan & Hypothesis

The data gathered from the survey will be analyzed in two different ways. Some of the questions will be compared to distinguish whether there is any correlation between different variables. For some questions a chi-square test will be used. Others will directly be compared with theory and analyzed. The majority of the questions from the survey is according to Jacobsen (2002) created with ranked alternatives, and to be able to analyze this data in a correct way each one is given a number. The alternatives are given the numbers one to five, the answer with the highest positive content will receive the highest number, which is suggested by Jacobsen (2002). It is also a basic condition to further work with some of the material in the program SPSS.

The data from the survey is presented through diagrams in the chapter “Empirical framework”. The diagrams are illustrating the different data collected, one question at a time. Moreover in the analysis, some data from different questions is put together to measure the correlation between them, this to test whether the hypothesis created is verified or rejected. When tests are made with an ordinal variable a chi-square test will show whether the hypothesis will be verified or rejected. For every created alternative hypothesis that indicates that there exists a connection, a null hypothesis is created (there is no connection between variables X and Y). When testing the alternative hypothesis it is the null hypothesis that is tested. If the null hypothesis is rejected it indicates that the alternative hypothesis can be verified (Svenning, 2003).

H1. There is a connection between companies’ entry modes and how they choose to finance their establishment.
H0. There is no connection between companies’ entry modes and how they choose to finance their establishment.

When testing the hypothesis a significant level is chosen, as where the null hypothesis can be rejected (Körner & Wahlgren, 2006). The significant level indicates how great the randomness of the result will be (Jacobsen, 2002). In this dissertation the significant level is 5 per cent. To be able to calculate the correlation between different variables, the variables have to be in Scale. Tests included in this dissertation are using the Pearson correlation test. The correlation result indicates to what extent the variables are correlated. The correlation coefficient can correlate between +1 to -1, at the level 0 no correlation exists. A negative correlation will indicate that low values on the X variable will generate high values on the Y variable. A positive correlation will indicate that low values on the X variable will generate a low value on the Y variable (Svenning, 2003).
The pecking order theory shows how companies build their capital structure. The main hypothesis created will test whether Myers theory is applicable to small Swedish companies in China. A test will be made regarding the entry modes, this test will show whether it is possible to generalize the outcome of the main hypothesis for small Swedish companies under all entry modes, or if it is possible to just generalize for companies that are established under a certain entry mode. Hypotheses number three and four are further created as underlying hypotheses to further strengthen and explain the main hypothesis. Since the outcome of these could further be seen to influence companies’ decisions how to build their capital structure, and finance their activity in China. The hypothesis number four regarding problems, are analyzing several problems that can exist on the Chinese market. These problems are brought up in the theoretical framework. They are analyzed to see whether reaching external finance is to be regarded as major problems by small Swedish companies in China.

3.5.1 Main Hypothesis 1

MAIN HYPOTHESIS 1: Myers Pecking order theory is applicable to small Swedish companies established in China.

The variables used to test this hypothesis are questions number four and five. The gathered data will show how companies would prefer to finance their activity, and how they actually financed their establishment. Together these will strengthen the outcome, when compared with Myers pecking order theory. This will indicate whether the hypothesis will be verified or rejected.

3.5.2 Hypothesis 2

Hypothesis 2: There is a connection between companies’ entry modes and how they choose to finance their establishment.

To see whether there is a connection between the variables’ entry mode, and how the inquired companies choose to finance their establishment in China, a CHI-square test will be used. The test will show if companies established under certain entry modes were using external finance to a greater extent. The outcome of the test will show whether it is possible to generalize for all entry modes, which will strengthen the generalisation of the main hypothesis.
3.5.3 Hypothesis 3

Hypothesis 3: Owners of small companies have a negative attitude towards letting external owners into the company.

The variable being used to test this hypothesis is the open question number six for which answers have been categorized in the empirical chapter. The gathered data will be analyzed and compared to theory. This will be seen as an explanation for the main hypothesis. Since this analysis is based upon an open question, and no statistic measurement can be used, it will be an interpretation from the authors to see whether the hypothesis is verified or rejected.

3.5.4 Hypothesis 4

Hypothesis 4: Small Swedish companies established in China experience major problems reaching external finance.

Financial gap

This will be measured by the Pearson correlation between the demand side and the supply side for external finance in China, today and at the time for establishment. Variables that will be used to verify or reject the hypothesis are, questions number nine and ten from the survey. To further strengthen the outcome, another calculation will be done. Through comparing the demand for external finance, and whether it has constrained companies’ growth, it will indicate whether there exists a financial gap or not. Variables used for this are questions number nine and eleven from the survey. This will further be analyzed by comparing the results of today and at the time for establishment.

Registered capital & Culture / Corruption

The data will be analyzed by using the variables question twelve and open thirteen. The analysis will consist of gathered data and theory being compared. Since parts of this analysis also are based upon one open question, the result will be an interpretation from the collected data by the authors to see whether these factors are regarded to be of any major problems for small Swedish companies in China.
3.6 Verification of data

These questions were created to verify that the companies responding were within the dissertations definition of a small Swedish company established in China with less than 100 employees. Further more, what year they established and under what entry mode.

The 29 respondents in this dissertation were established between the years of 1991 to 2007, although the majority was established from 2003 and forward. The mean of employees from the respondents was calculated to 19, the median was 12, and the most common numbers of employees were 12 and 20.

<table>
<thead>
<tr>
<th>Entry Modes</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>WFOE</td>
<td>41.4%</td>
</tr>
<tr>
<td>FICE</td>
<td>13.8%</td>
</tr>
<tr>
<td>Rep. Office</td>
<td>37.9%</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

By the companies asked 41.4 per cent was established with in the company form WFOE. Further 13.8 per cent of them entered China under FICE, and further more, 37.9 per cent entered as Representative or Sales Offices and finally 6.8 per cent as Joint Ventures.
3.7 Drop out of companies

Jacobsen (2002) mentions as a rule of thumb, that if more than 50 per cent of the respondents answered, it could be seen as satisfying, and when it is above 60 per cent it is good. And more than 70 per cent is great. Although he further states that how many that do not answer is not as important as who is not answering.

According to Svenning (2003) there are two types of dropouts, external and internal. External drop out is when the respondent cannot be reached or does not answer the survey. Unfortunately some of the respondents that answered this survey had to be eliminated from the research though they did not match the selection of companies chosen for this dissertation, or as in one case where the survey was returned too late. Worth mentioning is that by not including the late respondent, the final result is not effected, since this answer was not differential. Further more, one respondent answered that they had more than 100 employees. Another one was only exporting to China, which has not been taken into consideration in this dissertation. Further more one company was no longer established in China, and more over, one did not understand the survey. From the 43 companies that the survey was sent to, 9 did not answer at all. This brings the total of companies that actually answered to 34, and out of those 29 were of use for this dissertation. 29 usable answers out of 43 brings the answering frequency to above 70 per cent which has to be seen as a very good result. A contributing factor to the high number of respondents could be explained through the fact that contact was made by phone to many of the companies before sending out the survey. Further more that several reminders were sent out.

The internal drop out is when the respondent misunderstands a question or simply chooses not to answer it (Svenning, 2003). The internal drop out in this dissertation has been very low. All questions with limited alternatives for answers have been answered correctly. Only some respondents chose not to answer the open questions in the survey. Three companies did not answer the open question number seven and five companies did not answer open question number thirteen.
3.8 Validity

The validity of the research is the ability to measure what has been intended to measure (Svenning, 2003). Validity can be divided into internal and external validity. The internal validity includes that the things believed being measured are actually being measured. The external validity is to what extent it is possible to generalize the dissertation’s conclusions (Jacobsen, 2002).

When it comes to the external validity the authors of this dissertation consider it to have a good quality, since random companies have not been chosen. This dissertation has the intention of measuring the entire population of small Swedish companies established in China. The generalization is only made for companies that are suited to this dissertation’s definitions. Which includes small Swedish companies established in China, that have less than 100 employees and further have to have been established through any of the entry modes; WFOE, FICE, Joint Venture or Representative/Sales Office. To make the internal validity as high as possible the questions in the survey were created to match the theories in the Theoretical framework.

3.9 Reliability

The reliability indicates whether the result is plausible or not (Svenning, 2003). Through a high reliability the result should be the same if someone else made the same research again (Jacobsen, 2002). Mistakes that can reflect negatively on the reliability are according to Svenning (2003) incorrectly random sample, interview effects, standardization problems, and interpretation problems. When no random sample has been made there is no possibility for this to affect the reliability in a negative way.

Since the survey was sent out by email, the respondent had the chance to answer when it best suited him or her, and through this it was impossible for the authors of this dissertation to influence the respondents when answering the survey. Further more it is possible that this dissertation’s result could have been different, if information had been found for those 30 companies that had inadequate contact details or defect homepages. Since it could be assumed that some of those could have had less than 100 employees and therefore could have suited this dissertation’s definition.
4 Empirical Data

In this chapter the survey is explained and the data from all the respondents is presented with text. To further illustrate the data, diagrams are being used.

4.1 Pecking order theory

The pecking order theory argues for which order companies prefer to build their capital structure. Question four, five, six and seven asked the respondent how they preferred to build their capital structure. Further more, how they funded their establishment in China, and also to understand their need for long-term external finance.

4.1.1 Question 4 In what order do small Swedish companies in general prefer to finance their activity?

Question four in the survey asks in what order the selected firms prefer to finance their business. The alternatives of financing the respondents were to select from were, internal finance, debt and equity. Diagram 1:1 presents the data in the order the respondents preferred. The most common answer with 93.1 per cent, was that firms preferred internal finance first, and then debt, and finally external equity. The other two alternatives that occurred stood for 3.4 per cent each.
4.1.2 Question 5 What type of finance did the inquired small Swedish companies use, to finance their establishment in China?

To demonstrate how the selected small Swedish companies chose to finance their establishment in China question five was used. The alternatives to choose from were, internal finance, bank loans from China and abroad, and external equity from China and abroad. Almost every one of the inquired companies stated that they were fully financed by internal finance. Only six companies stated that they used external finance to some extent. And the majority of those used a combination of internal finance and bank loans taken outside China. The remaining respondents stated that they were still financed mainly by internal finance but had bank loan in China and, or external equity outside China.

4.1.3 Question 6 What is the attitude towards receiving external capital through letting in new owners?

In this question the respondents were inquired to state what their attitude was towards receiving external finance through letting new owners in to the company. Since the question was open, none of the respondents answers where alike, but could be gathered through similarity into different categories, positive, negative and already using this alternative. 10 per cent of the respondents did not answer the following question. 21 per cent was positive towards using external equity, 62 was against external equity and 7 per cent already used this to some extent.
4.1.4 Question 7 How does the investment need for small Swedish companies emerge in China?

To further understand the investment need for small Swedish companies in China today, question seven was created. This question consists of two occasions that had to be taken into consideration, the requirement at the time for establishment, and the requirement as it is today. Diagram 1:2 illustrates that at the time for establishment none of the respondents answered that they had no knowledge. 17.2 per cent acknowledged a very low investment need. Whereas 51.7 per cent stated that they had a quite low need. 24.1 per cent felt that they had a quite high need, and finally 6.9 per cent of the companies had a very high investment need.

Diagram 1:2

Diagram 1:2 further demonstrate that none of the respondents answered that they had no knowledge about the investment need today. 24.1 per cent stated that they had a very low investment need. The respondents further stated that 37.9 per cent had a quite low need, 31 per cent had a quite high need, and 6.9 per cent a very high investment need, as for today.
4.1.5 Question 8 How does the small Swedish companies’ growth rate emerge in China?

This question is a further development of the previous question, and is therefore under the headline pecking order. Question eight illustrated in diagram 1:3, inquired the respondents whether their companies had a high or low growth rate. The respond was, that 20.7 per cent stated that they had a very high growth rate in China today. Whereas 72.4 per cent estimated that they had a quite high growth rate. While finally 6.9 per cent stated a quite low growth rate. None of the firms inquired acknowledged a very low or no growth today.

![Diagram 1:3](image-url)
4.2 Financial gap

Questions nine, ten and eleven from the survey are all connected to the theory of the financial gap. They try to find out whether the financial gap exists or not for small Swedish companies in China. And furthermore, whether the financial gap arises from the demand side or the supply side.

4.2.1 Question 9 To what extent is small Swedish companies in demand for long-term external finance in China?

Question number nine intends to find out to what extent the companies are in demand for long term external financing in China. This question is divided into two occasions, it is illustrating how it was when the companies were establishing and how it is today. In the establishing phase 48,3 per cent was not in demand for external finance. 10,3 per cent considered themselves to have a very low need. Further more, 31 per cent experienced a quite low need and 10,3 per cent was in quite a high need. None of the respondents experienced a high demand for external finance when establishing in China.

![Diagram 1:4]

Of the respondents, 34,5 per cent stated that they did not require any external finance today. 17,2 per cent acknowledged that they were in a very low need, and 27,6 per cent in quite a low need. Further more, 20,7 per cent considered themselves today to be in a quite high need of external finance. None of the inquired companies considered themselves to be in a very high demand for external finance.
4.2.2 Question 10 How do small Swedish companies experience the supply of long-term external finance in China?

Question number ten will try illustrating how the respondents experience the supply side of long-term external finance in China. The question considers both the time of establishment and how it is today. At the time of establishment, 62.1 per cent of the respondents had no knowledge of the range of long term external finance in China. 20.7 per cent experienced the range to be very poor, 13.8 per cent stated that it was quite poor. Moreover, 3.4 per cent considered it to be quite good. No one experienced the supply side of long-term external finance in China to be very good.

Today 44.8 per cent of the respondents do not have any knowledge of the supply side of long term external finance in China. 6.9 per cent considers the range today to be very poor, 27.6 per cent experiences it to be quite poor. Further more, 17.2 per cent considers the supply of long term external finance to be quite good and 3.4 per cent thinks that it is very good today.
4.2.3 Question 11 Has the supply of long term external finance from Sweden respectively China, restrained companies growth?

Following question illustrates whether the supply side of long-term external finance has restrained growth within the inquired companies. It is further divided into two parts, one with the supply side from Sweden, and one with the supply side from China. This is illustrated with two diagrams, 1:6 from China and 1:7 from Sweden.

As illustrated in diagram 1:6, only approximately 10.3 per cent of the companies considered the supply of long term external finance from China to have been restraining their growth. The companies that regarded the supply side in China not to be growth restraining were 62.1 per cent. Furthermore, 27.6 per cent did not know if the supply side had restrained their growth.

![Diagram 1:6](from-china.png)

Diagram 1:7 illustrates whether the inquired firms regard the supply of long term external finance from Sweden to have been restraining their growth rate. As shown, approximately 10.3 per cent regarded the supply of long term external finance from Sweden to have restrained their growth. Approximately 72.4 per cent did not consider the range of long term external finance to have been restraining their growth. Furthermore, 17.2 per cent did not know if the supply side had restrained their growth.

![Diagram 1:7](from-sweden.png)
4.3 Problems regarding financing in China

Question number twelve, and to some extent the open question thirteen, illustrate how companies experience the Chinese restriction regarding registered capital and foreign debt. And additionally whether the restriction of registered capital was a problem at the time of establishment, or when they tried to reach external finance.

4.3.1 Question 12 Have the Chinese restrictions regarding registered capital been of any problem for small Swedish companies?

Illustrated in diagram 1:8 is the amount of firms that considered the restriction of registered capital to have been a problem or not. According to the received data, none of the respondents answered no knowledge at the time of establishment, 86,2 per cent did not consider it to be any problem. The remaining 13,8 per cent regarded the restriction of registered capital to have been a problem.

![Diagram 1:8 Problems With Registered Capital](image)

The question further inquired how the respondents considered the restriction when the firms were in need of capital, 17,2 did not know. 72,4 per cent regarded it to be no problem and 10,3 per cent of the respondents stated that the restrictions had been a problem when trying to obtain capital.
4.3.2 Question 13 What regarded small Swedish companies as problems when they tried to obtain external finance?

The open question, number thirteen is connected to the headline named Problems regarding financing in China. The respondents were here inquired to state what they considered to be the major issue regarding obtaining external capital. Worth mentioning is that 17 per cent of the companies that responded to the survey did not answer question thirteen. 63 per cent stated that they did not have any problems and 20 per cent that they had faced some kind of problem. The answerers will be presented and analyzed in the analysis chapter.
5 Analyses

In the analysis chapter the hypotheses are tested with the use of the empirical data and theory. This will further prove the hypotheses to be verified or rejected.

5.1 Main hypothesis 1: Myers Pecking order theory is applicable to small Swedish companies established in China.

Myers (1984) states that the framework of the Pecking order theory is that, when a firm seeks funding it prefers internal finance first, then debt, and finally external equity. As a contradiction that are mentioned in the theoretical framework, a conclusion was made by Paul et al. (2007), who argues that small companies do not always fully follow the pecking order theory. His research showed that companies intended to use internal finance first, but chose external equity before debt. This is based on the fact that many newly started small firms try to avoid debt, because the owners then have to put down personal guaranties to receive bank loans. And further more that external financiers can contribute to expended knowledge and competence to the firm, which could be essential for a small company (Paul et al., 2007).

The data that has been gathered, clearly illustrates that small Swedish companies follow Myers pecking order theory. This is based on the fact that almost all the respondents answered that they preferred internal finance before debt, and as a last option external equity. Only two of the respondents answered differently. One respondent preferred external equity before debt, which could be explained through the theory that external equity could contribute to knowledge and competence to the firm. As mentioned earlier, this could be essential for a small firm (Paul et al., 2007). The other respondent preferred debt before internal finance, and as a final option external equity. Ang (1991) further strengthen the hypothesis by stating that even though the Pecking order theory is based on large companies, it is further also applicable to small companies.

To further strengthen the hypothesis, it has also been tested how the respondents actually financed their establishment. The data gathered data shows that the 23 of the 29 inquired companies were totally financed by internal finance. Only one company differs when it comes to following the pecking order theory. They financed their establishment with internal finance as the others, but had external equity before debt. The result here unambiguously shows that the use of external finance is not a common phenomenon among small Swedish companies in China. This is further strengthened by Andersson and Gandemo’s (1993) research, which showed that the most common financial source of small Swedish companies establishing abroad, was to mainly use internal finance. This could further be seen as an indication that the data gathered is trustworthy, and that the hypothesis is to be verified.
5.1.1 Hypothesis 2: There is a connection between companies’ entry modes and how they choose to finance their establishment.

The Chi-square test between the variables entry modes, and how the companies chose to finance their establishment in China, showed no indication of connection between the variables. One explanation to the result could be that the population of companies in this dissertation was too small. The test showed that 10 cells or 83.3% of the cells had an expected count less than 5.

There were six companies that had chosen to use external finance at the time of their establishment. Three out of these companies are established under the entry mode WFOE and the remaining three under Rep/Sales Office. WFOE and Rep/Sales Office are the most common entry modes when establishing for small Swedish companies in China. Due to the fact that the majority of the companies inquired, was established under these two entry modes, it is therefore no wonder why the companies that were using external finance at the time of establishment, also occurred under WFOE and Rep/Sales Office. It is not possible to interpret whether the occurrence of using external finance is extraordinary for any of the entry modes. This could be argued to further increase the generalization of the main hypothesis, which shows that Myers Pecking order theory is applicable to small Swedish companies in China. This is regardless of which one of the entry modes that they choose to establish under.

5.1.2 Hypothesis 3: Owners of small companies have a negative attitude towards letting external owners into the company.

The variable to test this hypothesis was gathered through the respondents answering an open question. The arguments surrounding whether small business owners would like to let in external financiers were varying. The answers were divided into those who were positive to let in new owners, and those who were negative. In theory both negative and positive aspects are mentioned. The hypothesis will be tested through a discussion of arguments from the majority of the selected companies.

Eighteen of the companies inquired where more or less against letting in external owners in to their company. Three of these companies stated that as a small company they preferred to keep the entire control of the company themselves. And by letting in new owners they would lose the privilege of totally controlling their company. This is further confirmed by many authors in the theory, that suggest that small business owners have a negative attitude towards external financiers, which is based on the assumption that they often value equity to a great extent (Landström, 2003; Myers, 1984; Winborg, 2000). Two of the respondents mentioned that it was not of a current interest for the time being to let in external financiers, another two were not interested since they had never been put into that situation. Eleven of the respondents were totally against it, and answered in a variation of ways that letting in new owners into their company was out of the question. A conclusion from a research made by Michaelas, Chittenden and Poutziouris (1998) indicates that owners of small companies often are avert to use external finance, such as bank debt and external equity. Theory further mentions that small company owners
sometimes would rather ignore the opportunity of growth than letting in external financiers (Michaelas, Chittenden & Poutziouris 1998). This could be shown as a proof of how strong the negative attitude towards external financiers is, which could argue to strengthen to prove the hypothesis to be right.

Further more, there were eight respondents that answered that they were positive to the thought of letting in external owners. Of these, two already had external owners in their company. The respondents, who were positive towards letting in new owners, saw this as an option for future expansion, if external finance was needed in the company. But they also further stated that they were not willing to let in new owners to the extent that they lost the majority of their ownership in the company, hence never more than 49 per cent external owners. Further more, the remaining six out of the eight positive companies, acknowledged that they were positive to the concept of letting in external owners, if they could contribute to further development of the business. Factors that are being in demand for, and that could develop the companies were stated to be, new business contacts and clients, distribution channels, and an increased production capacity. This is also mentioned in the theory, that as a positive outcome of external equity, it could contribute with knowledge and competence to the company. Theory further suggests that for a newly started small firm, knowledge and competence could be an essential part for growth and survival (Paul et al., 2007). Since the data is gathered from an open question, it is impossible to state that the hypothesis could be verified or rejected by statistical measurements. But through the fact that the majority was against letting in external equity and the theory further back up this, the hypothesis will therefore be argued to be verified. This could be seen as a further explanation of the verified main hypothesis.

5.1.3 Hypothesis 4: Small Swedish companies established in China experience major problems obtaining external finance.

Financial gap

There is an on going debate whether a financial gap exists or not for small companies. What made this interesting was that theories were found stating both that it did exist, and that it did not exist. To test whether companies experience the financial gap to be a major problem in China, the variables used were the supply and the demand side for external finance. If the supply side does not match the demand side, a financial gap will exist, and if both sides are equivalent, it will indicate that small Swedish companies do not experience a financial gap. Therefore a correlation test between demand from small Swedish companies in China, and the supply of long-term external finance in China was made. This was tested both for today, and at the time of the establishment. Both tests showed that there was a quite strong significant positive correlation between the variables. This indicates that the supply side was experienced by the companies to be equivalent to their demand for long-term external finance.

The correlation test made between the variables of the demand for today, and the supply of long-term external finance in China, showed a positive correlation by 0,606. At the time of the establishment, it showed a positive correlation by 0,505. According to this
test, it shows that small Swedish companies in China do not in general experience a financial gap, neither today nor at the time of the establishment.

In a OECD report (2Anon, 2006), a conclusion was drawn which indicated that in general does not a financial gap exist in any of the OECD countries, but that it does exist within the non- OECD countries. This could be seen as an indication that small Swedish companies ought to experience a financial gap, when it comes to long-term external finance in China. But it could be misleading to state this out of one single test, since the data gathered from the survey further shows that it is not a common phenomenon for small Swedish companies to obtain external finance from China. Therefore it was analyzed whether the supply from Sweden or China had restrained the inquired companies’ growth. The result showed that only four companies considered the supply of long-term finance from Sweden and/or China to have restrained their growth. Since the gathered data also indicated that there exists a demand for long term finance, and that the majority of companies responded that it was not regarded as a problem, it indicates that in general do small Swedish companies not experience any financial gap in China.

**Difficulties reaching external finance**

To analyze this, the respondents were inquired to state in an open question, what they considered to be the major issue regarding reaching external capital. Eighteen of the twenty-four companies responding to this question stated that they had not faced any major difficulties regarding reaching external capital. The reason for this was explained in a variance of answers. Three companies pointed out that since they were active with in the service sector, they were not in any greater need of external finance. Moreover, three companies stated that they only used internal finance, and therefore did not have any problems. One of the companies also stated that it lately had been easier to reach external finance in China, due to adjustments in Chinese laws. They had therefore not stumbled upon any problems regarding this. The remaining eleven respondents did not state any particular reason for not having experienced any major problems.

The six respondents that mentioned that it was a problem reaching external finance stated several different reasons. Two mentioned that China is a very bureaucratic country, and that everything takes a great deal of time. Further more, the commonly spread corruption with in the Chinese business world is mentioned. The respondents warn that other companies that consider an establishment in China should take this into consideration. This is further backed up by theory, which mentions that China is known for being a country that is very bureaucratic. All decisions that involve some form of government interference take time. It is further stated that this is worth taking into consideration before doing any business in China today (Engvall, 2007). According to a report from the OECD countries, the corruption in China is widely spread within the business world, and the corruption is growing at the same rate as the country’s economy (4Anon, 2005). What is more described as a problem by one company, is that of convincing investor and business decision makers, that the risk for a project is not always as immediate as they are expecting. Another one reflects that the greatest problem is to find investors that are willing to be active with in the company’s operation, and further contribute to
development of the business. This could be understandable and explained since according to a report from 2007 that includes 174 VC companies from Europe, 59 per cent of these regarded the country China, to have the highest risk. This is due to their IP (Intellectual Property) laws, which contribute to a high financial risk (Anon, 2007). Pukthuanthong and Walker, (2007) further explain that there are government restrictions and a lack of well-developed financial markets, which complicate for the VC companies to realize a return of their investment. Further more, due to the fact that the stock market in China is not fully developed, the exit possibilities are inadequate for VC companies. This makes it further less desirable for them to invest. Two companies point out that they also consider banks to be relatively conservative, when it comes to approving bank loans. According to Herin and Sandén (2005) financing has been a returning problem for foreign companies in China, this due to the fact that foreign banks were restricted not to lend money to companies. Additionally, that Chinese banks have a tendency to prefer lending to large Chinese corporations, and not to small companies (Herin, 2005).

Registered capital

When it comes to the registered capital, a question in the survey was designed to find out whether this was considered to be or has been a problem. Since the quantity of foreign debt is controlled by the amount of the total investment, the restriction could affect the financing of the establishment, and or when trying to get external capital. Some firms stated in the open question that they regarded this as a major problem, when it came to attaining loans from the parent company. But however, there were only four companies stating that they had any problems with the restrictions. Two stated that they considered it to be a problem, both at the time for establishment and when they were in need of capital. Further more, one company regarded it to be a problem when establishing, and one when they were in need of capital. From this discussion it can be seen as there are many different problems for small Swedish companies. But, in fact the majority of the collected data all together indicates that reaching external finance is not seen as a major problem. The problems that are discussed here are only mentioned by a few of the companies.

The hypothesis, that Small Swedish companies established in China experience major problems reaching external finance has to be argued to be rejected. The financial gap is argued not to be of any concern, and the gathered data indicates that there are no imminent difficulties regarding reaching external capital. Finally, the restriction of registered capital is not seen as a major problem when establishing or reaching for external finance. And again, this is to be connected to the main hypothesis, the Pecking order theory. Since problems do exist on the market, but the majority only uses internal finance, and they do therefore not experience any major problems reaching external finance.
6 Conclusions & Implications

In this chapter the specification of the problem will be answered, and implications to companies will be presented. Moreover, suggestions to further research are presented followed by the authors own criticism of this dissertation.

6.1 Conclusions

China is today a very news related topic, mainly for its economic development. The Chinese market seems to have opened up for foreign companies, which the amount of Swedish companies establishing in China strongly indicates.

The over all conclusion what regards this dissertation, seen from all the data that has been gathered, is that everything indicates on that in general do small Swedish companies established in China intend to use internal finance to a great extent. Moreover, that the use of external finance is insignificant. This was strongly proved when the data was gathered concerning how the inquired companies preferred to be financed, where almost all the respondents stated that they first preferred internal finance, then debt before external equity. The conclusion that can be drawn is that Myers Pecking order theory is applicable to small Swedish companies in China, and that it can be generalized over all the entry modes.

It could be discussed why the use of external finance is not a common phenomenon among small Swedish companies in China. It could be argued that a major contributing factor to the low use of external finance is the negative attitude towards external equity. When the respondents were inquired about their attitude towards letting in external owners, a clear trend was shown, which further match all theory, stating that small companies’ have a negative attitude. The conclusion that can be drawn is that there exists a strong negative attitude towards letting in external owners among small Swedish companies in China.

The well known and discussed topic of the financial gap is being argued by some researchers to be wide spread, and by others argued not to create any large problems, not in the western world anyway. To get a wider perspective, the survey asked the respondents for their experience of supply sides both from Sweden, which is an OECD country, and from China, which is not. The conclusion that can be drawn from the analysis of this topic is that in general do small Swedish companies not experience a financial gap in China. The results from tests made, indicated that the inquired companies experienced the supply side for long term external finance to be equivalent to their demand. To further clarify that small Swedish companies in China do not experience a financial gap, a conclusion can be drawn from the fact that companies did not consider the supply of long-term finance from Sweden, nor China, to have restrained their growth. Further more the majority of companies acknowledge a quite high growth and at the same
time no wide spread problem of reaching adequate funds for establishment or growth, which further indicates that no imminent problems surrounding the financial gap are experienced. But worth mentioning again, is that the use of external finance among the inquired companies is insignificant.

Only a few of the inquired companies stated that they experienced some kind of problems reaching external finance. It can be argued that the restrictions of foreign debt, or the fact that VC companies have major problem investing in China, hence make them less available, and could hold firms back from attaining external finance. However, the restrictions regarding registered capital were not seen as an imminent problem for the majority of the inquired companies, only four companies saw this as a problem at all. The fact that it is possible to generalize the applicableness of Myers Pecking order theory to the inquired companies, could be argued to be seen as an explanation to why they do not experience any major problems regarding reaching external finance.

Important to add to the conclusion is that just because companies do not experience any imminent problems, does this not signify that problems do not exist reaching external finance in China. It could be argued, that if within a near future, the need for external finance should increase a great deal, and become a necessity for small Swedish companies, the problems on the Chinese market would most certainly be a concern. Since there seems to be several matters, but these are not experienced as major problems, do to the fact that the use of external finance is not common. It could be expected as quite natural that when an economy grows in the phase as China’s economy has, that there could evolve problems with financial markets not developing in the same phase. Further more, a country that is known for being very bureaucratic, and has a wide spread corruption, and major culture differences, there is no doubt that companies will experience problems reaching external finance if the demand would exist.

This dissertation started with a quote from Fang (2005), which also seems to fit as a sum up and an end to the dissertation “it is no longer difficult to do business in China, it is just complicated” (Freely translated from Fang, 2005 pg 138).
6.2 Implications

6.2.1 Small Swedish companies

A conclusion drawn from this dissertation is that the use of external finance is not a common phenomenon. Almost all the companies inquired used internal finance to finance their activity in China. One of the reasons for this could be explained through out the fact that they have a strong negative attitude towards external financiers. A continued fast economic development could create more intense competition. Companies could then need to expand faster to keep up with the rising competition and through this use external finance to a greater extent. Suggested is that Small Swedish companies instead could try to take advantage of external financiers’ knowledge, competence and contacts, which could contribute to further growth and further development.

6.2.2 Financiers

The most important information that financiers could attain from this dissertation is that there exists a strong negative attitude towards external financiers amongst small Swedish companies in China. But for those who stated differently, and were positive to the concept, wanted the financier to be more active and to contribute to further development of the business.

To decrease the negative attitude that exists among small business, it is of great importance for the financiers to reach out with information how their business works, and what they could contribute with. Today there are information and material to attain through Swedish trade council, Swefund, Swedish Private Equity and Venture Capital Association (SVCA). One measure, which could lead to a decreased negative attitude, would be an increased co-operation among these organisations, since their main purpose is to help and to develop Swedish companies.

What is worth taking into consideration is that China has gone through a major economic development, where the financial market has not been able to keep up in the same phase, which has led to difficulties for VC companies. But it is most likely that the financial market will improve, and lead to better conditions for VC companies. It is therefore of great importance that VC companies are keeping themselves updated when it comes to the Chinese market, since with the right circumstances it is a big potential market.
6.3 Further research

This matter has been really interesting to read and write about, and with further expanded knowledge, the awareness of possibilities for further research has increased. An approach that would have been interesting, first seen when the dissertation was written, would have been a qualitative approach. This is based on the fact that the most interesting data gathered and analyzed from the survey, was from the open questions.

A Qualitative approach could have contributed to a more detailed picture of how companies choose to finance their activity, and why. Further more, since the population of small Swedish companies was relatively limited, perhaps a wider approach of the definition for companies would have been to suggest, e.g. SMEs could be an interesting suggestion for further research. It could then also be possible to take different branches into consideration. It could also be very interesting to make the same type of research but for Swedish companies in Sweden. Because then it would be interesting to see whether the use of external finance is more common on the domestic market. Also whether problems exist that complicates for companies reaching external finance on the Swedish financial market. It would further more be of interests that today make a similar research in other developing countries that are on their way to develop their economy, for the moment e.g. India or Vietnam.

6.4 Criticism

A quantitative approach is when a research of a large number of individuals is being made, since the population of small Swedish companies was limited, perhaps a qualitative approach would have been better suited. It could then have given a more detailed description of how small Swedish companies experience the handling of financing. Now afterwards it is possible to criticize the choice of approach, but worth mentioning is the high number of respondents, which makes it possible to generalize and draw trustworthy conclusions for all small Swedish companies in China.

During the progress of this dissertation, the awareness has increased how important the analyzing plan is. Now looking back on the entire work, more time should have been spent on creating the survey, which had made the analyzing a lot easier. Nevertheless, the authors of this dissertation’s mean that the conclusion has not been negatively affected, just that the path to get there has been more time consuming. Due to lack of time, no test of the survey was sent out to any company. This could have improved the survey and further have made the analyzing easier.
7 Reference List

Books


Articles


Myers, C. S. Majluf, S. N. (1983). Corporate financing and investment decisions when firms have information that investors do not have. The journal of finance.


**Internet**

Internet 1 [http://www.swedishtrade.se/landrapporter/?objectId=4602](http://www.swedishtrade.se/landrapporter/?objectId=4602) [Accessed on the 22/02-2008]


Internet 5 [http://www.ad.se/startpage.php](http://www.ad.se/startpage.php) [Accessed on the 02/10-2008]
8 Appendixes

Appendix i)

Correlations

Correlation test between variables Requirement of External Finance today and the companies’ experiences of the supply side of long term external finance today.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirement of External Finance Today</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>1 .606(**)</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>.000</td>
</tr>
<tr>
<td>Experience of Supply Side of Long Term External Finance Today</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>.606(**) 1</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>.000 29</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).

Correlation test between variables Requirement of External Finance at the establishing year and the companies’ experiences of the supply side of long term external finance at the establishing year.

<table>
<thead>
<tr>
<th>Requirement of External Finance Establishing Year</th>
<th>Requirement of External Finance Establishing Year</th>
<th>Experience of Supply Side of Long Term External Finance Establishing Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirement of External Finance Establishing Year</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>.505(**) .006</td>
</tr>
<tr>
<td>Experience of Supply Side of Long Term External Finance Establishing Year</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>.505(**) 1</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>.006 29</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
Chi-square test between the variables entry mode and their use of financing of establishment of small Swedish companies established in China.

### Case Processing Summary

<table>
<thead>
<tr>
<th>Cases</th>
<th>Valid</th>
<th>Missing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>Percent</td>
<td>N</td>
<td>Percent</td>
</tr>
<tr>
<td>Entry Modes * Financing of Establishment</td>
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<td>100,0%</td>
<td>0</td>
</tr>
</tbody>
</table>

### Entry Modes * Financing of Establishment Crosstabulation

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<thead>
<tr>
<th>Financing of Establishment</th>
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<th>Debt</th>
<th>External Equity</th>
<th>Total</th>
</tr>
</thead>
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<td>2</td>
<td>1</td>
<td>12</td>
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<tr>
<td>Expected Count</td>
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<td>2,1</td>
<td>,4</td>
<td>12,0</td>
</tr>
<tr>
<td>FICE</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
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<td>Count</td>
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<td>,7</td>
<td>,1</td>
<td>4,0</td>
</tr>
<tr>
<td>Expected Count</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint Venture</td>
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<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Count</td>
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<td>,3</td>
<td>,1</td>
<td>2,0</td>
</tr>
<tr>
<td>Expected Count</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rep. Office / Sale Office</td>
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<td>3</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Count</td>
<td>8,7</td>
<td>1,9</td>
<td>,4</td>
<td>11,0</td>
</tr>
<tr>
<td>Expected Count</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>5</td>
<td>1</td>
<td>29</td>
</tr>
<tr>
<td>Count</td>
<td>23,0</td>
<td>5,0</td>
<td>1,0</td>
<td>29,0</td>
</tr>
<tr>
<td>Expected Count</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Chi-Square Tests

<table>
<thead>
<tr>
<th>Test</th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>3.508</td>
<td>6</td>
<td>.743</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>4.770</td>
<td>6</td>
<td>.574</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>.058</td>
<td>1</td>
<td>.810</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>29</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* 10 cells (83,3%) have expected count less than 5. The minimum expected count is .07.
Appendix ii)

Halmstad University
March 15, 2008

Hello,

We are two students writing our dissertation within the unit corporate finance. We ask you for five minutes of your time to answer 13 quick questions.

The purpose of this dissertation is to describe the financial environment surrounding financing of small Swedish companies established in China, and further more if, and what kind of problems there are to reach external finance, and further more what type of finance that is preferred. Through this we hope to ease for small Swedish companies that in a near future have plans to establish in China.

Since the population of small Swedish companies is relatively small, your answer will be of great importance to the dissertation’s validity, and as a result a general conclusion can be drawn, and by this fulfill the purpose of this dissertation.

Your answer will therefore be of highest significance, the data will be dealt with and presented completely anonymous, and more over, the material will only be used in our dissertation.

Please return your answers to the following email address, johnik07@student.hh.se

If questions will arise regarding the survey, or if you want to take part of the final result, contact any of the contact persons.

Best Regards
Erik Milan, Johan Niklasson
1. What year did you establish in China?
   Year: _________

2. How many employees do you have in China?
   Answer: __________ea.

3. Under what entry mode did your company establish in China?
   - WFOE (Wholly-Foreign Owned Enterprise)
   - FICE (Foreign Invested Commercial Enterprise)
   - Rep. Office/Sale Office
   - Joint Venture
   - Other: _____________________

4. Rank the following financial alternatives as your company generally would prefer them.
   1= Preferred first. 2= Preferred second. 3= Preferred last.
   - External Equity (infusion of new capital from external financiers)
   - Debt
   - Internal finance
5. To what extent did your company finance the establishment in China through the following alternatives?

1. Not used at all
2. Used to a very small extent.
3. Used to a small extent.
4. Used to a large extent.
5. Used to a very large extent.
6. Completely financed by.

External Equity from China
(Capital from VC, Business Angels from China)

External Equity
(Capital from VC, Business Angels outside China)

Bank loans outside China

Bank loans from China

Internal finance

6. What is your opinion of receiving external capital through letting in new owners?
   Open answer:

7. How does the investment need for your company emerges in China?

<table>
<thead>
<tr>
<th>Today</th>
<th>Time of establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td></td>
</tr>
<tr>
<td>Quite High</td>
<td></td>
</tr>
<tr>
<td>Quite Low</td>
<td></td>
</tr>
<tr>
<td>Very Low</td>
<td></td>
</tr>
<tr>
<td>Do Not Know</td>
<td></td>
</tr>
</tbody>
</table>
8. How does the growth rate emerge for your company in China?

- Very High
- Quite High
- Quite Low
- Very Low
- No Growth

9. To what extent is your company in need of long-term external finance in China?

<table>
<thead>
<tr>
<th>Today</th>
<th>Time of establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td></td>
</tr>
<tr>
<td>Quite High</td>
<td></td>
</tr>
<tr>
<td>Quite Low</td>
<td></td>
</tr>
<tr>
<td>Very Low</td>
<td></td>
</tr>
<tr>
<td>No Need</td>
<td></td>
</tr>
</tbody>
</table>

10. How do you experience the supply of long-term external finance in China?

<table>
<thead>
<tr>
<th>Today</th>
<th>Time to establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Good</td>
<td></td>
</tr>
<tr>
<td>Quite Good</td>
<td></td>
</tr>
<tr>
<td>Quite Poor</td>
<td></td>
</tr>
<tr>
<td>Very Poor</td>
<td></td>
</tr>
<tr>
<td>Do Not Know</td>
<td></td>
</tr>
</tbody>
</table>

11. Has the supply of long-term finance from Sweden and China respectively constrained your company’s growth in China?

<table>
<thead>
<tr>
<th>Supply from Sweden</th>
<th>Supply from China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Do Not Know</td>
<td></td>
</tr>
</tbody>
</table>
12. Have the Chinese restrictions regarding registered capital been of any problem to your company in China?

<table>
<thead>
<tr>
<th>Time of establishment</th>
<th>In need of capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Do Not Know</td>
<td></td>
</tr>
</tbody>
</table>

13. What have you considered to be the major issue regarding reaching external capital?

Open answer:

Please return your answer to the following email address johnik07@student.hh.se

NB! Do not forget to attach the survey!

Great thanks to you for taking participation in our survey.