

Thesis Paper

German small and medium-sized enterprises in China

A theoretical and empirical study on their expansion process and their current and future business environment

Sebastian Hecker

Zoltan Schepp, Dr. habil
Vice Dean of Research and Innovation
Faculty of Business and Economics
University of Pecs

H-7622 Pecs
Rakoczi ut 80
Hungary

Table of Contents

Table of Contents	2
Table of Figures	3
1 Personal motivation	4
2 Introduction and goals of the dissertation	5
2.1 Goals of the dissertation	6
2.2 Outline of the dissertation	7
2.3 Methodology.....	8
3 Results of empirical study on German SMEs in China (expansion, current operations, future prospects)	11
3.1 Why and how do German SMEs expand to China?	11
3.1.1 Motives of SMEs for expansion to China	11
3.1.2 Market strategy of SMEs in China	12
3.1.3 Local presence of German SMEs in China and their form of entry	14
3.1.4 Internal and external success factors for China expansion.....	16
3.2 How do German SMEs master their current operations in China?	18
3.2.1 Evaluation of Chinese business behaviour and Chinese personality traits.....	18
3.2.2 Evaluation of legal and public authorities in China	19
3.2.3 Evaluation of own operations in China	20
3.2.4 Evaluation of China sales environment.....	21
3.3 How do German SMEs evaluate their future within the Chinese market?.....	22
3.3.1 Evaluation of future business environment in China	22
3.3.2 Evaluation of legal and public authorities (future).....	23
3.3.3 Evaluation of operations (future).....	23
3.3.4 Evaluation of China sales environment (future).....	24
4 Conclusion	26
References	27
Publications	28

Table of Figures

Figure 1: Motives of SME for expansion to China.....	12
Figure 2: Market strategy of SME in China	13
Figure 3: Local presence of German operations in China (blue) & survey participants (yellow) Source: GIC (German Industry & Commerce) (2008) & own illustration	14
Figure 4: Important internal success factors of China expansion.....	16
Figure 5: Important external success factors for China expansion.....	17
Figure 6: Evaluation of Chinese business behaviour and Chinese personality traits	19
Figure 7: Evaluation of legal and public authorities in China	20
Figure 8: Evaluation of own operations in China	21
Figure 9: Evaluation of China sales environment.....	22
Figure 10: Evaluation of legal and public authorities (future).....	23
Figure 11: Evaluation of operations (future)	24
Figure 12: Evaluation of China sales environment (future)	25

1 Personal motivation

My interest for China, its people and especially its economical development has been strong already for a long time. During my Master of Business Administration studies in 2003/04 in Helsinki and Austin/ Texas I worked within diverse groups of people from all over the world. Some of them were Chinese and I got to learn a lot about their way of life, their thinking and I was curious and excited to find out more.

Therefore, I entered a scholarship for young professionals that provided a chance to study Chinese and work in China for one year in order to get first hand information.

Living and working in China has been a wonderful experience for me. I worked for a consulting company that mainly supported German small and medium sized enterprises (SMEs) in China: we conducted market research, did supplier search, made suggestions for ideal locations for expansion to China and looked for joint venture candidates.

After my stay I wanted to continue to work with China and used my contacts to launch my own business where I supported German SMEs in their sourcing activities and their market entries to China.

3 years later I was asked to join one of Germany's biggest retailers and help them streamline its sourcing from Asia for private label goods. The product portfolio contained fashion and hard goods like multimedia, home and living appliances. Together with a team we managed to reshape the sourcing organization to be more effective by optimizing the processes, the quality and supplier relationships.

I gained a lot of practical experience in this business area and it has always been my wish to broaden my knowledge theoretically. Moreover, in my past years I have seen a lot of German companies interested in doing business with China or expanding to this promising country. All of them had the same questions in the beginning and were eager to get information which could help them master their internationalisation successfully.

Therefore, I wanted to prepare a dissertation that on the one hand gives insights on the current literature and on the other hand gives practical answers within a detailed study from German SMES that already successfully made their way to China.

2 Introduction and goals of the dissertation

„Crisis? Which crisis?“

The expression “economic crisis” is still omnipresent in many countries of the world. European countries like Greece, Ireland and Portugal are verging on national bankruptcy. When asking a Chinese about the economic crisis in 2009, he will answer that the crisis only caused a small breakage in the ambitious economic plan and that the short-negative effects are already surmounted or forgotten as the World Bank summed up in the latest report bay saying that 'East Asia has recovered itself from the economic and financial crisis'¹.

Though by the end of 2008 China was also situated in a threatening situation. Ten thousands of people lost their jobs, the property market collapsed and social riots were about to come up. China's development model was on the rocks. Analysts and international organizations amended their estimations constantly downwards concerning China's economic development.² In 2009 they had to accept a throttling economic growth of 8.7 %. As a result, in March 2010, the Chinese government predicted a 'complicated situation` for the upcoming years insofar as the former strategies that had created the economic miracle, such as exports and investments and being the workbench of the world would not function anymore. Consequently, the Chinese government focused on serious infrastructure programs, export and agricultural aids and the opening of the credit tap of the banks in order to establish a new sustainable model in favor of the domestic market that was supposed to protect China from the negative global economic effects.³

Nevertheless, despite the fact that China predicted for themselves to leave aside the former strategies, such as export and investments, an increase in imports and direct investments can be detected particularly after 2009 by foreign companies. The blatant reasons, especially for direct investments in China, were among others on the one hand the huge market potential with more than 1.3 billion citizens and on the other hand the cost efficient business environment. Including German companies were and still are

¹ Worldbank (2011)

² www.wiwo.de (2008); www.wiwo.de (2009)

fascinated by the possibilities and the advantages that China can offer and hence hazard the expansion towards China.⁴

2.1 Goals of the dissertation

The goal of the dissertation is to look at small and medium-sized companies and their way to China depicting and analyzing how they organized their way to China, how they evaluate their current situation in China, and, in their opinion, how the economic situation in China will change in the future.

The underlying examination questions are as follows:

- Why and how do German SMEs expand to China?
- How do German SMEs master their current operations in China?
- How do German SMEs evaluate their future within the Chinese market?

The real novelty of the dissertation is the empirical study and its detailed analysis in chapter 6. Especially the part of the study that focuses on the estimation of the SMEs on their current business situation in China after the world economic crisis and their estimation of future broadens the understanding of German SME in China on the one hand in the literature and on the other hand in the practical world.

The answers to the above mentioned research questions are supposed to serve as information and assistance for SMEs, which are looking for a way to internationalize successfully to China or to further establish their competitive position there against the backdrop of constantly and faster changing conditions of the market.

The contemporary literature answers the research questions unsatisfactorily. Though, a glut of works dealing with 'internationalization of companies' concerning strategies of market entry, can be found in the German-speaking as well as in the English-speaking literature. Similarly, there are many works about China or papers about SMEs. But looking for information about German SMEs and how they have entered the Chinese market, which strategies for market cultivation they currently follow, how they evaluate their current and future economic environment, the results are unsatisfactory. It is even more unsatisfying when one searches for information on this topic in English.

³ www.welt.de (2010)

⁴ EU SME Centre (2011)

2.2 Outline of the dissertation

The dissertation is divided into two major parts. The first part, covered by chapters 1 to 5, builds up the theoretical background for internationalization of German SMEs to China and the second part, covered by chapter 6, challenges the theoretical findings with an empirical study conducted among German SMEs who mastered their expansion to China successfully in the past.

Chapter 2 gives a definition and distinction of SMEs. After that, their special significance in the context of the German economy will be described. Furthermore, within the scope of this paper, it will be particularly pointed out why especially those companies have the need for internationalizing processes to China.

In chapter 3 the People's Republic of China as the country of opportunities for German SMEs is analyzed. Firstly, the determining factors for Germany are illustrated from the economic, politico-social and legal perspective. Moreover, the German-Chinese economic relations will be displayed.

The fourth chapter deals with the internationalization process which has to be the basis for the transnational trade. The first part discusses the motives for an international expansion which can be cost-, market- or competition-oriented. Furthermore, special characteristics or determining factors for SMEs are shown with regards to their foray abroad. The second part of the chapter deals with the forms of strategies of market entry. The forms of foreign market cultivation, such as export, joint venture or subsidiary companies abroad, are described in detail. In addition, the individual advantages and disadvantages are contrasted. Finally, it is pointed out which strategies of market entry are chosen by German SMEs.

Chapter 5 focuses on factors that are necessary for German SMEs to be successful abroad. Chapter 5.1 deals with the external factors of success to the company, e.g. cheap labor, legal security, whereas chapter 5.2 will shine a light on the internal factors of success to the company, e.g. financial resources, experienced employees.

Chapter 6 presents the results of the empirical study about the way German SMEs coped with the expansion, how they evaluate their current situation in China and how, to their mind, will change the economic situation in the future. The themes that were mentioned in the theoretical chapters before are taken up again by means of concrete practical questioning in the scope of the study. For example, the motives for an expansion to a

foreign country, the forms of strategies of market entry, the internal and external factors for a successful market entry or the successful market cultivation.

Finally, chapter 7 summarizes the results and looks out on possible questions that could not be answered in the scope of this paper, but could serve for future investigations.

Regarding the outline of this thesis paper the findings of the theoretical part are not presented in detail. Only the findings of the empirical study are summarized since they present new insights.

2.3 Methodology

Chapters 2-5 of the dissertation, e.g. the theoretical considerations of the given theme, entirely rely on secondary research. The main sources for this research are German and international literature that focus for example on the following topics SMEs, China, internationalization and success factors for expansion. Statistics by government institutions are taken to support the analysis with substantial data. Studies of institutes like the German Chamber of Commerce in China and a case study of a German SMEs that pursued the expansion to China are utilized as well to further enrich the understanding of internationalization from a more practical point of view.

The empirical study and its detailed analysis in chapter 6 on the other hand are primary research. This part of the dissertation is a real progress in the understanding of the given topic of the dissertation and is used to test or verify the literature base presented in the previous chapters.

The research method is a survey which relies on questionnaire containing 27 core questions with a choice of multiple given answers. The questionnaire has been used since it is one of the most appropriate tools to reach German SMEs in China and to get insights of a large number of enterprises:

- Questions and answers are predefined to give guidance and to simplify the answering process for the participating SMEs – easy to handle and quick to do
- The SMEs can decide when it has the time to answer the questionnaire since the time frame for answering has been set to 6 months (Oct. 2010 – March 2011)
- The distance between Germany and China eliminate research methods like personal interviews or group studies

- Case studies would have give a more depths analysis but the sample size would not have been big enough to serve for the entire German SMEs community in China
- Sending the questionnaire via email is inexpensive

The design of the questionnaire is based on 27 questions which cover 4 main research areas:

1. Information on the German SMEs in China (9 questions)
2. Expansion process of the SMEs to China (8 questions)
3. Evaluation of their current business evaluation in China (6 questions)
4. Forecast of their future business environment in China (4 questions)

The structure, the questions and the options for reply of the questionnaire are defined by the author but geared to other surveys conducted for example by German Industry and Commerce or private Consulting firms like Roland Berger or Fiducia Management Consultants.

The sample for the survey should contain of German SMEs operating in China. Therefore at first German SMEs had to be defined according to the criteria of the German Ministry of economic affairs, small businesses, technology and traffic (classification see in chapter 2.1). Then the list of all German companies (GCD⁵) operating in China had to be screened according to the given criteria to define the sample size.

The questionnaire was send out to 512 valid German business addresses in China that fulfilled the predefined criteria and the return quota of completed surveys was as high as 9% (46 SMEs). According to comparable studies⁶ the panel's composition is representative for the total number of German SME operations in China and the findings and opi-

⁵ The German Company Directory is the only official directory of all German companies in China. It is the primary source of information for determining which German companies are already in China. The German Company Directory is created and maintained by DEinternational/German Industry & Commerce (GIC) and Real SoftService. DEinternational /German Industry & Commerce (GIC) is the service provider of the Delegations of German Industry and Commerce (AHK) in China. AHK and GIC belong to the worldwide network of some 120 overseas German Chambers of Commerce, Delegations, Representative Offices and DIHK-Service Companies in more than 80 countries under the umbrella of the Association of German Chambers of Industry and Commerce (DIHK) in Berlin. The offices and subsidiaries of AHK and GIC in Beijing, Shanghai and Guangzhou support German companies in establishing and extending their activities in China on a bilateral basis.

⁶ „Survey on Business Confidence in China“, conducted by the German Chamber of Commerce and Fiducia Management Consultants, Shanghai August 5th, 2009

nions are representative for the majority of German SME business communities as well. However, this report is only meant to provide valuable insights for German SMEs interested in China expansion or SMEs, already operating in China, from which they can derive ideas and proceedings for their own business strategy. Since every company has its individual company background and business environment this survey cannot serve as an individual layout for a solid, successful China strategy that suits every German SMEs. Moreover, it has to be clarified that those SMEs who were not successful in their China expansion have not been able to participate in the survey since they have ceased their businesses and left China again already, therefore, their opinions and experiences are not included in the findings. Taking this fact into account it may be the case that the results of this survey are slightly painted in too good light.

3 Results of empirical study on German SMEs in China (expansion, current operations, future prospects)

The three main research questions of the dissertation, e.g.

- Why and how do German SMEs expand to China?
- How do German SMEs master their current operations in China?
- How do German SMEs evaluate their future within the Chinese market?

served as main research questions for the empirical study as well. The results of the survey will be summarized in the following three sections where each section is related to one main research question.

3.1 Why and how do German SMEs expand to China?

The first main research question should provide answers and insights on why and how German SMEs expand to China. This section focuses on the motives for expansion, the market strategy that the SMEs chose, the local presence and market entry form in China and finally the internal and external success factors for internationalization to China.

3.1.1 Motives of SMEs for expansion to China

The motives of German SMEs expanding to China are illustrated in figure 1. By far, the most dominant motive for moving their business to China is the sheer market size (81%). This does not come as a surprise since China is still deemed to be an untapped market with tremendous opportunities. Even though German SMEs often do not really know the market size of their particular market in China they believe that within a total customer market of 1.4 billion citizens their market for their products or services has to be big, too. On the other hand China is aspiring and the Chinese markets constantly develop so the German SMEs want to have a slice of the pie at an early stage.

The sales market as top motivation becomes even more comprehensible when looking at the second motive that was stated by 65% of the respondents: the saturated home market. Unlike China most German branches have to face a saturated environment with

declining sales and margins, fierce competition and not much room for development. In this case, internationalization often means survival for the companies involved.⁷ China, in comparison to other Western but also to East European countries, offers a huge market potential at a reasonable investment, therefore in many cases China is the preferred country for expansion even though the SMEs are culturally closer to Eastern or Western Europe countries as well as from the distance.

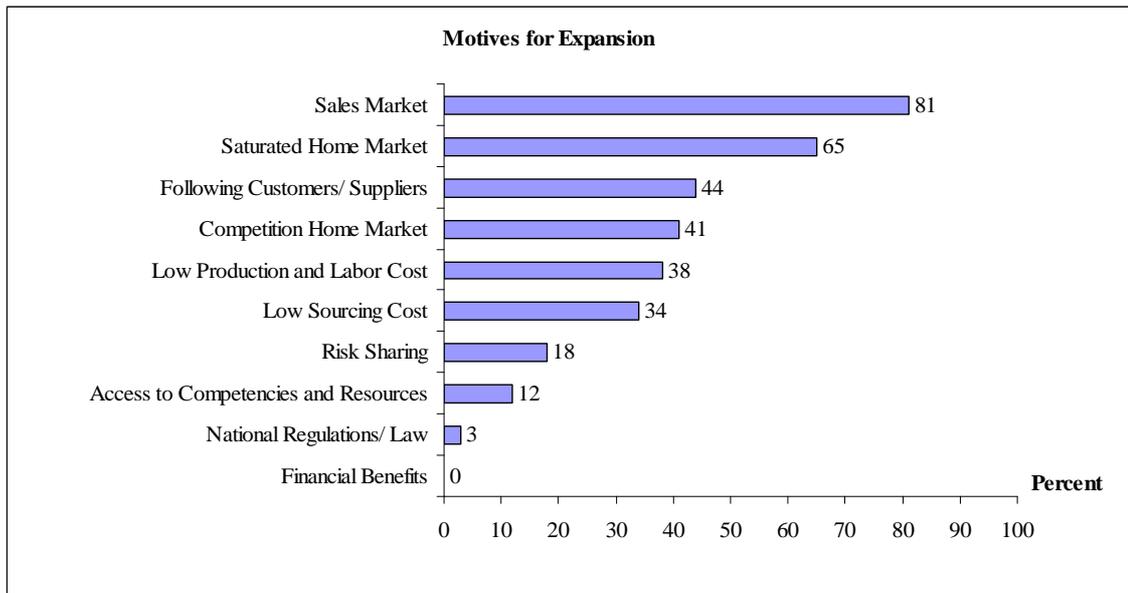


Figure 1: Motives of SMEs for expansion to China

3.1.2 Market strategy of SMEs in China

When a company is within the process of developing a strategy for expanding to a new market one of the most important decisions that has to be made is the form of market strategy the company will have.

Figure 2 displays that only 4% of the respondents decided on the cost leadership strategy which is quite comprehensible since the SMEs settle within a market where local competitors already operate on low cost.

The differentiation strategy is by far the most selected one by the participants of the survey (68%). It is no wonder since the key competences of German firms are the advanced products and services that are based on progressive research and development and an efficient supply chain. In many branches most Chinese competitors currently

⁷ Sachse (2003), p. 83

catch up with the technological leadership of the German companies and partly they have already drawn level with them.⁸ Nevertheless, the chances for forward-looking products and services are still very promising for German SMEs.

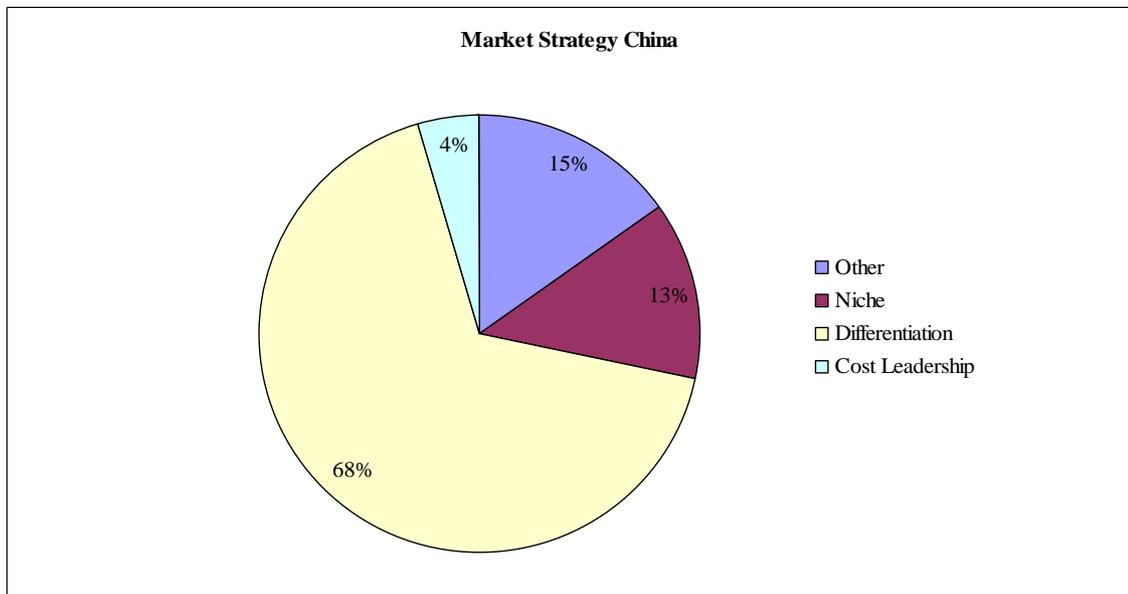


Figure 2: Market strategy of SMEs in China

The niche strategy is favored by 13% of the study participants. Due to their size SMEs in Germany already occupy niche markets in which they are able to compete with their products or services since they specialize themselves and put all energy and effort in one area of business or product. This specialization helps to keep costs low and to concentrate research and development on one specific sector to gain competitive advantages. In many times SMEs pick niche markets that are so small that bigger companies are not interested in since the prospective turnover is too low. Instead, this prospective turnover is enough for SMEs to run a successful business. Those SMEs that prolifically operate in niche markets in Germany pursue the same strategy when they expand to new markets.

The fourth market strategy category that the respondents were able to choose was the “other” strategy. This category has been created for those German SMEs that were not sure about their China strategy or, in other words, it was created for those SMEs that might not have defined a solid or at least clear market strategy. 15% of the group of German SMEs picked this category.

⁸ Geulen (2001), p. 76ff

3.1.3 Local presence of German SMEs in China and their form of entry

The modern economy in China is primarily located in the Eastern coastal areas. There the Chinese government has developed the infrastructure and initiated the trade zones to attract both domestic and foreign investors. German companies established their businesses also in these areas, especially in the Greater Shanghai (47%), the Greater Beijing (12%) and the Greater Guangzhou (8%) regions with more than 65% in total⁹.

Figure 3 displays the distribution of the German SME headquarters in China reflected by the respondents of our survey. It is remarkable that the allocation is closely oriented to the overall distribution of all German enterprises in China. It can be seen that the majority (65%) of SMEs cluster themselves in the region around Shanghai and the surrounding provinces Jiangsu and Zhejiang. 13% expanded to the Beijing area. Also noticeable is the fact that 11% established their businesses in the Greater Guangzhou region which is specialized in the production of textiles, IT hardware and electronic devices.

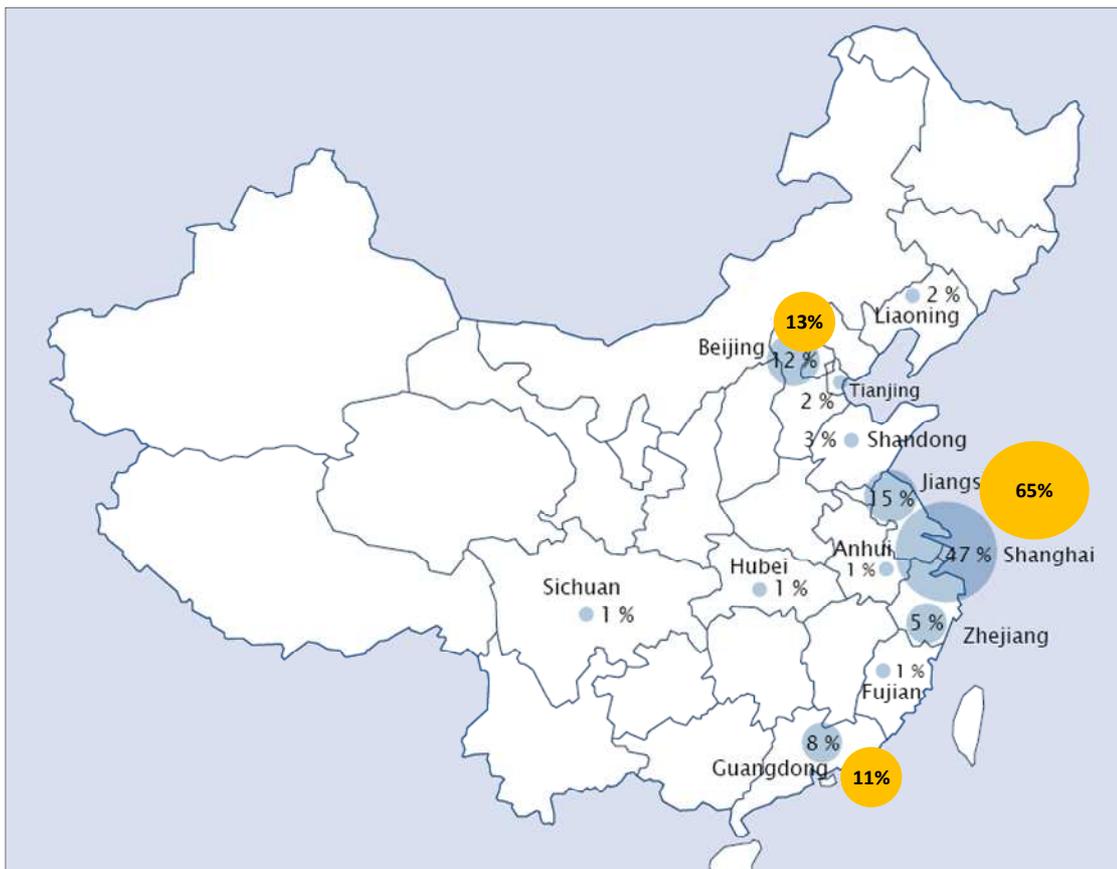


Figure 3: Local presence of German operations in China (blue) & survey participants (yellow)

Source: GIC (German Industry & Commerce) (2008) & own illustration

When a company is within the process of developing a strategy for expanding to a new market one of the most important decisions is to clarify the form of operations the company will adopt. There are basically three options for direct investment to choose from. The first option is that the representative office (RO) that offers expansion at low cost and low risk with limitations to the extent that all goods have to be provided and all invoices can only be issued by the parent company. German ROs are often located in Beijing since those companies see the need for lobbying with the Chinese government.

The second option is the cooperation with a Chinese partner company, often in the form of a joint venture (JV). This solution mostly provides direct access to an existing customer and supplier network, but also implies the risk of less control over the overall China strategy. Due to no direct experiences with the Chinese customers and suppliers the opportunities for a successful development of the company in China are limited. In the past, establishing joint ventures was often the only way of setting up foreign invested enterprises in China since WFOEs were restricted or not allowed in many industries.

The third option is the wholly foreign owned enterprise (WFOE). The advantage of a WFOE is the total control over all operations, but it also brings the disadvantage that it entails the highest investment for expansion and therefore the highest risk.

According to a survey of the German Industry & Commerce in 2002 among the forms of penetration the number of representative offices represented 50% and the remaining 50% were split up between joint ventures and wholly foreign owned enterprises. In a follow up study in 2007, 73% of all German operations in China turned out to be enterprises (WFOE or JV). Accordingly, we can see that the trend clearly favors the WFOE. Most German companies do not only want to be represented in China, but also want to manufacture, sell their products, and provide their services.¹⁰

In the case of the present survey 35% of the respondents established their businesses as a representative office, 24% as a joint venture and 41% as a wholly foreign owned enterprise. Even though the respondents of the survey only represent the SMEs share of all the entire German community in China, it can be seen that the combined proportion of JV and WFOE is 65% which comes closely to a just mentioned percentage of 73%. Es-

⁹ GIC (2008)

¹⁰ GIC (2008), p.55-60

pecially the 41% stake of WFOE demonstrates that the survey participants favor the option with the highest control and development potentialities which corresponds to the just described trend.

3.1.4 Internal and external success factors for China expansion

Figure 4 shows the ranking of the most important internal success factors which were named by the German SMEs in the survey.

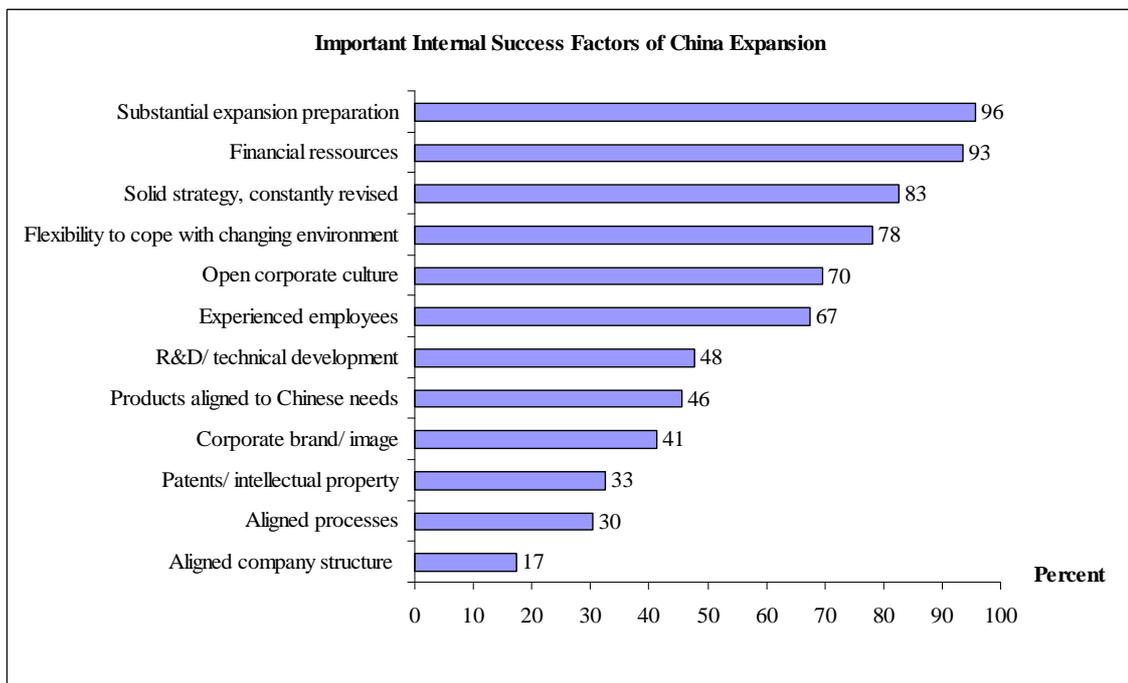


Figure 4: Important internal success factors of China expansion

The number one internal success factor that 96% of the German SMEs decided on was the substantial expansion preparation. The fact that almost all German SMEs picked this success factor shows that without a solid and comprehensive entry preparation a company can only hardly be triumphant even if all other internal factors look good.

The second most frequent response has been the need for financial resources. 93% of the SMEs picked the most obvious factor reflecting that expansion to a new country is costly. On the one hand, especially SMEs have very limited financial resources and, on the other hand, the companies have difficulties to assess how much money they have to invest in the internationalization process and concretely in which areas or steps. There-

fore, the German SMEs have to precisely plan their expenditures in order not to run out of cash and compromise the settlement.

Figure 5 shows the ranking of the most important external success factors which were named by the German SMEs in the survey.

The number one external success factor that 98% of the German SMEs decided on was the low-cost operations. The fact that almost all German SMEs picked this success factor shows that not only production enterprises look for low cost. The same is true for trading and service firms who have the need to operate their value chain with minimal expenses in order to be competitive.

The second most frequent response is also related to low costs: low-cost sourcing opportunities. 93% of the SMEs picked this factor and it is comprehensible since the procurement of supplies accounts for a substantial share of the overall cost of the company.¹¹

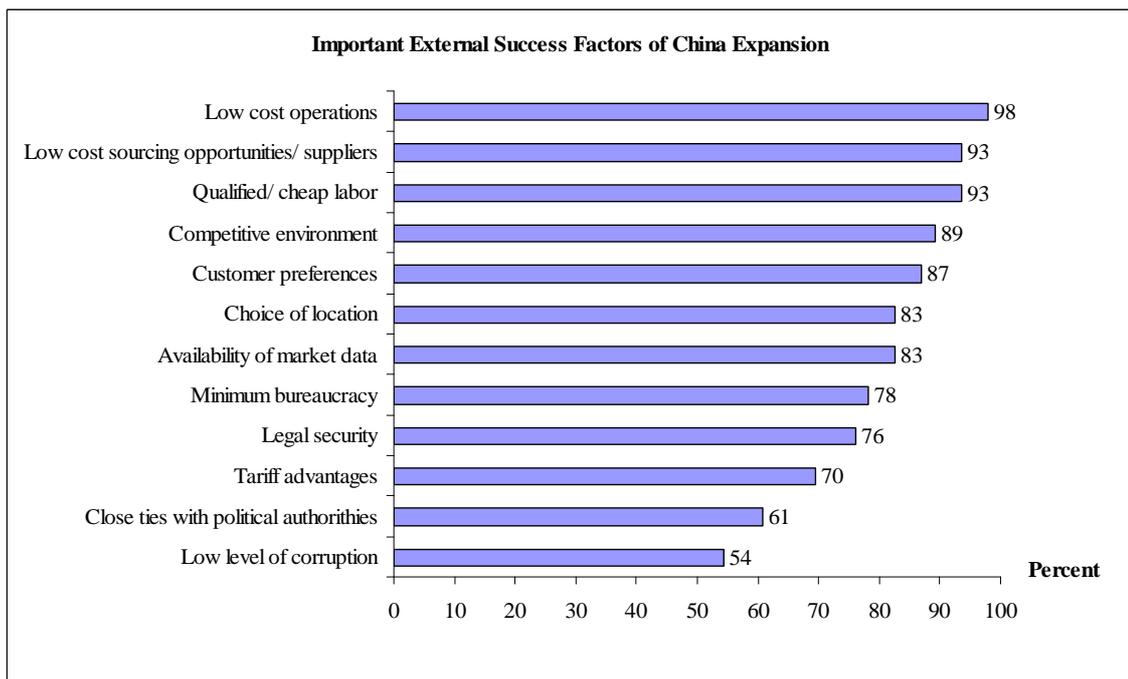


Figure 5: Important external success factors for China expansion

¹¹ Baetge/ Kirsch/ Thiele (2011)

3.2 How do German SMEs master their current operations in China?

The second main research question of the dissertation should provide insights and answers of the current business situation of German SMEs in China. The SMEs were asked to evaluate the Chinese business behavior and Chinese personality traits, Chinese legal & public authorities, their own operations (internal value creation, costs of operation, etc.) and sales environment in China (opportunities, threats).

3.2.1 Evaluation of Chinese business behaviour and Chinese personality traits

The first section concentrates on the assessment of the Chinese business behaviour and Chinese personality traits from the perspective of the SMEs in China. All answers can be seen in summary in figure 6. Exemplary for all answers the responses for business methods and work attitude are presented in detail.

The different operating methods of Chinese and Germans are often discussed in the literature as well as in economic life. Consequently, the question was whether the German SMEs are satisfied with the operating methods of the Chinese. Surprisingly, more than 60% were satisfied till very satisfied with the way how Chinese companies co-operated with them. Only 39% were unsatisfied with the Chinese way to make business. The positive result proves that different operating methods do not automatically lead to problems but, on the contrary, shows that German SMEs have adapted very well to the Chinese operating methods.

The second question was whether the Germans are satisfied with the Chinese working attitude. This involves the working attitude of the own Chinese employees as well as of the Chinese suppliers and customers. Even though the result does not turn out so positively, at least 50% evaluate their partners positively. The other 50% consider them rather negatively. This cannot be ascribed to the working zeal which is described as very high by German companies. Furthermore, in many cases this is due to an unsatisfying education, a lack of understanding of the work processes by virtue of deficient communication, a miscomprehension between the German SMEs on site with the Chinese partners or employees based on a different cultural background.

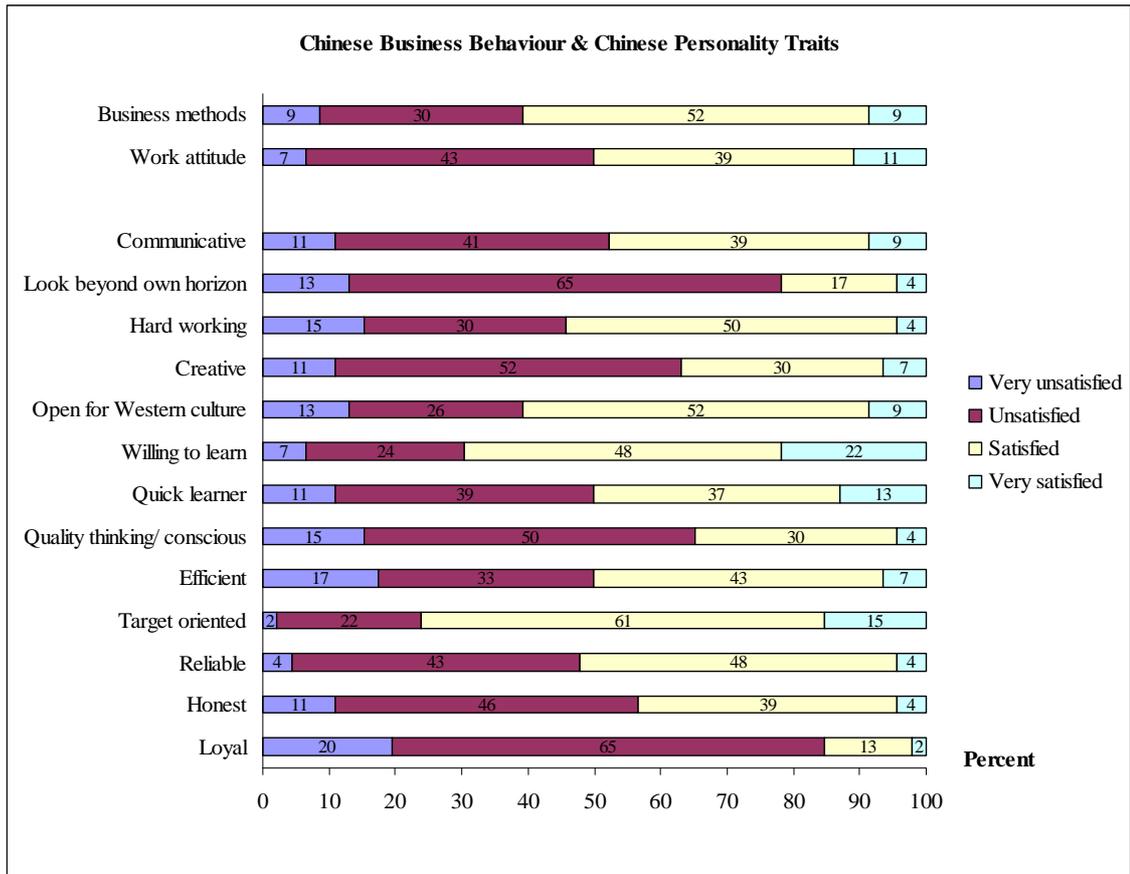


Figure 6: Evaluation of Chinese business behaviour and Chinese personality traits

3.2.2 Evaluation of legal and public authorities in China

In the chapter on external success factors for China expansion the survey participants declared a minimum of bureaucracy, legal security, close ties with the local authorities and a low level of corruption to be significant.

Therefore, in the survey the German SMEs had to evaluate those four external success factors in their current business environment. The estimations show a diverse picture with a tendency to be more on the unsatisfied side. The detailed answers can be taken out of figure 7. All in all, it can be noted that in addition to the rather unsatisfied voting it is remarkable that German SMEs rarely decided to choose “very satisfied” in their evaluations which underlines the expectation of German firms that the Chinese legal and public authorities improve their processes, their reliability and their transparency in the future.

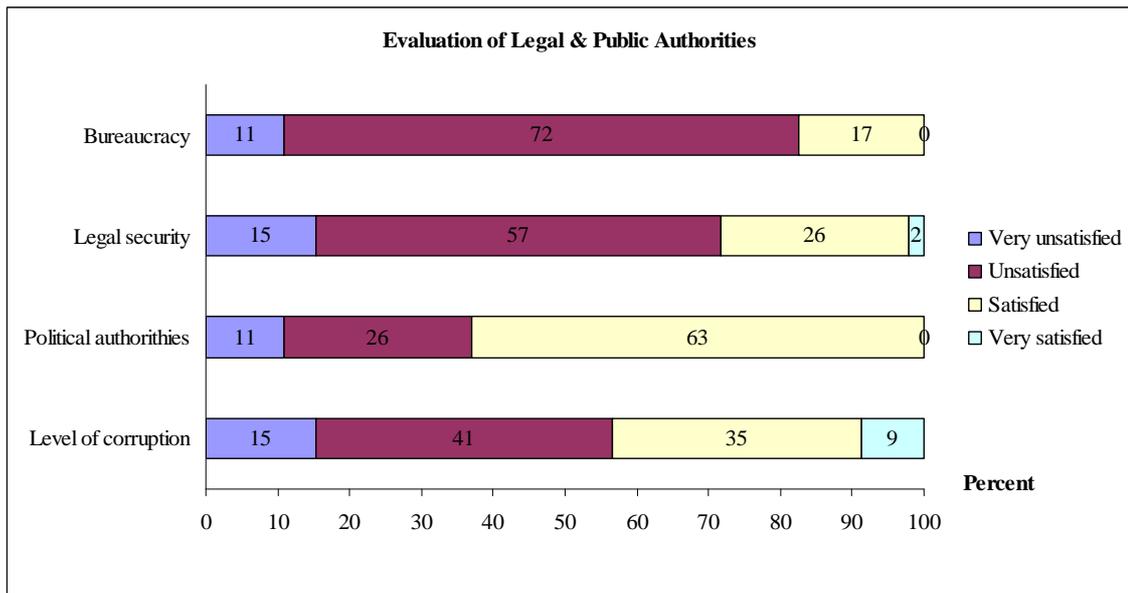


Figure 7: Evaluation of legal and public authorities in China

3.2.3 Evaluation of own operations in China

In contrast to the rather negative evaluation of the Chinese legal and public authorities the evaluation of the current operations in China shows a thoroughly positive picture as illustrated in figure 8. German SMEs are very satisfied with the cost structures in China, e.g. energy cost, material cost, logistics cost, etc. On the other hand the efficiency of internal workflows and the availability of skilled personnel are two areas where German SMEs are unsatisfied. As an explanation German companies often declare that they have major difficulties to implement the German workflows based on German process thinking into the existing Chinese patterns of working. Chinese employees have a different understanding of workflows because they have learned and experienced it otherwise in their past when working with Chinese firms. Therefore, the German enterprises have to teach and train their workers/ employees in order to create a more efficient internal workflow.

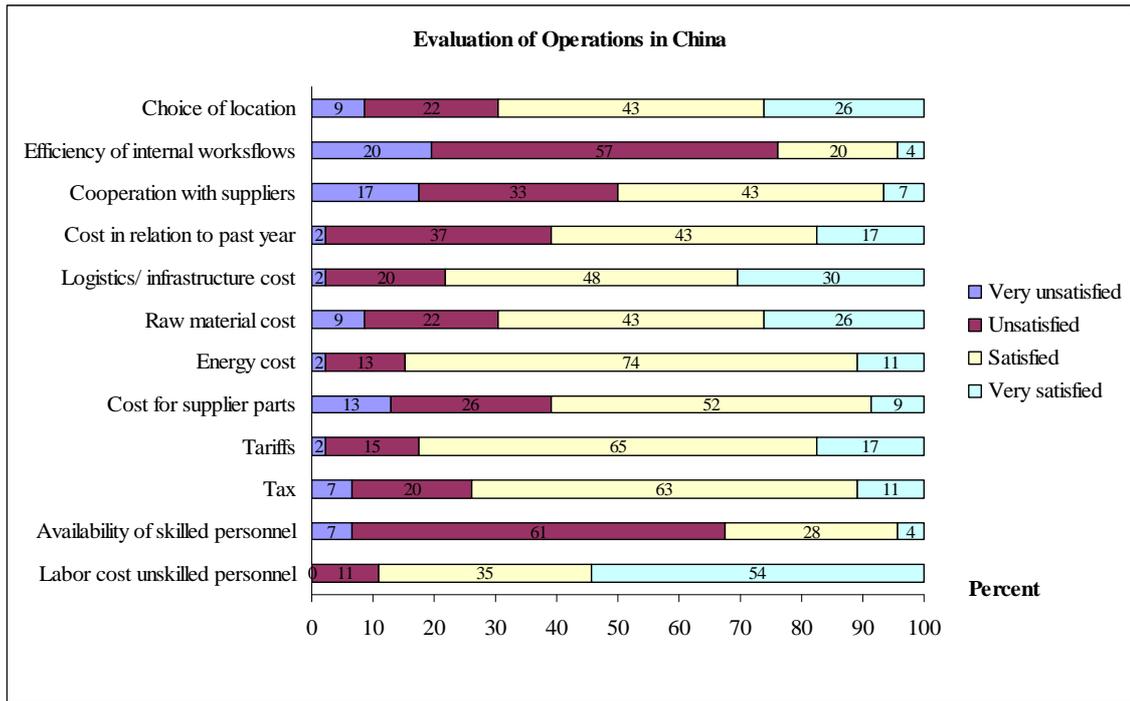


Figure 8: Evaluation of own operations in China

3.2.4 Evaluation of China sales environment

Among the motives to do business in China German SMEs stated the enormous potential of the Chinese market as sales for German products. Hence, it was important to question German companies for their estimation of the Chinese market and the competitive surrounding. All responses are displayed in figure 9.

Very satisfying in the eyes of the German SMEs are the customer demand and the sales market potential in China. Rather unsatisfying on the other hand are the customer loyalty and the price sensibility of customers.

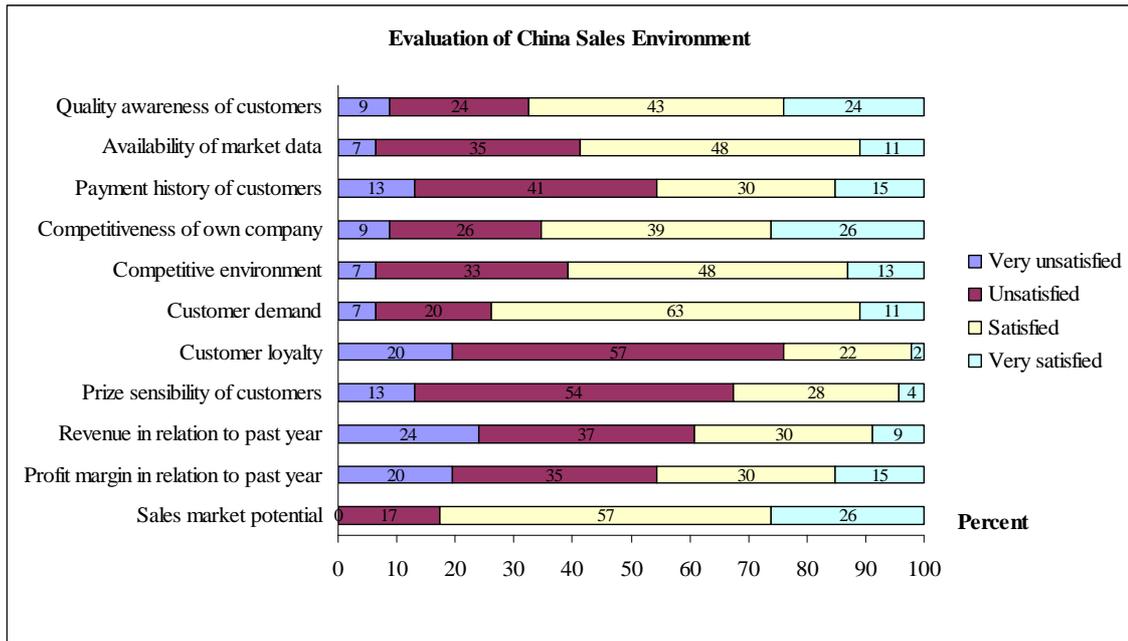


Figure 9: Evaluation of China sales environment

3.3 How do German SMEs evaluate their future within the Chinese market?

The last main research question of the dissertation should provide insights and answers of the future business situation of German SMEs in China. The SMEs were asked to respond to the future economic and working environment in China, the legal and public authorities followed by the assessment of the future of the Chinese operational environment and the Chinese market for German products or services.

In all four sub-points the interviewed were asked to decide for one of the three future variations: either the situation will be worse than today or there will be no change or there will be a positive development.

3.3.1 Evaluation of future business environment in China

The overall evaluation of the future business environment for German SMEs in China draws a quite positive picture. 43% think that they will improve their business in China. Further 50% state that their situation will not principally change, which does not mean that the situation is not already very good. Only a small part of 7% presumes that the general situation will develop negatively for their company in the future.

3.3.2 Evaluation of legal and public authorities (future)

The following paragraph will deal with the future estimation of the legal and public environment. Currently German SMEs state that they are rather unsatisfied with the legal systems in China, whereas the interviewed are content with the local public authorities.

Hence, it is interesting to see that the German SMEs primarily presume a similar situation in China for the future as can be seen in figure 10.

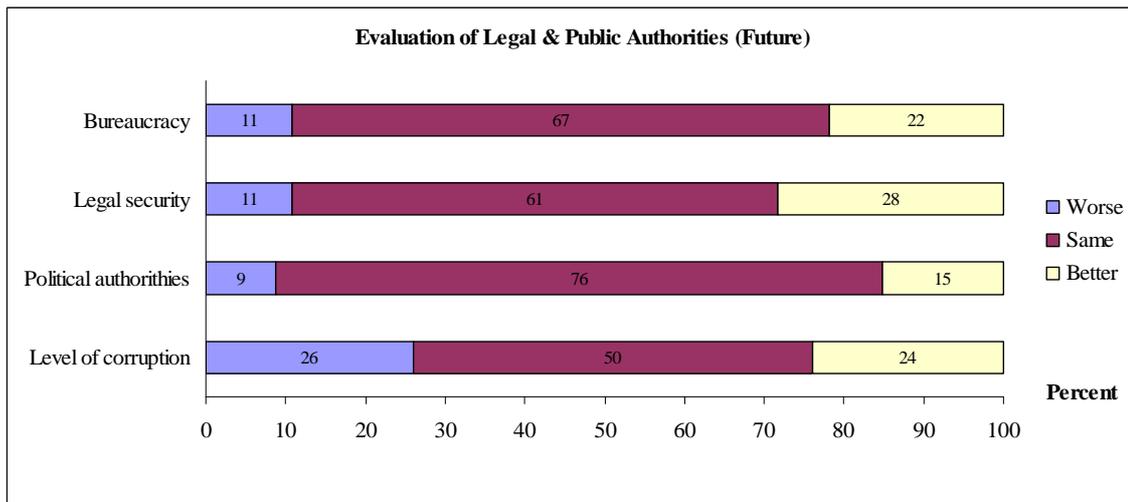


Figure 10: Evaluation of legal and public authorities (future)

3.3.3 Evaluation of operations (future)

In chapter 3.2.3 the assessment of the current operations in China was depicted. Apart from the aspects efficiency and availability of the skilled personnel, the feedback was all in all relatively positive.

Hence it is interesting that regarding the future expectations the picture of what we get is the opposite what we got for current operations. The future assessment of cost by the German SMEs shows a worsening of the situation whereas looking at the estimation considering the future efficiency of internal working processes, it is apparent that the majority of 70% think that this will change positively (figure 11). The respondents do not give a clear picture for the evaluation of the availability of skilled labor. Some state that the situation will improve, many say that the situation will not change or even get worse.

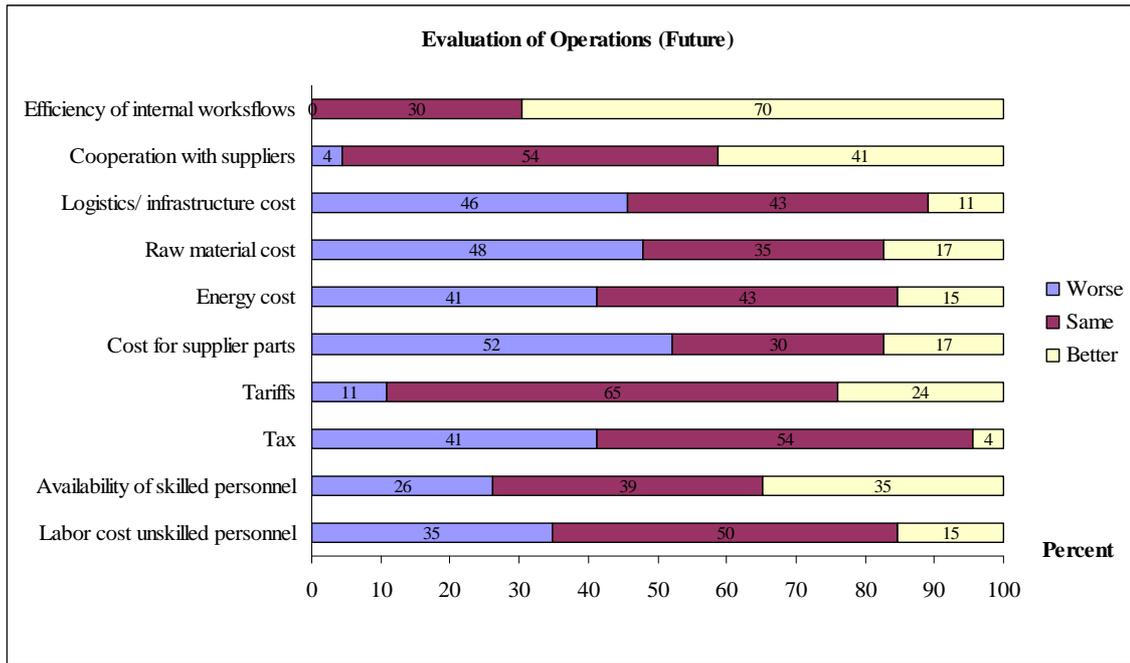


Figure 11: Evaluation of operations (future)

3.3.4 Evaluation of China sales environment (future)

In chapter 3.2.4 the current assessment of the Chinese market and the competitive environment was questioned. Despite the fact that German SMEs regard customer loyalty and price sensibility in China rather negatively from their point of view, the general picture was indeed positive. The forecast for the Chinese market and the competitive environment of most of the German SMEs supports the general positive picture of the current assessment (figure 12). Quality awareness of Chinese customers is expected to rise, the availability of market data will improve, customer demand and the sales market potential will go up. On the other hand, German SMEs expect an increase in competition and a price sensibility of Chinese customers.

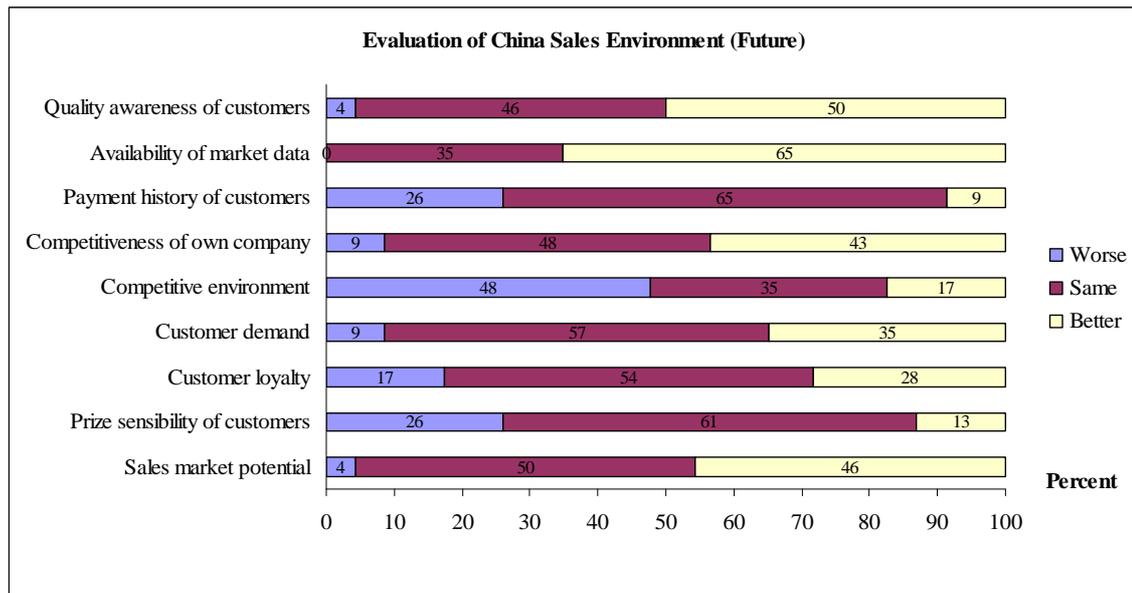


Figure 12: Evaluation of China sales environment (future)

4 Conclusion

The aim of the dissertation was to especially look at German SMEs and to outline and analyze how they organized their expansion to China, how they evaluate their current situation in China and how their economic situation will change in the future.

The theoretical chapters 2 to 5 in the dissertation served as the basis for the analysis of the questions that were to be discussed in the empirical study in chapter 6.

Within this thesis paper the theoretical findings are not presented in detail due to the fact that the real novelty of the dissertation is the empirical study and its detailed analysis in chapter 6. Especially the part of the study that focuses on the estimation of the SMEs on their current business situation in China after the world economic crisis and their estimation of future broadens the understanding of German SMEs in China on the one hand in the literature and on the other hand in the practical world.

In conclusion, the initially formulated aims of the dissertation have been achieved

1. The answers in the study are supposed to serve as information and help for SMEs that in view of the increasingly changing market conditions in China are looking for ways how they can also internationalize successfully in China or extend their competitive position.
2. The literature base on the topic of German SMEs expansion to China needed to be broadened/ extended with practical findings coming from firms which successfully entered the Chinese market and prevail within.

Despite the good results of the study it has to be pointed out that the study participants have mostly had a successful development in China and, hence, the findings tend to be too positive. Beyond doubt, companies that had to leave the market unsuccessfully due to their own faults or adverse conditions would influence the interpretation negatively.

Even though it is rather difficult to find those companies and furthermore to convince them to share their experience in a survey, those results would be of high significance to depict the overall picture of German expansion to China more realistically and more completely.

References

Baetge, J./ Kirsch, H.-J./ Thiele, S. (2011); "Bilanzen", 11. edition, IDW-Verlag, Düsseldorf .

EU SME Centre (2011); "Processing trade in China", www.eusmecentre.com/cn, 25.05.2011.

Fayerweather, J. (1975); "Internationale Unternehmensführung. Ein Begriffssystem", Berlin.

Geulen, T. (2001); „Der Eintritt deutscher kleiner und mittlerer Unternehmen in den Markt der VR China“, Dissertation Rheinische Friedrich-Wilhelm Universität zu Bonn, Aachen.

GIC - German Industry and Commerce, Shanghai (2008); "Business Focus China", Shanghai.

GIC - German Industry and Commerce/ Fiducia Management Consultants (2009); "Survey on Business Confidence in China", Shanghai.

Sachse, U. (2003); "Wachsen durch internationale Expansion", Wiesbaden.

Worldbank (2011); "Doing business 2012: Doing business in a more transparent world"

www.welt.de (2010); "Riese China spürt die Last der Wirtschaftskrise", 05.03.2010, <http://www.welt.de/politik/ausland/article6658688/Riese-China-spuert-die-Last-der-Wirtschaftskrise.html>

www.wiwo.de (2008); "China in der Krise. Tausende verlieren ihren Job", 17.12.2008, <http://www.wiwo.de/politik-weltwirtschaft/china-in-der-krise-tausende-verlieren-ihren-job-381076/>

www.wiwo.de (2009); "China: Krise verunsichert deutsche Investoren", 28.01.2009, <http://www.wiwo.de/politik-weltwirtschaft/china-krise-verunsichert-deutsche-investoren-384753/>

Publications

First publication:

“Culture of Business – Capital of Culture” international interdisciplinary conference - October 15–17, 2009

Faculty of Business and Economics, University of Pécs, Hungary

Title: “Specific external success factors for German direct investment in China”

Second publication:

2nd international conference – “New Economic Challenges”

20th – 21st January 2010

Masayk University – Faculty of Economics & Administration, Brno, Czech Republic

Title: “Specific internal success factors for German direct investment in China”

Third publication:

3rd international conference – “New Economic Challenges”

3rd June 2011

Masayk University – Faculty of Economics & Administration, Brno, Czech Republic

Title: “Future business evaluation of German SME in China”

Fourth publication:

Journal “Advances in Management” – Indore, INDIA

Title: “Business Prospects of German SMEs in China after the Economic Crisis”