

## ENTRY AND SURVIVAL STRATEGIES ADOPTED BY CHINESE SMALL SCALE ENTREPRENEURS IN SRI LANKA: A CASE STUDY

R.N. WEERASINGHE<sup>1</sup>, S.A.S.S. PERERA<sup>2</sup>

<sup>1</sup> *Senior Lecturer, Department of Entrepreneurship, Faculty of Management Studies and Commerce, University of Sri Jayewardenepura, Sri Lanka, Email: rukmal@sjp.ac.lk*

<sup>2</sup> *Department of Entrepreneurship, Faculty of Management Studies and Commerce, University of Sri Jayewardenepura, Sri Lanka, Email: shehanshanuka@gmail.com*

**How to cite:** WEERASINGHE, R.N., & PERERA, S.A.S.S. (2020). "Entry and Survival Strategies Adopted by Chinese Small Scale Entrepreneurs in Sri Lanka: A Case Study." *Annals of Spiru Haret University. Economic Series*, 20(3), 55-80, doi: <https://doi.org/10.26458/2032>

### Abstract

*The main aim of this research is to identify the factors that are affecting the success of Chinese small businesses, which are currently operating in Sri Lanka. This study followed the 'Investigation research model' with the two main research aspects, 'success of the Chinese small businesses in Sri Lanka' and 'affecting factors for the success' as the conceptual model of the research, and authors used the qualitative research approach by collecting data through in-depth interviews conducted with the Chinese entrepreneurs who are currently operating their businesses in Sri Lanka and the BOI officers who supporting to promote FDIs in Sri Lanka. For the data collection purpose, researchers used the snowball sampling technique and the unstructured, open-ended questionnaire. Thus, this research followed 'case study method' and 'conversation-based content analysis' to analyze the collected data. Finally, the affecting factors were identified under these four main dimensions viz.: statutory and legal requirements, market related factors, financial related factors and strategy of*



### Issue 3/2020

*investments. Moreover, this study concluded that the success of the businesses can be assessed by using the seven success factors under four key dimensions such as operational performance, market performance, wealth of the business and growth of the business. The findings of the study will be useful for the investors mainly from China and also other foreign investors who are planning to invest in Sri Lanka. Further, policy makers need to consider study findings for future initiatives in crafting policies in business development, trade and investment.*

**Keywords:** *affecting factors; success of the business; key success factors; Chinese small businesses in Sri Lanka.*

**JEL Classification:** D02, D2, D9

#### 1. *Introduction*

Foreign investors have recognized Sri Lanka as one of the emerging investment destinations in the world due to the facts of its unique geographical location, socio-economic condition, hospitality of the people as well as the beauty of the nature and the serendipitous discoveries. After the civil war, which was experienced for 30 years, most of the foreign investors are looking for investing in Sri Lanka expecting the growth potentiality. However, the investors should be aware of those factors that are affecting the success of their investments before they make their investment decisions in any geographical location, which is new to the particular investor. Identification of such factors will support to identify and forecast the future risks and rewards associated to the planned investment.

According to the Investment Guide published by Board of Investment of Sri Lanka (2017), it has mentioned that Malaysia, China, Hong Kong, United Kingdom, India, Netherlands, Mauritius, United Arab Emirates, Singapore, United States of America are the top 10 foreign investment nations for hosting Sri Lanka. Currently, China has been positioned as one of the most influential host country that plays a vital role in the Sri Lankan investment sector among these foreign nations. Furthermore, China has already invested in massive investment projects in Sri Lanka such as Colombo Port City project, Hambantota Port project, Shangrila Hotel project, Southern Highway project and some other industries such as plantation, tourism and construction industry. Therefore, Chinese investors have much closer attraction



Issue 3/2020

on investments in Sri Lanka with good understanding on its climate and business environment compared to those of other foreign investors.

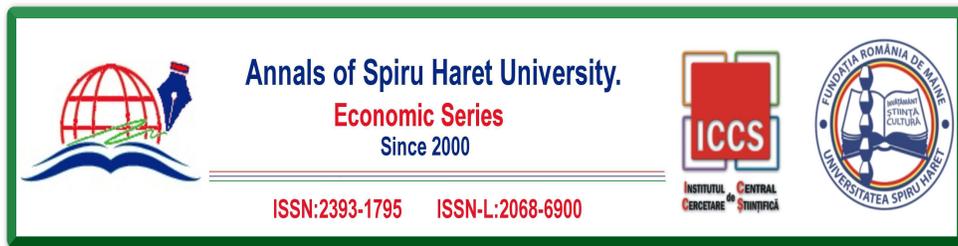
Besides concurrent situation for the Chinese investments, still individual Chinese investors who are operating businesses in Sri Lanka are facing many problems. This is due to the fact that Chinese investors are not sufficiently aware of the factors that affect the success of their business in Sri Lanka. As a result of the lack of awareness, these businesses do not achieve expected level of business performance. Therefore, potential Chinese investors should clearly understand the factors that affect the success of Chinese businesses operating in Sri Lanka, in order to make investment decisions effectively.

## ***2. Aims and the Significance of the Study***

This study focuses on the research problem of ‘What are the factors affecting the success and survival of Chinese small business in Sri Lanka’. The main research objective is ‘to find out the factors that are influencing the success of the Chinese small business in Sri Lanka paying attention to the economic, political, social and cultural conditions in the country’.

Most of the studies conducted in Sri Lanka relate to factors affecting the business concerned about the factors that are based on local businesses such as the SME sector. There is a limited amount of information in extant literature and research findings in terms of the business success factors, especially for the Chinese businesses in Sri Lanka. Accordingly, this research will fill this knowledge gap by finding the most significant factors that are affecting the foreign investments in Sri Lanka.

This study provides a clear understanding about the factors affecting the success of Chinese business investors in Sri Lanka. Further, this study also serves both the existing as well as potential Chinese businesses by providing information required to their investment decisions. Existing Chinese businesses need to realize whether their businesses are running on the correct track while achieving the expected business performance. Meanwhile, the potential investors who plan to invest in Sri Lanka need to get a clear idea about the affecting factors on the success of Chinese business investments before making their investment decisions. Further, this research study works as a promotional tool to invite and encourage Chinese entrepreneurs to start their businesses in Sri Lanka. This is a timely necessity as Chinese government is presently searching for alternative overseas marketplaces for



### Issue 3/2020

moving their existing production facilities to other countries with the purposes of increasing their production capacity, reducing the cost, capturing new markets and securing their work environment.

On the other hand, China recognizes Sri Lanka as a *'pendent'* of their new silk road initiated with the title of 'One Belt One Road' strategy. This OBOR strategy will help obtain cost advantages to Chinese investors through reducing their transport, logistics and labour costs mainly by using the Hambantota Port and the industrial zone planned nearby the Port. Apart from the Chinese investors, this study will provide the practical implications on the factors affecting the success of foreign investments in Sri Lanka.

Therefore, this knowledge can be used to develop domestic enterprises managed or planned by both Chinese and other foreign entrepreneurs, but also to evaluate investment decisions in Sri Lanka.

### 3. *Literature Review*

China-Sri Lanka business relationship has more than twenty centuries history in sharing religious and cultural values between the two countries. The historical story of this relationship begins with the arrival of Chinese seaman, *With Zheng He*, who had visited Sri Lanka several times, setting the initial foundation for the trade and cultural exchange between China and Sri Lanka [Kelegama, 2014]. Historical evidence support that there have been ongoing relations of cultural sharing and involvement in trade between the two countries. As a landmark of bilateral ties between the two countries, Sri Lankan and Chinese governments signed the Rubber-Rice pact in 1957. According to this formal agreement, Sri Lanka imported 270,000 metric tons of rice per annum from China and China agreed to import 50,000 tons of rubber per annum [Kelegama, 2014]. This agreement was one of the important active bi-lateral agreements presented in Sri Lanka.

With the success of the Rubber-Rice pact, China and Sri Lanka signed another economic and technical cooperation agreement in 1962, which ensured maritime cooperation covering the functions of all merchant ships engaged in cargo and passenger services between the two countries. As a result of progressive bilateral trade agreements between China and Sri Lanka, the two countries agreed to construct of Bandaranaike Memorial International Conference Hall (BMICH) in 1972, which was proposed in the visit of Prime Minister Sirimawo Bandaranaike to China. Meanwhile, 'Sino-Lanka Joint Commission for Economic and Trade



Issue 3/2020

Cooperation' was established in 1991 by combining the two agreements of 'Sino-Lanka Joint Trade Committee' which was signed in 1982 and the 'Sino-Lanka Economic and Trade Cooperation Committee' that was signed in 1984 to strengthen the economic relations between two countries. The committee was re-named 'Sri Lanka-China business Cooperation Council' in 1994.

Then, the former government of Sri Lanka (2005-2015) entered into main eight bilateral agreements and MOUs with China. The purposes of these agreements cover economic and technological cooperation, construction and urban development, city development, investment promotions, film and television, healthcare, agriculture and agricultural education and academic exchanges between both countries. The present Sri Lankan government is also maintaining strong relations with China.

#### ***4. Conceptualization: Affecting Factors of Chinese Business in Sri Lanka and Its Determinants***

It is difficult to find a commonly accepted list of factors that affect the success or survival of the business in foreign contexts. However, some scholars have identified several such factors. In their studies and in the researches they have been already conducted, they revealed such factors that are affecting businesses success.

Wigley, Moore and Birtwistle (2005) mentioned that the brand name, long term planning, product differentiation, financial capacity, technical skills, psychic distance, market size of the business are the key affecting factors that affect the success of a business. In addition, Zeng, Xie, Tam and Wan (2009) introduced technology level, cost control, innovation capacity, management system, internationalization business experience, financing capacity, senior managers with management expertise, labour availability, brand consciousness, expanding overseas markets as factors that affect the business. Meanwhile, Zhang, Duysters and Filippov (2012) stated that acquisitions and strategic alliances also influence operation of a business in a successful manner. Lin and Chang (2017) added that the IT infrastructures, sales teams, customer relationships, customer needs, customer support, customer satisfaction, government regulations, geographical proximity, market potential, service differentiation, overseas networks and international experience also support timely necessities for the success of the business in addition to the traditional considerations such as financial capacity, top management support, business expansion, cost-efficiency, strategic alliances and timing of internationalization indicators.

### Issue 3/2020

We can conclude, based on previous studies, that the selected factors that affect business success are those that need to be considered in this study. Accordingly, authors selected the four affective dimensions viz.: ‘Statutory and legal requirements on the business’, ‘Market related factors’, ‘Financial related factors’ and ‘Strategy of investment’ to operationalize the study. Those affecting factors are described in the sections below.

#### *Statutory and legal requirements on the business*

Lin and Chang (2017) stated that the government of a host country plays a critical role on the decision making process of business internationalization. According to the study, there are both positive and negative impacts from the government regulations (directly limit the market access of foreign firms, unfair treatment on foreign investments to protect domestic suppliers and subsidize domestic suppliers to compete with foreign businesses, tax policies).

#### *Market related factors*

Lin and Chang (2017) explained the acceptance by the customers and market potentiality determinants of a business in international market development. Furthermore, Zeng *et al.*, (2009); Lin and Chang (2017) highlighted that the sub factors: ‘Customer’ (customer relationships, customer needs, customer support, customer satisfaction), ‘Market potential’ (market size, market growth), ‘Experiences in the international markets’ and ‘Brand consciousness’ are consistent with market related factors.

#### *Financial related factors*

Lin and Chang (2017) stated that the financial support and cost efficiency are key determinants of this dimension. All the international markets have faced the problems with the inadequate financial resources to invest in the overseas market development. Foreign investments can be in main two forms as business investments and capital market and portfolio investments.

#### *Strategy of investment*

There are several strategies in investing internationally in order to mitigate the risk associated with the investment. Strategic alliances (cooperative efforts between two or more organizations), timing of internationalization (internationalization of



Issue 3/2020

business at optimum time period) are best strategies to enter into any kind of international market [Lin & Chang, 2017]. Moreover, Zhang *et al.*, (2012) have suggested that acquisitions, contractual agreements, co-production, contractor, co-marketing, joint distribution and licensing and equity alliances are also better options for the success of the international businesses.

### **Success of the Businesses and Its Determinants**

Success of a business has multiple meanings and it is associated with complexity in measuring. However, it can be addressed using multiple criteria. Ibrahim and Goodwin (1986) stated that success of a business is explained through the two main dimensions such as 'operational performance' and 'age/longevity'. Further, they explained that operational performance is measured by using only 'rate of return on sales' and simply this is net profit ratio of an organization. In addition, the study stated that the successful businesses are those operated in a longer period of time in the market compared to other ordinary businesses. Lu and Beamish (2004) stated that there are multidimensional methods to define and measure the success of a business.

### **Overall Performance of a Business**

Extant literature on the determinants of success of a business by different scholars [Ahmad & Schroeder, 2002; Jayapal & Omar, 2017; Davis *et al.*, 2007] assisted in developing the conceptual model for this study. Accordingly, the conceptual model that consists of four main dimensions for assessing the 'overall performance of the businesses' is used. Those four dimensions are viz.: 'Operational performance', 'Market performance', 'Wealth of the business' and 'Growth of the business'.

#### *Operational performance*

Ahmad and Schroeder (2000) mentioned that operational performance measures basically deal with measuring profit, productivity, unit cost, quality, delivery, flexibility and speed of new product introduction. Furthermore, these authors highlighted that they use human resource management practices such as security of the employees, hiring the new staff members, decentralizing the power through developing work teams, redesigning organizational structure, implementing a performance-based reward system, providing the extensive training as operational performances. However, these factors are associated with humans and their behaviours. Hence, it is not an easy task to measure and present as the exact values.



## Issue 3/2020

### *Market performance*

The market performance of a business can be measured by sales revenue, market share, profitability, competitive advantage, customer satisfaction and loyalty. Furthermore, the capability and ability of the business towards the market orientation also affect the market performance [Jayapal & Omar, 2017]. Moreover, Pujari (2006) stated that market performance can be measured with the market share of the business, new product development, market focused production, supplier involvement and life cycle analysis.

### *Wealth of the business*

Venkatraman (1985) explained that wealth of business is determined by the value of the assets generated by a business. Further, wealth can be classified into two main categories such as ‘assets which can be measured in monetary terms’ and ‘assets which cannot be measured in monetary terms’.

### *Growth of the business*

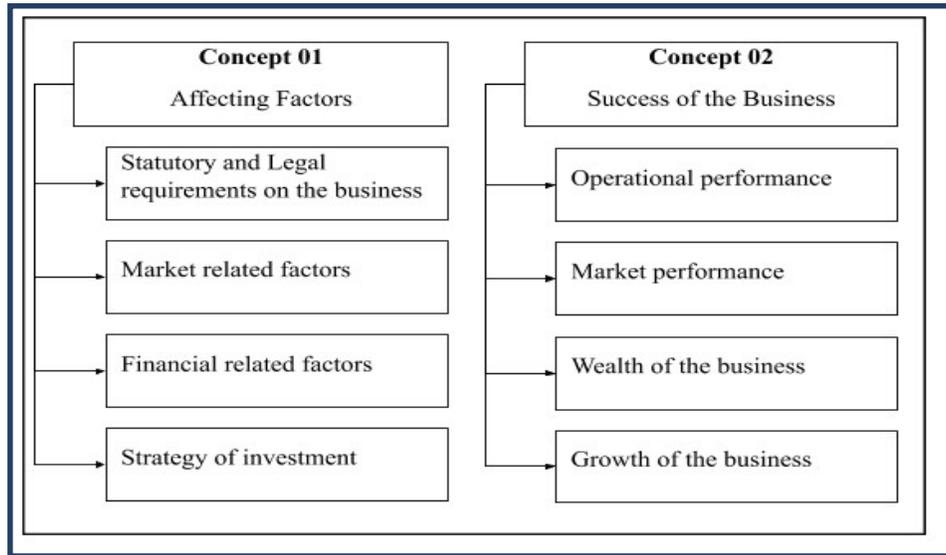
Davis *et al.* (2007) characterized the growth of business with the main two dimensions such as monetary growth and non-monetary growth. In terms of monetary growth, it is identified as the positive improvement of the sales and profits of a business, and the non-monetary growth can be explained by increasing the number of branches, employees, et cetera.

## **5. Methodology**

This research study can be identified as an explanatory study followed by qualitative research approach to identify and describe the factors affecting the success of Chinese businesses in Sri Lanka due to the fact that this study does not rely on development of a hypothesis and testing it and instead it develops some propositions to identify the available influences and affecting factors on the success of Chinese businesses in Sri Lanka.

### **5.1. Conceptual Framework**

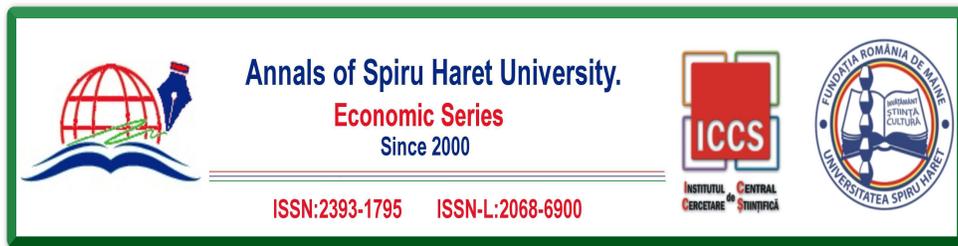
The concept developed based on the literature reviewed, as presented in the previous section. The authors identified two dimensions – ‘Affecting Factors’ and ‘Success of the Chinese Business in Sri Lanka’ – to meet study objectives and they operationalized them as depicted in Fig. 1.



**Fig. 1. Investigation Model**

Source: Compiled by authors based on Wigley, Moore & Birtwistle (2005), Zeng, Xie, Tam & Wan (2009), Lin & Chang (2017)

According to the investigation model in Fig. 1, the Concept 01 of ‘Affecting Factors’ is assessed by (i) Statutory and legal requirements on the business (Registration procedure, Economic policies applicable, Other government laws and regulations), (ii) Market related factors (Market competition, Acceptance of the product, Global recognition of the brand), (iii) Financial related factors (Investment, Loans obtainability, Cost of Capital) and (iv) Strategy of investment (Integrations, Strategic alliances, Direct investments, Industry diversification). Then, the Concept 02 of ‘Success of the Chinese businesses in Sri Lanka’ is investigated using (i) Operational performance (Profits, Unit cost, Cash flows), (ii) Market performance (Sales revenue, Customer loyalty, Market share, No. of competitors), (iii) Wealth of the business (Value of non-current assets, Value of net assets, No. of employees) and (iv) Growth of the business (Growth in sales and profits, Increased No. of branches, Increased No. of employees).



## Issue 3/2020

### 5.2. Data Collection

The target population of this study was the Chinese-owned small businesses operating in Sri Lanka. It was difficult to find a proper sampling frame as a result of the unavailability of data sources in Sri Lanka in this regard. Hence, the authors followed Snowball technique to approach the sample items. Due to the limitation confronted, it was decided to limit the sample size to five Chinese owned businesses and used case study methodology to collect data. In addition to these five Chinese entrepreneurs, authors conducted the interviews with a few officers working in the Board of Investment (BOI) of Sri Lanka to identify contents of interviews and verify study findings.

Researchers used both the primary and the secondary data for the research. Primary data was collected using the in-depth interviews conducted with the owner or the owner representative of the selected Chinese small businesses. The authors constructed the open ended, unstructured questionnaire as an interview guide by referring to the studies of Elo and Kynga (2008) and Wetherell (1998) to conduct interviews.

Further, the secondary data such as reports on economic policies, budgetary policies, investment policies and investment climate was obtained through different sources that included documents and reports of Board of Investments, Ministry of National Policies and Economic Affairs, Inland Revenue Department, Department of Registrar of Companies, Ministry of Industries and Commerce and other relevant institutions.

### 5.3. Data Analysis and Presentation

This study is a non-experimental research and is mainly focused on the performance of Chinese-owned small business in Sri Lanka and determinants associated with their performance. Based on the conceptual model in Figure 1 (Investigation Model), Case study method is used as data collection and reporting instrument in this qualitative research that presents the real situation of the businesses investigated. There were themes identified through the literature according to the conceptual model and interviews conducted to facilitate organize the responses according to those themes. This method facilitates detailed contextual analysis, and it enabled the researchers to apply a combined method of 'conversation-based content analysis'. This method is a combination of 'content analysis' and 'conversation analysis' [Elo & Kynga, 2008]. The content analysis is



Issue 3/2020

mainly used to analyze the data collected in case studies while using the predetermined themes or indicators. In the conversation analysis, it should be transcribed or summarized the collected data and analyzed in a tabulated form based on the identified themes or indicators which can give more effective output.

#### 5.4. Summary of the Data

There are five case studies, which are considered in this study. The first case presents a business, which was established in 2004 with a single ownership and engaging in providing Chinese seafood to Sri Lankans in Colombo area, Chinese community in Sri Lanka and other foreigners. The second case relates to the artificial tooth binding industry and the business was established in 1960 in Sri Lanka by the father of current owner of the business mainly aiming at local customers. The third case refers to the Chinese fabric and apparel enterprise, which was established in 1994 in Colombo. Initially, the business was providing fabric materials required for the apparel industry and now it is diversified to provide ready-made apparels as well. This business is a sole proprietorship and currently operates two main branches in Colombo with 12 permanent staff including two Chinese persons and 10 Sri Lankans.

The business explained in the fourth case engages in importing and distributing of printing equipment and it was established in 2006 as a private limited company. Business engages in importing and distributing of printing equipment around the Sri Lanka, specially the used and brand-new photocopy machines. Final case is a business in importing and distributing of automobile spare parts and it was established in 2004 as a sole proprietorship business and converted to a private limited company recently.

The interviews were conducted with the officers of BOI to make a general understanding about investment climate in Sri Lanka for migrant entrepreneurs. Based on the interviews and the discussions with the officers at BOI, there can be identified challenges and issues faced by the investors as follows.

#### 5.5. Challenge and Issues Faced by the Investors

- Chinese investors have less awareness about the role of BOI Sri Lanka.

Chinese investors do not have a proper knowledge about the formal investment procedure of Sri Lanka and who are the key organizations, institutions that promote foreign investments. BOI is a prior organization who handles the foreign

### Issue 3/2020

investments. However, unfortunately most of the investors are not aware of this key figure, what is its role, what are the services, benefits it is providing etc.

- Investors are dealing through informal connections such as friends, ministry and other informal ways.

Chinese and other foreign investors do not come through the formal BOI procedure for their investment purposes because they consider that BOI investment procedure is too expensive and time-consuming. Therefore, Chinese investors chose informal strategies such as to start-up the business with Sri Lankan friends, work out with unnecessary politicians and ministries. Finally, those investors are being fed up with those informal strategies, relationships and leave the country without investing.

- Sri Lankan government cannot be biased or discriminate any country because of the restrictions of WTO.

Sri Lanka does not have any China specialized investment agreements or policies and BOI neither discriminates nor favours China under the existing BOI investment policy. According to the WTO rules, any member country cannot discriminate against another country and Sri Lanka is a member nation of WTO.

- BOI may take 2-3 months to give the final approval with the completion of total project.

After completing the BOI investment application form set by Chinese investor, the BOI needs to check and evaluate the information provided by the investor. BOI has to send those documents to other investment related government organizations to get their approvals for this checking purpose. Thus, it is common for the process to take two to three months to fully complete the procedure.

- Effects of international politics, pressure on investment decisions of investors.

When Sri Lankan government provides an investment opportunity to one country, other favourable countries may influence the future investment options in Sri Lanka. Some countries are directly affecting the internal problems of Sri Lanka.

- Sri Lanka's political instability.

Investors have doubts about investing in Sri Lanka due to the instability of the political situation of the country. It is because, when a political party or the government is changing, all the policies, rules and regulations are changing according to their political vision.

- Impact on sustainability caused by Chinese projects.



Issue 3/2020

Chinese natural environment is being polluted day by day due to the typical manufacturing factories established in China. Because of this reason, most of the Chinese manufacturers are interested to move to other countries and invest rather than stay in China with this condition. Therefore, BOI and Central Environmental Authority in Sri Lanka are more concerned about the environmental sustainability perspectives of the investment and the impact of the businesses on the environment.

The other data collected on each case are categorized in the next sections aligning with the study framework suggested in Figure 1 (Investigation Model).

### 5.6. Dimension 1 – Affecting Factors of the Chinese Business in Sri Lanka

#### *Statutory and Legal Requirements of the Business*

All the five respondents mentioned that the *business registration procedure* of the sole proprietorship business is more complex than registering a business as company and it is a time-wasting process in provincial government offices in Sri Lanka. They went on to say that *Sri Lanka's tax policies* are more complex than in previous years, due to various tax debts, such as income tax, value added tax (VAT) and national building tax (NBT). Further, they pointed out that they always need to maintain the balance between the 1:5 foreign employees and local employees in accordance with *the labour policy of Sri Lanka* regarding the employment of foreign labourers.

Then, especially the third respondent said that he experienced a complexity of registering the business as sole foreign owner, but again he registered his business as a sole owner due to higher costs (fees of the qualified secretary) involved with the registration of a limited liability company. However, the fourth and fifth respondents both revealed that the process of *obtaining an import license* is very laborious, especially for bulk stocks.

#### *Market Related Factors*

*Regarding the market competition*, the first respondent explained that the competition available in the Sri Lankan market does not have a large impact, as they produce higher quality products than others. Moreover, the third respondent described that market competition is critical, but they are providing products with different qualities for low prices when compared to the local competitors in Sri Lanka. The second, fourth and fifth respondents also experienced the high competition in Sri Lanka as a result of the local competitors with their different brands.

### Issue 3/2020

*In relation to the acceptance of the product*, all five respondents indicated that the quality of the products is very important, and Sri Lankan customers are looking for high quality products at a low price. Therefore, all companies maintain lower price schemes than competitors, which are based on low unit cost of production.

*According to the globally recognized brand*, the first, third, fourth and fifth respondents that participated in the interview said that globally recognized brand supported them to capture new markets with high quality products at reasonable price. In fact, the second respondent mentioned that their brand is not globally recognized. However, Sri Lankan people have a positive intention towards the slogan 'Chinese'. Therefore, even without a globally recognized brand, a business can achieve success using this branding.

#### *Financial Related Factors*

The first and second respondents stated that they started their business using their own funds, but all five respondents do not have a favourable opinion about the procedure for obtaining a loan from Sri Lankan banks due to the complexity of obtaining it, which is time consuming and involves a higher interest rate on business loans. At the same time, the second respondent's belief is that it allows independent decisions to be taken and hence, is debts free. Despite these notions, the fourth respondent mentioned that there is a high risk associated with a high initial investment. Therefore, he does not like to invest higher amounts of money in the business. Furthermore, he contracted two leases for the purchase of two lorries, but stated that the interest rates associated with the leases are higher than normal business loans. The fifth respondent believed that the high initial investment can lead the business to success, and he pointed out that interest rates on business loans are comparatively higher than those on personal loans.

#### *Strategy of Investment*

The first, second and third respondent applied the 'Direct investment strategy' to start their business due to the security of their business secrets, easiness of starting the business and continuing the business. Then, the third respondent especially mentioned that he does not like strategic alliances and mergers due to the probability of occurring conflicts in the future, but the fourth and fifth respondents used both direct investments and strategic alliance strategies to obtain the business premises. The data described in above sections can be summarized as in Table 1.

**Table 1. Affecting Factors for Foreign Investments**

Dimension	Case One	Case Two	Case Three	Case Four	Case Five
<b>Statutory and legal requirements</b>	Complexity and time wastage in registration process demotivate investors.	Registration process is complex and has to fulfil many requirements. There are language barriers, especially for foreigners who do not speak English.	Secretarial fees are higher for companies and process of registering a company is complex. Language barriers have appeared in registration process as well.	Company registration procedure is much easier than registering a single owner business or partnership due to the availability of third parties to handle the registration process. But language barriers appeared with them as well.	Private limited company registration is easier than registering another form of business. There are agents who are handling the overall registration process by saving the business's time and money.
	Tax policy is much complex including income taxes, NBT and VAT.	High personal income tax ratio up to 24%, therefore, businessmen are motivated to hide their real income.	Taxes and duties on imports are gradually increased year-by-year; higher income taxes.	Different types of taxes are available on imports: VAT, NBT, PAL, SESS addition to the income tax.	Import taxes and income taxes affect more the company's profits.
	Labour law is highly affecting amongst the other regulations. Have to maintain the 1:5 ratio between foreign and local	Inability to hire Chinese employees without having several worthless local staff.	Difficult to employ Chinese people without maintaining the 1:5 ratio. The import license required for imports of materials is a	Import license is required for the import process and had to face language barriers when obtaining the license.	Import license is required for the import and he faced problems when obtaining it as a foreigner. Employing foreign people is difficult due the requirement of keeping the

Issue 3/2020

	employees.		little difficult to obtain.		1:5 ratio.
<b>Market related factors</b>	Market competition is irrelevant when the business in providing quality goods.	Competition from the local competitors is considerable issue. Language barriers and trust are the main reasons that make customers move to local businesses.	Competition from local competitors is the main problem due to the availability of different qualities at low prices.	High competition is available due to the availability of different brands in the market from different countries.	High competition is available in the market from local businesses in the same industry. Trust of the retail customers leads the business into success which can minimize the impact of competition.
	The price and quality of the product were identified as the main factors of the market. Loyal customer base is needed.	Sri Lankans are looking for high quality goods for low price. Offering the goods at lower prices as much as possible.	Low prices are the main strategy that can be used to attract customers from Sri Lanka and the demand for clothing is determined by their culture, especially during the festival seasons.	Sri Lankans are looking for low priced goods. Therefore, providing durable products for low prices is the main strategy used to attract the customers.	Have to allow credit periods for commercial buyers as well as the discounts. Durability of the goods is much important when attracting the customers.
	Even without a global recognized brand, a business can reach success.	Not connected to an international brand, but high aged brands have good reputation in	Sometimes 'Made in China' brand negatively affects on the sales revenue of the business due	Global recognition of the brands is playing critical role behind the success of business via increasing	In this industry, globally recognized brands play critical role behind the success of the business via

		Sri Lanka.	to the intention of customers.	customer satisfaction as well.	customer satisfaction.
<b>Financial related factors</b>	Says single-person investments have been made, but high-value investments can expand the business at a higher rate.	Ownership has been received from father, no such investment being made. Believes that the way of doing the investments decides the success of the business.	Higher initial investment was used to open a branch in Colombo and to import material. High investments can gain high returns.	High risk is associated with the higher initial investment. However, strong investment can guide a business towards success.	Higher investment can push the business into better position. However, the investment should be properly managed by an experienced team.
	Loan obtaining process is much complex, which limits the business expansion.	Bit difficult to obtain loans for foreign people, but they must be obtained in order to improve the facilities of the business.	Obtained loans to expand the business by opening another branch in Colombo. Loan process consumes much time.	Bank loans have been obtained to expand the distribution channel of the business with 2 vehicles, which helps increase the customer satisfaction.	The loan process is a bit complex for foreign-owned businesses, but loans help businesses expand their activities.
	Interests rates are higher for business loans.	Obtained loans are personal loans due to a high interest rates of business loans.	Interest rates are considerably higher, but they do not affect too much negatively.	Interest rates of business loans are comparatively higher than for personal loans.	Comparatively high interest rates are applicable for the business loans.
<b>Strategy of investment</b>	Direct investment strategy has been used due to the easiness of	Direct investment made by the father of current owner of the	Direct investment has been made in business.	Monetary investments have been made as a single person investment.	Initial investment has been made as direct investment.

**Issue 3/2020**

	decision making.	business.			
		Marriage of owner’s father can be identified as a strategic alliance used to get the business premises.	Currently, the business is diversifying products into the same industry.	Engaged a strategic alliance agreement with a Sri Lankan person to obtain the storing and showroom facility.	Acquired a retail shop in the same industry as a forward integration.

**5.7. Dimension 2: Success of the Chinese Businesses in Sri Lanka**

*Operational Performance*

All these five interviewed Chinese entrepreneurs explained that they are earning profits and cash flow at a satisfactory level by maintaining low cost structure and high quality in their production process. At the same time, the third, fourth, and fifth respondents mentioned that they are maintaining their cost of sales through the direct imports from China, Japan and the USA.

*Market Performance*

The five Chinese business owners who participated in these interviews said that their sales revenue is at a satisfactory level and their profits are mainly based on loyal customers, but do not maintain a system of identifying and retaining customers and loyal competitors. As a result, companies have no idea about their market share, and the level of competition is irrelevant to their business. Further, the third, fourth and fifth responders indicated that they are facing this competition by using the strategy of low cost and high quality.

*Wealth of the Business*

All five interviewed Chinese entrepreneurs have their business premises in Colombo, and the third responder has two branches in Colombo 10 and in Colombo 01. Then, in addition to the business premises, the fourth respondent has two lorries. Therefore, all these Chinese entrepreneurs have positive value of net assets, but this positive value of net assets is not equal to the value of total assets due to some loan agreements. On the other hand, the first responder’s business has

a total of 30 employees including five Chinese employees, eighteen permanent employees (local) and seven temporary employees (local), and the second respondent's company has five permanent employees, all of whom are local. Next, the third respondent has 12 permanent employees including two Chinese people and ten Sri Lankans and the fourth and fifth respondents have seven and five permanent employees respectively.

*Growth of the Business*

According to the growth of sales and profit, all five respondents emphasized that they have positive profit growth and sales revenue, but compared to the last 3-4 years it has been considerably lower. Nevertheless, in terms of growth in the number of branches, only the third respondent opened a new branch in Colombo, and others do not expect to expand their business. However, 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> respondents increased their permanent employees up to twenty-three, five, twelve, three and seven employees respectively. Table 2 below has presented the data discussed in this section in a tabulated format.

**Table 2. Factors Determine the Success of a Business**

Dimension	Case 01	Case 02	Case 03	Case 04	Case 05
<b>Operational performance</b>	The unit cost of production is much higher due to the supply of high quality products, and businesses maintain positive profits and cash flows.	The company keeps the unit cost low with an acceptable quality of their products, which determines the business to keep positive cash flows and profits.	Cost of sales in fabrics and unit cost of apparels are maintained at a lower level. Cash flow of the business was bit negative in 2017. However, it has profit.	The unit cost of products is maintained at a lower level with high quality. Cash flows and profits are favourable to the business. But cash flows are not much equal to the	Due to the lower purchasing cost, cost of sales is maintained at lower level and generating both positive cash flows and profit.

Issue 3/2020

				profits.	
<b>Market performance</b>	Made the impact of competition irrelevant by providing high quality goods to the customers and having loyal customer base. Therefore, business is generating sales at their satisfactory level.	Companies are successfully facing high market competition from local companies, offering products at lower prices and generating sales at their satisfactory level.	Business is facing the competition using the price strategy and it can supply bulk stocks within shorter period via direct imports. Maintains sales at their satisfactory level.	The company generates satisfactory sales due to the company's ability to face competition based on the low price of high quality products.	Company is generating sales revenue at a satisfactory level due to lower price scheme comparing with the competitors and the company has a loyal customer base of retailers of products.
<b>Wealth of the Business</b>	The company owns a business premises in Sri Lanka's main commercial city and has 23 permanent employees. Moreover, the value of net assets is much equal to the value of assets due to the unavailability of loans.	The company has its own business premises in Colombo and 5 permanent employees. Further, the value of net assets is positive but not much due to the availability of loan repayments.	There are two business premises owned by the business. One is still under a loan agreement and has 12 permanent employees. Value of the net assets is positive, but it's around 50% of total assets value due to the	Only three local employees are working and have their own business premises. Value of the net assets is positive but not much greater than the liabilities due to the availability of bank loans. 2	Seven employees are working and 2 motor lorries are owned by the business. Value of the net assets is positive but not much equal to the value of assets due to the availability of bank loans.

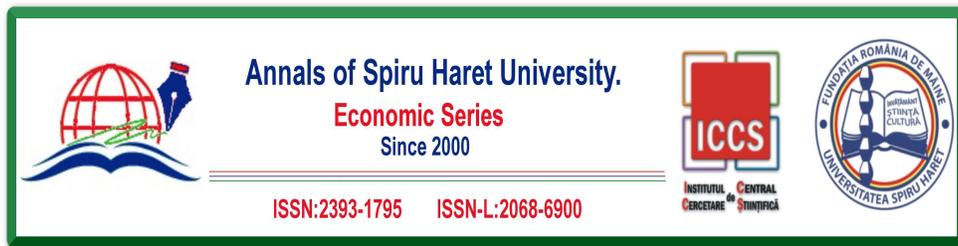
			loan repayments.	motor lorries are owned.	
<b>Growth of the business</b>	Value of the non-current assets is increased and profit growth is at a positive rate. The number of employees has increased up to 30 over the last 14 years.	Sale and the profits are gradually increasing year by year, as well as the value of non-current assets.	Sales, profits and the value of fixed assets have increased over the years, and the number of permanent employees has increased to 12 in 2018.	Sales, profits and value of non-current assets have increased, but in a lower percentage over the last 3-4 years.	The company has a growth rate in all sales, profits and non-current assets, but the growth rate has declined over the past 3-4 years.

In addition to these data, apropos of both the ideas of BOI and Chinese investors, Chinese entrepreneurs due to a language barrier stated that currently Sri Lanka does not have political and economic stability. Furthermore, the BOI mentioned that Chinese investors follow informal investment methods, rather than directly visiting the BOI with their business proposals.

#### 6. Discussion of Findings

Both the findings and discussion of the research are presented based on the two concepts of the investigation model used in this study: (i) Concept 01 – Affecting factors of Chinese small business and (ii) Concepts 02 – Success factors of the business. Further, findings reveal the identified factors effect on the success of the Chinese small businesses. On the other hand, the discussion section of this study is supported by the findings recognized in the previous literature and by the findings of other researchers.

According to investigated affecting factors, the authors of this research found that (i) the flexible, quick and easy business registration procedure and import licence obtaining process without any language barrier between Chinese investors



### Issue 3/2020

and local parties, (ii) reasonable rates of income taxes, value added tax (VAT), nations building taxes (NBT) and Cess tax and (iii) favourable labour law requirements in terms of FDI are positively affecting the success of the business under the statutory and legal requirements of Chinese small business in Sri Lanka. Then, (v) the lower market competition, (vi) acceptance of the product via low price and high quality, (vii) availability of globally recognized brands in the business and (viii) business ability to create a new brand towards the market are recognized as the market related factors that are positively affecting the success of Chinese businesses in Sri Lanka.

Further, (ix) a higher initial investment with proper management, (x) low complexity in loan obtaining process without language barriers and (xi) low interest rates on loans and lease agreements can be identified as positive financial conditions, which are affecting the success of the Chinese small business in Sri Lanka. Moreover, (xii) the business's ability to integrate upgrading the business, (xiv) positive attitude and willingness towards the strategic alliances, (xv) owner's ability of making correct decisions due to the direct investments can be presented as the affecting factors, which positively affect the success of Chinese business under the strategy of investment.

Regarding the Concept 02 – Success of the business, the (i) positive cash flows with profits and (ii) lower unit costs are favourably affecting the success of the Chinese small business in Sri Lanka under the operational performance. Then, (iii) higher sales revenue, (iv) loyal customer base, (iv) high market share and (v) low number of competitors belong to market performance conditions; there is also a positive effect on the success of the Chinese business in Sri Lanka. Next, under the conditions of business wealth, (vi) higher valued non-current assets with positive net assets value is favourably impacting the Chinese businesses in Sri Lanka. Finally, (vii) growth in sales combined with profits has revealed the positive impact on the Chinese businesses in Sri Lanka relating to the growth condition.

In addition to the above findings, the authors of this study found language barrier as the main issue faced by Chinese investors in Sri Lanka, and this is negatively affecting the success of their investments due to the lack of communication with the Sri Lankans. Moreover, in practice, when starting a business in Sri Lanka, many Chinese investors rely on informal connections, such as friends, ministry and other informal ways, rather than contacting BOI directly. As a result, Chinese investors are less aware of the role of BOI (the strongest



Issue 3/2020

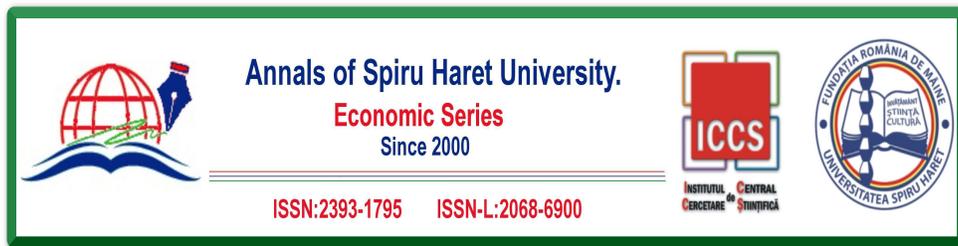
organization in terms of foreign investment) in Sri Lanka, and this has adverse effects on foreign affairs.

### **7. Recommendations and Implications**

According to the above findings, relevant Sri Lankan government organizations should pay attention to simplifying the procedures for registering businesses and obtaining import licenses, while reviewing fiscal policies, which have severely affected the recruitment and satisfaction of foreign investors. In particular, Sri Lanka's fiscal policy should be modified by a logical introduction of logical tax rates, introducing simple and stable systems. Further, government should minimize the restrictions available on foreign labour employment because for most of the time foreign businesses are not able to get the expected output from the local employees mainly due to the language barriers and skill shortages. Meanwhile, in order to solve the language barrier, the government can promote Chinese language learning in the school and university system, while helping investors, providing Chinese language partners and employees, as well as language interpreters. Moreover, the government should formulate policies for motivating the foreign entrepreneurs to develop their private businesses in order to contribute to increasing the national production of the country, employment opportunities and government income.

Since the findings of the study are underpinned by previous literature and discoveries of scholars, it suffices to state that recommendations can be made to the Chinese investors. Chinese entrepreneurs need to analyze the Sri Lankan market, customers and statutory obligations before investing in Sri Lanka. For this purpose, they can refer several academic and industrial researches, conduct interviews with the Sri Lankan people, local entrepreneurs and especially the existing Chinese investors in Sri Lanka. Based on this analysis, the potential Chinese investors should decide the feasibility of starting the new business ventures in Sri Lanka. However, Chinese entrepreneurs can get many benefits if they can invest in the untouched markets or industries in Sri Lanka.

Apart from that, the existing Chinese entrepreneurs in Sri Lanka should provide more innovative products and services to the Sri Lankan market considering both the Chinese and the Sri Lankan culture. Furthermore, the Chinese entrepreneurs need to use different marketing strategies such as targeting the niche market segments and introduce new competitive strategies rather than just depending on



### Issue 3/2020

the existing customer base and competing with only the price and quality. Consequently, they should promote their business among the local and foreign customers by using the promotional and advertisement strategies to make people aware of these trends. On the other hand, Chinese entrepreneurs who are currently operating in Sri Lanka should further expand their businesses in the different urban cities in Sri Lanka. It is possible to get effective collaborations from these expansions and can get support from local entrepreneurs or people in Sri Lanka.

#### **Limitations of the Study**

This is an initiative research study that was conducted within Sri Lanka to identify the factors affecting success of the Chinese small businesses in Sri Lanka. As a result of that, the main limitation confronted by the researchers is the lack of the literature relating to this research area. The researchers encountered difficulties in pursuing the predetermined study framework. Therefore, they used the snowball technique to find literature through the list of references in the articles. Furthermore, there was a language barrier between the group of researchers and the owners of Chinese small businesses especially in the data collection process. Therefore, researchers used an online translator to clarify the misleading matters. On the other hand, most Chinese entrepreneurs in Sri Lanka were reluctant to participate in this study because of their belief in confidentiality threat, the leak of information to others, and the unavailability of ready-made information.

#### **Conclusion**

The purpose of this study was to identify the factors that are affecting the success of the Chinese small business in Sri Lanka. This research followed the style of qualitative research with the “Investigation Model” as a conceptual framework. Based on the available literature, there were large numbers of affecting factors in this research without agreements of authors on specific study frame. As a result, this research tested the main four affecting factors, namely Statutory and legal requirements of the business, Market related factors, Financial related factors and Strategy of investment. On the other hand, the Success of the businesses was measured by four determents viz, Operational performance, Market performance, Wealth of the business and Growth of the business.

Following the research design, the authors collected the primary data through interviews with the five Chinese entrepreneurs in Sri Lanka and found that the

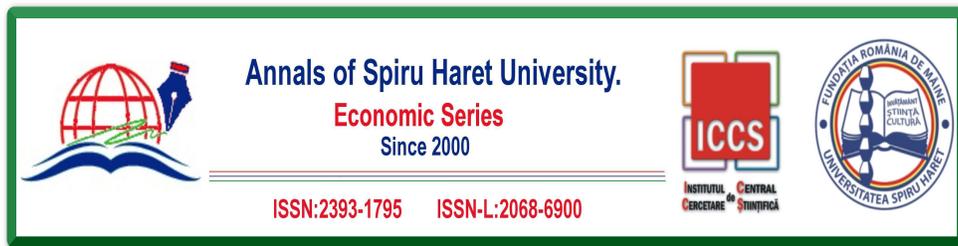


Issue 3/2020

pointed out indicators: statutory and legal requirements on the business, market related factors, financial related factors and strategy of investment, are acting as most important affecting factors on the success of the Chinese businesses in Sri Lanka. Furthermore, the authors identified that language barrier is also a major issue faced by the Chinese entrepreneurs. This study finding suggests that Sri Lankan government can create required infrastructure to attract Chinese individual investors to Sri Lanka. In particular, the simplification of statutory and legal requirements is a key requirement, paying attention to the introduction of professional Chinese language courses for people who are committed to supporting Chinese investors in Sri Lanka. Further, these identified affecting factors should be considered in policymaking initiatives to attract the foreign investors in Sri Lanka. Chinese entrepreneurs must also be market-ready with a sufficient understanding of the market, culture, finance, politics and legal environment in Sri Lanka. Moreover, this study sought to develop a study framework by reviewing the literature and drawing conclusions for the development of the future hypothesis in studies related to migrant entrepreneurs.

### References

- [1] Ahmad, S. & Schroeder, R.G. (2000). 'The Impact of Human Resource Management Practices on Operational Performance: Recognizing Country and Industry Differences.' *Journal of Operations Management*, 21, 19-43.
- [2] Davis, S.J., Haltiwanger, J., Jarmin, R., & Miranda, R. (2007). 'Volatility and Dispersion in Business Growth Rates: Publicly Traded versus Privately Held Firms.' *NBER Macroeconomics Annual* 2006, 21, 107-180.
- [3] Elo, S., & Kynga, S.H. (2008). 'The Qualitative Content Analysis Process.' *Journal of Advanced Nursing*. 62, (1), 107-115.
- [4] Ibrahim, A.B., & Goodwin, J.R. (1986). 'Perceived Causes of Success in Small Business.' *American Journal of Small Business*, 11, 41-50.
- [5] Jayapal, P., & Omar, A. (2017). *The Role of Value Co-Creation on Brand Image: A Conceptual Framework for the Market Performance of SMEs in Malaysia*. Handbook of Research on Small and Medium Enterprises in Developing Countries.
- [6] Kelegama, S. (2014). 'China-Sri Lanka Economic Relations an Overview.' *China Report*, 50 (2), 131-149.
- [7] Lin, H.F., & Chang, K.L. (2017). 'Key Success Factors of International Market Development: An Empirical Study of the Taiwan Bulk Shipping Industry.' *Maritime Business Review*, 2(2), 79-98.



### Issue 3/2020

- [8] Lu, J., & Beamish, P. (2004). 'International Diversification and Firm Performance: The S-Curve Hypothesis.' *Academy of Management Journal*, 47. Retrieved on 21.07.2019 from <https://doi.org/10.2307/20159604>
- [9] Pujari, D. (2006). 'Eco-innovation and New Product Development: Understanding the Influences on Market Performance.' *Technovation*, 26, 76-85.
- [10] Research and Policy Advocacy Department. (2017). Investment Guide, Board of Investment of Sri Lanka.
- [11] Wetherell, M. (1998). 'Positioning and Interpretative Repertoires: Conversation Analysis and Post-Structuralism in Dialogue.' *Discourse and Society*, 9(3), 387-412.
- [12] Wigley, S.M., Moore, C.M., & Birtwistle, G. (2005). 'Product and Brand: Critical Success Factors in the Internationalization of a Fashion Retailer.' *International Journal of Retail & Distribution Management*, 33(7), 531-544.
- [13] Zeng, S., Xie, X.M., Tam, C.M., & Wan, T.W. (2009). 'Relationships between Business Factors and Performance in Internationalization: An Empirical Study in China.' *Management Decision*, 47(2), 308-329.
- [14] Zhang, Y., Duysters, G., & Filippov, S. (2012). 'Chinese Firms Entering Europe: Internationalization through Acquisitions and Strategic Alliances.' *Journal of Science and Technology Policy in China*. 3(2), 102-123.