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HOW P2P FINANCE PARTICIPATES AS THE SOLUTION OF SME FINANCING DIFFICULTY IN CHINA: A CASE STUDY

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Abstract

SMEs finance difficulty has been a big problems in China for decades while significant solutions are still absent. However, in recent years, P2P finance appears as an innovation of financial industry, it has been widely accepted by the financial market worldwide. Its capability of connecting private capital to specific cash demand is considered as a powerful strength to solve many financial problems. Thus, the question how P2P finance would be as a solution to the SMEs' finance difficulty arise. Based on the existing knowledge, this paper designed and implemented a case study of seven SMEs which have used P2P finance as their external financial resource. As a result, this study discovered the main strength of P2P finance, the biggest concerned from the SMEs towards their finance difficulty, and suggestions for improving the P2P finance industry in China.

Key words: SMEs' finance difficulty, knowledge – intensive firms, Chinese state-owned banks, P2P finance.

ABSTRACT

As dificuldades financeiras das SMEs tem sido um grande problema na China durante décadas enquanto soluções significantes continuam ausentes. Entretanto, nos últimos anos P2P finance aparece como uma inovação na indústria financeira e vem sido altamente aceita pelo mercado financeiro ao redor do mundo. Sua capacidade de conectar capital privado a uma especifica demanda de dinheiro é considerada como uma poderosa força para resolver muitos problemas financeiros. Assim, a questão de como P2P finance seria uma solução para os problema de SMEs surgem. Baseando-se no conhecimento existente, esse trabalho designa e implementa estudos de caso de sete SMEs que usaram P2P finance como seu recurso financeiro externo. Como resultado, este estudo descobriu as principais forças do P2P finance, as maiores preocupações das SMEs no sentido de sua dificuldade financeira e sugestões para melhorar a industria do P2P na China.

Keywords: dificuldade no SMEs finance; conhecimento – empresas intensivas; bancos chineses estatais; P2P finance.

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Chapter A. Introduction

P2P finance, which is a successful application of internet technology, has been proved to have the significant ability connecting private capital to individuals or organizations, because of this, P2P finance become an effective approach of solving the financing difficulty of SMEs. The dramatic expansion of both the number of P2P finance companies and their clients can explain very well how much the capital market needs them. However, there isn’t many research that study this P2P finance industry and the influence it brings to the SMEs. China has the largest group of SMEs in the world, if P2P finance can finally solve the problem of SMEs’ financing in China, the rest of the world can be benefited implanting the similar models and solve similar problems too. Therefore, deeper and more specific understandings about the P2P finance industry in China are what the academic world requires to further develop the function of this special financial channel. Motivated by this reason, several cases of P2P finance companies funding the SMEs are chosen to be researched, the outcome will be closed related to the real business world and helpfully provides positive effects to both SMEs and P2P finance industry

Motivated by the strong curiosity and doubts, this research was launched trying to discover deeper knowledge about how P2P finance is doing regarding solving the SMEs’ financing difficult from an objective perspective. Because most of the essays and statements that appeared in the magazines and internet have the purpose of advertising behind, which makes them less credible on concluding the result. Thus, dialectical discussions will be made based on the finding of this research, and suggestion to both SMEs and the P2P finance industry will be recommended.

This paper started with a literature reviews about the general financing difficulty of SMEs in China. Recent research papers and statements have been selected in order to have the newest data, according to the result, this difficulty does exist extensively, however, it is also interesting to find some paper from 1990s which has very similar result as the recent ones, which means, the problem of SMEs finance in China is based on some rooted reasons from the banks, polices, credit system and the SMEs themselves. Then the paper introduced the history and the main business models of P2P finance in China. By having all this information in mind, a research target has to be selected and studied to fulfill the purpose. In order to lower the relevance between all the reasons behind the finance difficult of SMEs, a group of special SMEs called knowledge – intensive firms has finally been chosen which basically base on two main reasons, firstly they are more health in terms of the nature of their business and internal management, which can be able to eliminate the reasons from SMEs themselves; secondly they are estimated to have even worst situation in finance according to the lack of tangible asset which magnify the problem. At the end, a qualitative research has been designed and implemented. Some interesting findings, which are different from the literature reviews and the common perspectives, has been found, and discussions and suggestions to the business world would be made based on them.

Chapter B. Literature reviews

Part 1. The difficulty in SMEs finance.

SMEs financing is considered to be a near-universal problem all over the world, Gert Wehinger[1] (2013) had mentioned the financial difficulties in developed counties like the United State was taken a negative effect from the crisis which was because the main financial channel --- the banks were reducing the loans. Meanwhile, for the weaker economies in Europe, for example Greece, the problem of obtaining bank loans is aggravated for some of the weaker economies, even though policy support helped to overcome many of financing constraints faced by SMEs. SMEs in these countries are encountering specific difficulties in accessing finance owing to the fragmentation of the financial and banking markets.

In China, where the financial scoters are not as advanced as the developed counties, this problem is rather obvious. The financing predicament currently faced by SMEs constitutes a great bottleneck for their development. Banks are reluctant to lend to them, mainly due to the lack of collateral and their poor capability in pricing risk (Cheng Xiaoliu, 2009). The characteristics of the banking system in emerging markets frequently inhibit SME lending, sometimes banks may also be subjected to interest rate ceilings that make it difficult to price credit to SMEs in order to fully reflect the risk of lending to SMEs (Zhe Guichang, Yang Xujun, 2010).

In the perspective of the SMEs are facing many troubles regarding financing, most of the researchers are focusing on four main factors. The following table picks up a few papers that represent and show the main reasons that was fund by the researchers and the solutions they proposed.

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[1] Gert Wehinger is a senior economist in the Financial Affairs Division of the OECD Directorate for Financial and Enterprise Affairs.

Author	Date	Reasons found	Solutions
Liu Xiangfeng	2008	1. Lack of competitiveness and intellectual property rights. 2. Poor cooperation between foreign companies and state-owned enterprises. 3. Lack of preferential policies and advantageous labor costs that are disincentives to foreign companies. 4. Limited financial channel. 5. Weak local government service system.	1. Expand the list of SME financing tools to include fiscal, banking, security market, commercial credit, and private financing sources. 2. Build policy bank of SME. 3. Develop a credit guarantee system. 4. Encourage utilization of foreign direct investment and expand external markets. 5. Develop a second board market. 6. Provide a finance and taxation support system for the promotion of SMEs' technological innovation.
Chen Xiang	2007	1. SMEs have difficulty assessing to credit. 2. Banks are reluctant to grant credit.	1. Banks need to have special measures for supporting SMEs. 2. Regulate and utilized the informal financial channels.
Jian Hu	2013	1. Saturation of traditional financial channels. 2. Downturn in business cycle which represents the poor performance of SMEs.	1. Build a credit system based on the experience from developed countries such as US and Japan. 2. Faster and deeper develop the SME securitization in China.
Zhe Guichang	2010	1. Banks as a group of the main source of external finance for SMEs have not been entire efficient and supportive towards SMEs. 2. The tax and regulatory framework may encourage firms to operate opaquely.	1. Banks should be prepared to expand credit to the SME sector. 2. Banks should develop a strategy to invest considerable resources in seeking to overcome information asymmetry problems by using credit scoring models and other sophisticated techniques to discriminate between high and low-risk borrowers.

1.1 The defects of SMEs themselves.

Most of the SMEs in China appeared in the last two decades, researchers divided the history of these SMEs' development into three phases --- the expansion phase (1978 – 1992), the reform phase (1992 – 2002) and the fast growth phase (2002 – now). The contribution what SMEs make to the Chinese economy has been proved by the absolute numbers, most of the papers regarding SMEs are started with sentences to mention that SMEs take 99% of the total number of enterprises, SMEs creates 75% of the new jobs, et cetera (Timothy sham, 2014). However, this large group of companies does not show their strength individually. Compare with the large companies, they have very few internal assets which makes them unstable in the intensive economic environment.

Although, some researches point out the SMEs in China are gaining great competition by focusing on creating new ideas and making them into innovations (Liu Xiangfeng, 2008). MasterCard Worldwide (2014) declared that the SMEs in China have been the main contributors to more than 66% of the new patents, but compare with the SMEs in Germany and other global powerhouses, they are lacking the ability to transform intellectual asset into their products or services. Based on the global benchmarks, Chinses SMEs are facing many obstacles that requires to be remove in order to improve access to working capital and financial supply chain efficiency for SMEs.

Also, because of the rapid expansion of the Chinese economy during the last twenty years, many SMEs had been overestimating their future. Researchers can always be able to find out some radical investments done by the entrepreneur which created great financial deficit in long term. The lack of capital and the heavy debt create a very weak capital chain in SMEs, which will cause huge damage to their business once it breaks. Due to individual enterprise’s weakness in scale and limitations in personnel, information, management and especially financing, the development of these enterprises do not go smoothly (Yan Zhong Wang, 2004). Meanwhile, many SMEs do not have enough knowledge to create a complete financial system or make rational financial decisions. Outsourcing the financial department or hiring relatives who are amateurish in finance to handle the account are very common in SMEs. Poor capability in managing finance can be dangerous and many important financial risks will be “invisible” under this situation, for instance, aimlessly investing in fixed assets and underestimating the function of cash flow, cannot systematically avoiding tax or even perform tax evasion.

Moreover, the competitiveness of SMEs does not seem to be reliable regarding their technology, employers and management. For example, in manufacturing industry, SMEs rarely have innovations or opportunity to participate in making innovations. In 2004, only 10.31% SMEs in Jiangsu province were lunching activities of science and technology, at the same time, 49.7% large-medium companies were already starting to gain achievements of these activities.[2] The percentage of high-educated employers in these SMEs was also very low, only 0.97% had master or higher degree. Certainly, these are the common characteristics of labor intensive industry and also a period of time in the development of every company.

The defects of SMEs themselves, including the incapability of building sustainable competitiveness by utilizing innovations, weakness in financial sector, low intensiveness in technology or knowledge and so on (Zhe Guichang, 2010), effect directly and, unfortunately, negatively on the result whether they can finance externally. In other words, the risk of funding a SME in China is high generally which makes the investors more gingerliness and tend to rise the price of loan.

1.2 Inefficiency of policies.

Since 1998, the People's Bank of China (PBC) has issued a series of documents, such as "Opinions on further improving financial services for small and medium-sized enterprises", "Circular on enlarging floating band of loan interest rate for small enterprises", "Guidance on improving financial services for small and medium-sized enterprises" and "Guidance on enhancing credit supports for SMEs with marketability, efficiency and credibility". In 2003, four administrative departments (The National

[2] Data based on the first national economic census of Jiangsu province, 2004.

Development and Reform Commission, China Coordination Center for Cooperation of SMEs with Foreign Countries, China Association of SMEs, and local SMEs department) are found to implement certain policy such as the legislation of SME promotion law, encouragement of private and other non- public owned economics (2005) and a SME growth project (2006). However, the results are quite obvious after all these years practicing. These policies that aim to support SMEs' financing cannot fulfill the duty to solve specific problems. First of all, the policies are shallow when SMEs are various. Different SME has different needs in different period during it development, the policies are clearly not meticulous enough. Also the performers of these policies have different opinion with the constitutors which blocks some policies from reaching the purposes (Chengwei, 2013). Also, the policies tend to cover the SMEs that are in a dynamic industry like clean energy, innovation-oriented business and knowledge-intensive industry (Wang Bing, 2013), however, a large percentage of SMEs happen to be operating in the markets that have suffered the most during the economic downturn, particularly import and export companies (Lauren Hilgers, 2009), and these SMEs also require support from the government.

1.3 Absence of a reliable credit guarantee system.

Credit guarantees are an important part of corporate financing in Asia, especially for small and medium-sized enterprises (Ilhyock Shim, 2006). However, the credit guarantee system in China is not yet mature. The poor credit and short of funds turn into main factors disturbing SMEs development. In order to solve SMEs' financing issue, to set up perfect credit guarantee tends to be more important (Yurong Cheng, Weixing Wang, 2009). Compare with the more developed economies in the world, for example Japan who established a public institution called JASME[3] in 1953, Korea who has two non-profit financial institutions whose paid-in capital comes from contributions

[3] Japan Finance Corporation for Small and Medium Enterprise, established in 1953, supports the Credit Guarantee Corporations by reinsuring about 70–80% of their risks and by extending low interest loans to 52 Credit Guarantee Corporations.

by the government and banks called KCGF and KOTEC[4], and Taiwan who established a non-profit legal entity named SMEG[5] in 1974, Chinese government, however, does not have a centralized government institution providing credit guarantees to SMEs. As a result, only about 2.6% of all China's SMEs benefited from credit guarantees as of the end of 2005 (Zhou 2006).

Meanwhile, the commercial banks are not enthusiastic, because banks are afraid of releasing too much loans without making sure the credit guarantee institutions are well managed. Credit guarantee industry requires a complex cooperation of different knowledge including financial, security and a highly understanding of specific business operations. China has not yet established an access standard to verify the qualification of this industry. Besides, researchers believe most of the commercial guarantee institutions in China are also lack of capital power which lower the reliability of their guarantees.

As an important solution to the financial difficulties for SMEs, establishment of a Credit Guarantee system for SME has been proved essential by developed counties. However, China has just worked on this area for less than 20 years, many important matters in a successful credit guarantee system are missing. SMEs have few opportunity to get support from this system which means their financial channels would mostly be limited to mortgage loan.

1.4 Incapacity of the banks.

The banks' behaviors are the hottest topic on the financial difficulties for SMEs in China, because the main financial channel of SMEs is the banks. For a long time period, banks

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[4] KCGF is short for Korea Credit Guarantee Fund who provides guarantees mostly for SME loans and KOTEC is short for Korea Technology Credit Guarantee Fund who supports mainly technology-oriented SMEs.

[5] Small and Medium Business Credit Guarantee Fund, hold by the Taiwan local government.

are the main financing channel of SMEs, 66.7% SMEs have chosen to rely on loans borrowed from banks. Very few SMEs chose other financing channels, including borrowing from their friends and usurious loans. Lacking of appropriate financing channels is one of the hurdles (Shusong Ba, 2013). Due the report (Financial Development of Small and Medium Enterprises in 2014), 73% of the SMEs in China still choose banks as their preferred financial channel. To be specific, according to the 2013 China SME Finance Report, the banks are divided into five categories of commercial banks, policy banks, China Development Banks and Postal Saving Banks, and Rural Small and Medium Financial Institutions. Of these institutions, commercial banks which are the main financial channel of SMEs, can be further divided into four categories of Large Commercial Banks, Joint-Stock Commercial Banks, Urban Commercial Banks and Foreign Banks (see figure 1).

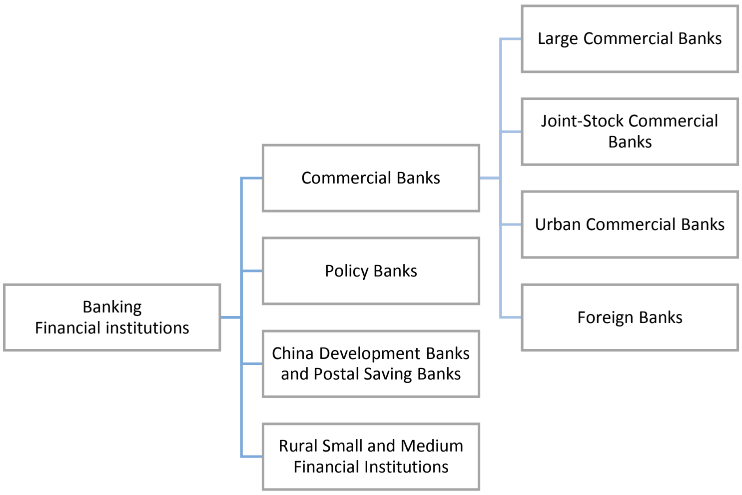


Figure 1 Diagram of Banking Financial Institutions

The four biggest commercial banks --- China Construction Bank, Agriculture Bank of China, Industrial and Commercial Bank of China and Bank of China, which dominate the banking sector in China are all state-owned. State-owned banks usually provide funds to state-owned firms (which are often very large firms in their own right) and show much less interest in financing SMEs (Berger, 2005). Due to the political structure of China, the banks in China, especially the state-owned banks, are taking the responsibility of supporting the adjustment and reform of state-owned enterprises, controlling financial risk and reducing the ratio of non-performing loans, thus they still regard state-owned enterprises and publicly-owned enterprises as the main candidates for loans (Yang zhongwang, 2004). Besides these large commercial banks, there are joint-stock banks with the size smaller than the state-owned banks and urban commercial banks which are mostly restructured from urban credit cooperatives[6]. Different form the state-owned banks, these smaller banks are more local business orientated and have bigger willingness on targeting SMEs. However, the only fact is every bank in China has the similar consideration about the quality of pledge such as real estate, factory and advanced equipment which are, unfortunately, the most general scarcity of SMEs. Because of the absence of the credit guarantee system, most of the loans from banks are based on mortgages, due to the survey conducted by Shusong Ba (2013), there are about 41.4% SMEs had problems in getting loans from banks due to the absence of effective mortgages (Ping han, 2013).

The process of getting a mortgage loan is not simple neither, there would be a long period of negotiation, evaluation and audit. Not every borrower can be able to overcome this process, particularly for the borrowers that need quick money to solve emergency problems. According to the investigation made by Phoenix Television[7] in September 2013, the process of the four state-owned banks for example, usually take three weeks to verify the borrower and this speed is based on the completion of a large number of certification including the newest audit report, financial statements in five years, business plan of the loan and many other trivial documents, and most importantly,

[6] According to the Almanac of China's Finance and Banking (1995), there were 5229 urban credit cooperatives at year-end 1994. In later years, around 3000 of them were restructured into 112 city commercial banks, which means that on average 26 urban credit cooperatives were merged into one city commercial bank, while the remaining ones were merged with one of the rural credit cooperatives.

[7] Famous television channel that features a mix of programs, ranging from political and economic news and current affairs through talk shows, film and music reviews to movies, and mini-series in both Chinese and foreign origins.

borrowers need to provide mortgage. Meanwhile, the relationship with the loan officer has also been prove to be significant. Because the banks in China are very severe, thus the responsibility on the loan officers are usually very heavy. At the same time, there is not much incentive mechanism for them to make more loans, the commission is low and one mistakes may damage the whole career. Therefore, the relationship with the loan officer became an important condition in the process of getting fund.

Part 2. An important financing channel --- P2P finance

The problem of Chinese SMEs' financial difficulty is undeniable at present, it is so obvious that many financial institutions are seeking an opportunity to make benefit from this situation by providing a significant solution. Among these financial institutions, a group of private companies call "Internet finance companies" surprisingly provide a solution by connecting private capital to the SMEs. P2P finance, as the majority internet financing companies are operating, became the easiest way for SMEs to get quick fund.

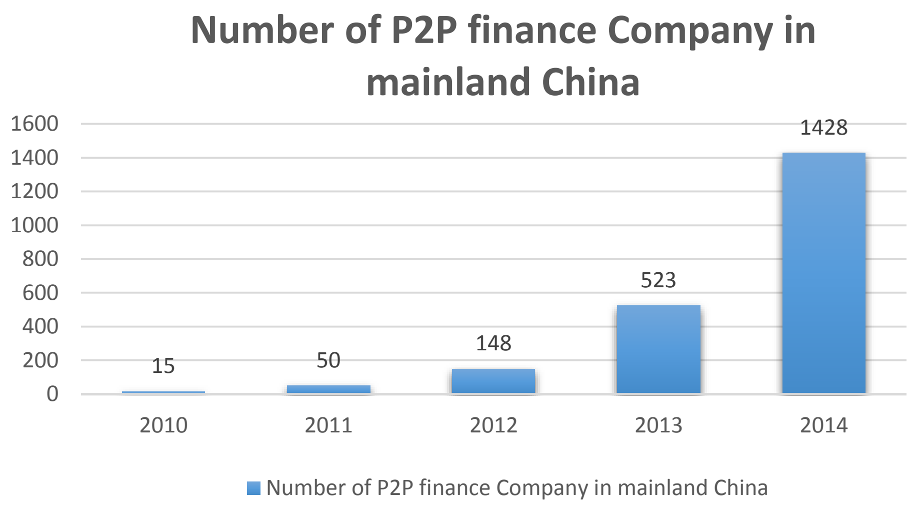
2.1 The development of P2P finance.

The first P2P finance company, Zopa, was found in UK, on February 2005. Ever since that, this kind of business spreads quickly to the whole world. In 2007, Lending Club was launched and it filed for an IPO in U.S with the SEC (U.S. Securities and Exchange Commission) only 7 years after that. Also, like many other innovations, business models are evolving. When the P2P finance first appeared, it (a) was conducted for profit; (b) could only transacts on-line; (c) did not require common bond or prior relationship between lenders and borrowers; (d) allowed lenders to choose which borrowers to invest in; (e) provided the loans that were unsecured and not protected by government insurance.[8] However, after a few years, a lot of changes have been achieved, for instances, off-line trade has been available, some companies now are taking the duty to choose borrowers for lenders, and some companies has already reached an agreement with banks in order to have the government's support indirectly.

Their business models are various, such as VirginMoney.com, facilitate and formalize loan transactions between borrowers and lenders that know each other. Other models, such as Prosper.com and Lending Club Corp., serve as online loan auction sites, where borrowers post the purpose of their loan and the terms that they are willing to accept. After viewing these loan requests, lenders bid for all or a portion of loans, depending on their risk/return appetite and desire for diversification. Some P2P models bypass banks, while others rely on bank partners as intermediaries to fund loans and then sell all or a portion to individual lenders.[9]

P2P finance has appeared in China for many years, as if a new continent was found, many P2P lenders sprung into existence with various target customers and business models (Yangjie She, November, 2014). Until now, there are over 2000 P2P finance companies running business in mainland China. As an innovation of financial area in recent years, the concept of P2P finance has been changing quickly. The British Peer-to-Peer Finance Association defines P2P finance as "A platforms that facilitate financial services via direct, one-to-one contracts between a single recipient and one or multiple providers". P2P finance companies are considered to be a complement of traditional finance institutions such as the banks. For example, banks transform deposits to loans with regard to size, duration, liquidity, credit risk and numeracies, meanwhile, P2P lending corresponds to this process of deposit-taking and loan-granting (Moenninghoff, S. Wieand, 2014). It allows individual or institutional investors to lend money via its platform to consumers or businesses.

[8] Based on the P2P lending section on Wikipedia.com.
[9] Based on the Financial Time's explanation of P2P business models.



In Shenzhen, which has the most advanced financial market in China, there were 400 P2P financing companies which had a total transaction more than 30 billion RMB in the past 9 months until September 2014.[10] Many of these companies are looking forward to invest in SEMs that has financial needs, but for all kinds of SMEs. For example, some P2P finance companies do not help SMEs in sunset industries such as cement industry. They believe these kind of industries are usually with a lot of problems, such as pollution, human rights issues, business-stealing and shrink in demand. Sunset industries are losing favor with investors due to its steadily falling on generation capacity and profits, and also caused by comparatively higher environmental costs and the "Business Sustainability" is the ability of a business to survive and thrive over the long term by balancing the economic, social and environmental considerations, and managing risks and seizing opportunities associated with the disruptions (Laverdure & Conn, 2010). Most likely, these companies need money to solve urgent problems but not to transform their business in order to survive in long term, thus the risk of the companies will become not only the companies themselves but also the problems they are facing. It will make the risk control even more complicated. Moreover, some P2P finance companies do not help the SMEs that are running high risk business, for example real estate industry. Because there is a common worry about the Chinese real

[10] Shenzhen Special Economic Area News, November 14th , 2014

estate market will lead to a financial crisis just like U.S, there are lots of researches trying to find out if there is an oversupply or not. Although there isn’t a conclusion yet, the uncertainty of this question is already an obvious risk. Generally speaking, high risk is considered to offer high return, but P2P finance companies, especially large P2P finance companies, are seeking a steady business model, which means they will be very cautious of taking risk. Meanwhile, most P2P finance companies regard themselves as an important part of Inclusive Financial System, thus they are supposed to make positive contribution to the economy instead to putting money into a risky market like gambling.

Although P2P lending platforms predominantly address consumers as borrowers, increasingly also target the self-employed and small and medium-sized enterprises. Also, several platforms specializing on the intermediation of corporate loans for small and medium-sized enterprises have emerged. Furthermore, some platforms offer long-term peer-to-peer commercial and residential real estate financing, peer-to-peer equipment leasing, peer-to-peer loans secured by collateral, peer-to-peer student loans or short-term peer-to-peer payday loans (Sebastian C, 2010). Some P2P financing companies now in China have already transformed in to pure P2B financing, which means they only accept the loan request from enterprises. For example, Guanyitong, Xinhehui and PPmoney.

2.2 Business models of P2P finance companies in China.

Unlike the P2P finance companies in UK and US, which have different business model but basically follow the principles of using on-line platform and staying as an agency without participating as neither borrower nor lender, P2P finance companies in China have many adjustments to locate in the market. According to the research papers form Financial Regulation Research in 2014, the business models of P2P finance companies in China can be classified as four kinds.

a. Pure On-line P2P finance companies.

The on-line P2P finance companies has similar business model as the foreign P2P finance companies which basically just provide and manage an on-line platform for the borrowers to put a request on and the lenders to accept the request (see figure 2). They are the most common P2P finance companies of all kind, 1946 of them are using this kind of business model.[11] In this kind of business model, the company only play the role of an agency, it makes profit by charging intermediary. Fundamentally, the lender will be fully responsible for the loan risk, the companies will not provide compensation if the borrower default.

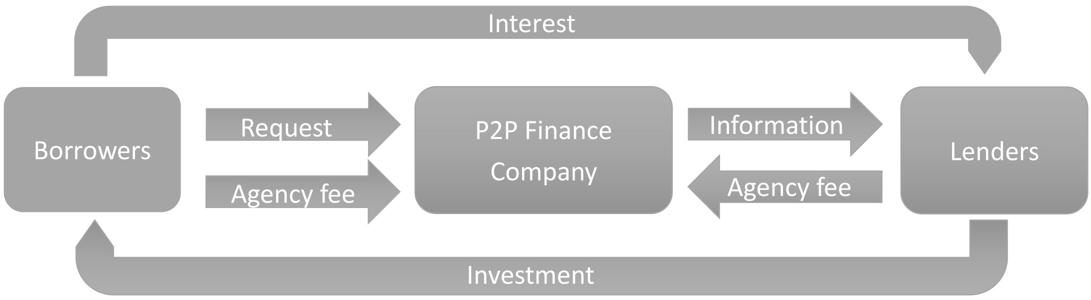


Figure 2 Business model of Pure On-line P2P Finance Company

For the borrowers, the difficulty of getting fund from this kind of platform seems to be much lower than the banks, however, it is much more expensive than the banks also. The interest rate of these companies is normally very high,, the average interest rate of on-line platform P2P finance companies was 17.8%, which was approximately three times higher the interest rate of banks.[12]

However, this kind of platforms are not made for borrower as a company but only as

[11] According to the statistic of Caixiwang in May 2015
[12] According to the data showed by Wangdaizhijia which is an information reference platform and a propellant for the whole P2P finance industry of China.

an individual, which means, if a SME wants get fund by send a request on this kind of platform, it has to find a person to be responsible and use this person to send the request. Thus, the information of the borrower will be a person but not a company and the risk of the loan becomes the default risk of this person but not the company. This limitation cause specific problems for example, when lenders want to evaluate the borrower who need money for his company, they will not have the opportunity to analysis the company but only the person that is responsible. Take the most typical on-line P2P finance platform --- Ppdai as an example, this website provides only the basic information of the borrowers, lenders can only evaluated the risk by looking at the data such as the number of debts in history, number of bidding and a multidimensional index created by the company based on a confidential database.

b. On-line platform plus guarantee institution.

Due to the intensive competition in P2P finance industry, almost all on-line P2P finance platform besides Ppdai have transformed into companies that guarantee the safety of both principle and the interest to the lenders. Their business model is similar with the pure on-line platform companies', but what make them different is that they will take the responsibility to compensate the lenders if the borrowers couldn't manage to do that. For this purpose, some of these P2P finance companies nowadays forced the borrowers to pay a part of the loan as a risk control reserve to compensate the lender, it increase the cost of the loan but at the same time, lower the risk for the borrower so that the requests could be taken faster.

Although, these companies promise to compensate the lenders, there still no prove that they are able to do that. In fact, the reputation of P2P finance industry usually get damaged by the incapability of these kind of companies. There were 275 platforms that ran into troubles in 2014, and this number became 253 for just first four months of 2013 which involved more than 6 billion RMB.[13] The fundamental problem of these companies is considered to be the lack of capacity on the risk control management, and the evaluation of the borrowers plays the most important part in it.

Thus, the cost of running a P2P finance company using this business model is higher than using the pure on-line platform business model, because it requires a team of qualify financial workers to develop the capability of risk control. Some large companies, for example Renrendai and Hongling Capital, paid a great deal of attention on building this team and advertise it as their core competitiveness. So their evaluation towards the borrowers tend to be more mature and reliable which makes the borrowers more difficult to pass the process, however, because of the guarantee strategy and the relatively better reputation of these companies, lenders are usually very active in investing the borrowers that are pre-checked, so the borrowers will get funded very quickly once their requests are accepted by these companies. Compare with these larger companies, most of the local P2P finance companies do not have a reliable risk control management, the majority of P2P finance companies that ran into troubles are this kind of companies. For the lenders, it is much more risky to invest money via these companies, but in order to compete with the larger P2P finance companies, they usually have an even higher interest, sometimes reach 35%. Loan request that wasn't good enough to be accepted by the large companies usually end up in the smaller ones and a higher interest rate.

The same as the pure on-line platform, SMEs still need to authorize a person to send the request and the companies also just pay attention to the creditability of this person, and the lenders will not know anything about how the loan will influence the borrowers. SMEs still cannot negotiate the price with the lenders based on their specific situation.

c. Assignment of debt.

[13] According to the data from Chinadaily.com, January, 2015.

This kind of P2P finance business model is widely used by many P2P finance companies now, however, it is not as typical as the two business model above. Because the borrowers and the lenders will not have direct contract with each other, instead, the borrowers will get funded by a third person besides the P2P finance company and the lender first, and the lenders will buy the debt form this third person with a fixed price which invest the borrowers indirectly (see figure 3). The third person usually is the owner of the P2P finance company, which consequently make the company a nontraditional P2P finance company that only has one single lender.

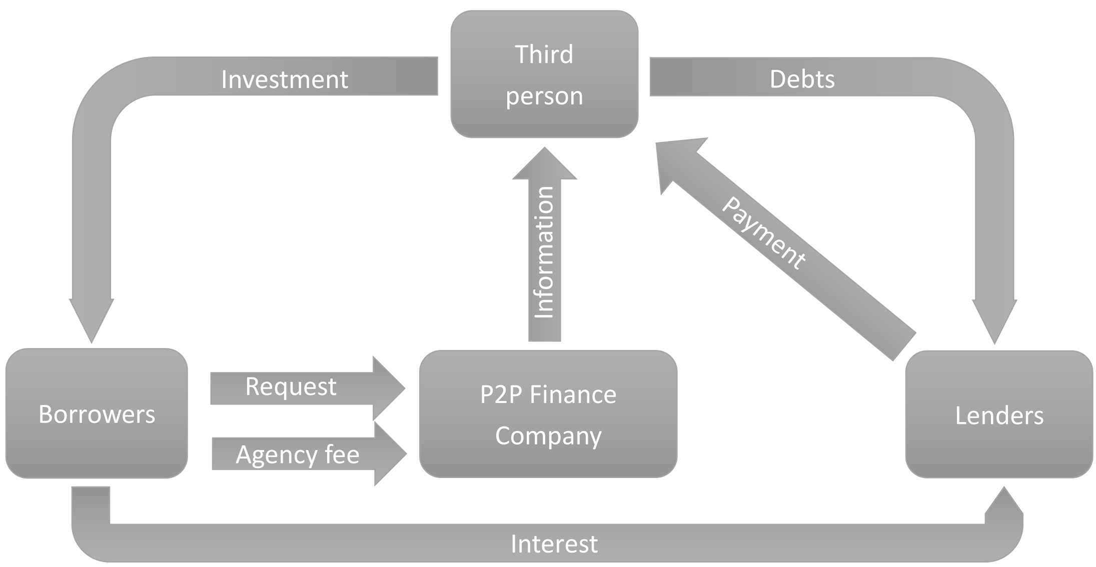


Figure 2 Business model of Pure On-line P2P Finance Company

Some researchers argue that this kind of business model should not be classified as a part of P2P finance because of the obscure relationship between the third person and the P2P finance company, however, this kind of companies do make some significant contributions to the financial system in China. Different form the other P2P finance companies, the most advanced characteristic of them is that they safe the process of lenders evaluating the borrowers, instead, they lend the money to the borrower who they already evaluated in the first place with certain interest rate, which means, if the

P2P finance companies have proved the ability of their risk control management, all the debts they are selling can be considered as low risk. Besides, saving the trouble of evaluating the risk satisfies most of the lenders with few financial knowledge but want to do investment.

Due to the development of several years, some P2P finance companies that use this kind of business model have sharpened their target borrowers into only the enterprises, thus they call themselves P2B (Peer to Business) finance companies. Therefore, these companies need an even bigger and more professional risk control management team to make sure the borrowers are able to pay the debts, which makes these companies larger than the other kinds. For example, Guanquan Investment form Beijing, has claimed itself as a pure P2P finance company which focus on helping SMEs with financial problems. Until 2014, they already have more than 400 branches and more than 20,000 employees. Similarly, CreditEase form Shenzhen and Hengchang form Beijing, also have a huge part of business in P2B finance and a large number of branches and employees. In other words, in order to have the scale big enough to run this business model, the cost will be much larger than the others which just have need few employee. Consequently, the price of getting fund in this kind of P2P finance companies become relative higher too, the average price including the interest rate of the typical companies that were motioned above are around 22%.

This kind of business model makes an easy path to the lenders to make low risk investments and a great rate of profit to the companies themselves, many P2P finance companies nowadays are trying to copy this concept, especially the newer and smaller local P2P finance companies. They don’t have the scale to have the ability to analysis all kinds of borrowers, so they tend to target in some lower risk industry such as agriculture, or some industries they are familiar with.

d. Credit Assets Securitization model.

The P2P finance market is expanding vapidly which creates some miracles about making great fortune in a short period of time, however, not every person have the financial knowledge to participate as a provide in this industry. This phenomenon attracts many large companies, such as the biggest private insurance company --- Pingan, to cooperate with a P2P finance companies or build its own P2P finance platform in order to sell loans which are guaranteed by themselves to the individual lenders. While the lenders are worrying about the security of P2P finance industry, this kind of business model provide a relatively reliable system which was based on the reputation or large third parties. Thus, fundamentally speaking, this model is a combination of traditional P2P finance platforms and a supervisory system that transfers credit assets form different P2P finance companies into negotiable products.

2.3 Trends of P2P finance industry in China.

These four business models are generally used by most of the well-managed P2P finance companies in China nowadays, which means these models are suitable for the market including the lenders, the borrowers and the P2P finance company. Thanks to the lead of some big P2P finance companies, the whole industry is becoming more normative and efficient, the increase of lenders create an even bigger private capital to deal with borrowers' cash-strapped cases including the financial problems of SMEs. Until the end of 2014, the number of lenders in P2P finance industry had increased 22.7 time from 2012 and reached a number of 1.16 million, meanwhile, 61% of the borrowings was for the short-term working capital and business financing purposes.[14] It is certain that whole industry is paying more attention to the borrowers that need the money for business purpose, which matches the "small, frequent, and fast" financing of SMEs (Hongbo Duan, Xiaojie Han & Hongbo Yang, 2009). However, the fact that these P2P finance companies are lending money to the SMEs which cannot or would not borrow money from other direct financial channels including banks, security

[14] According to the data given by Lufax which was the biggest P2P finance company that is using credit assets securitization model, 2015.

markets or private funds, is a based on a very high interest rate. Almost all P2P finance companies are advertising themselves helping SMEs, but it will become total opportunism if they just aimed to take advantages from SMEs by charging an unreasonable fee.

In defense of the P2P finance industry in China, the high interest rate is based on two main reasons. Firstly, P2P finance companies as a kind of finance institution, will suffer several kinds of risks, which represent different kinds of loss. For example, the most direct risk of P2P finance companies is the default risk of borrowers, the reason that P2P finance companies can keep participating in the financial market is that they are able to build quick capital transactions. As one of the results, they also need to accept some borrowing requests which are too risky for banks or other traditional financial institutions to accept, thus certainly some of these “risky” requests are going to end up in a loss. Because of the poor credit system and the lack of qualify financial workers nowadays in China, the P2P finance companies couldn’t have much approaches to lower this risk, and the only way to keep them from damaged by the loss is to make sure a persistent positive income. Thus, a high interest rate seems to be necessary for P2P finance companies. Secondly, the P2P finance companies need to compete with the traditional financial institutions, such as state-owned banks, which give the investor near 4% interest rate in recent years with almost no risk. P2P finance companies, however, are known to deal with risky loans, need to provide some extra profit to the investors in order to attract them to lend money.

Part 3. A special group in SMEs --- Knowledge Intensive Firms (KIFs)

Due to a basic theory of macro-economics, the price reflects the relationship between demand and supply, if the financial market of China is efficient, the price of P2P finance industry should be rational because the demand of loans exceeds the supply. However, there is very few research on how SMEs as borrowers feel about this price. This paper, in order to enrich the knowledge of this area, is going to choose a special group of SMEs --- Knowledge Intensive Firms, as research targets to discover how P2P finance industry help to their business.

3.1 What is KIFs?

KIF does not have a widely agreed definition, lot of scholars have been trying to sharp its meaning ever since the concept was presented. Early discussions were focusing on the most significant differences in terms of the input between knowledge-intensive companies and non-knowledge-intensive companies. For instance, the employers of knowledge-intensive companies tends to pay more attention to build sustainable competitive advantage by using their intellectual resources (Quinn, 1992). The physical capital which traditional firms depend on is no longer the competitive edge of these firms, instead, huge amount of high-quality human capital becomes the incomparable critical resource in the emerging human-capital-intensive firms (Chuang Wei Lin, 2012).Thus, the employers who are capable to transform what they know into actual value seems to be an essential characteristic of a KIF. Fundamentally speaking, what really matters is not the employers themselves but the intangible contents they carry. Stewart (1997) emphasized that well educated human capital or intellectual material, such as knowledge, information, intellectual property and experience, can be used to create wealth. However, there is not many work that can be done without knowledge being involved, non/less knowledge-intensive companies also require specific knowledge, therefore, the problem here becomes how to justify the quality and quantity of knowledge that company needs to spend, in order to have a fix value to affirm if this company is a KIF or not, which would hardly be positive. However, some scholars still believe that “knowledge” is measureable, instead of calculating “knowledge”, they focus on the expenditure on specific activities in the company that have bigger proportion using knowledge, such as training, senior management and R&D.

Besides the inputs, qualify output such as productions or services that the company claims to provide is also an important characteristic (Alvesson, 2000, 2001). In another words, researchers who support the output perspective have an idea that it is more important to see if the company is providing knowledge oriented product to the market. Sveiby and Riesling (1986) have written that KIFs "sell knowledge" while Blackler (1995) has described knowledge-intensive firms as "… staffed by a high proportion of highly qualified staff who trade in knowledge itself". However, as much as the input perspective, there is hardly a production that is created and manufactured without knowledge, and there isn't a regular approach to measure how much knowledge the production carries, therefore, it is also unilateral to define KIF only by its outputs.

Furthermore, some scholars argue that the essence of KIF is about applying knowledge, which is the process between input and output. They infer that a complex operation is mandatory for a company to process the exist knowledge and deliver useful results. Certainly, there are countless kinds of knowledge and various kinds of people to carry them, thus a KIF must have the capacity to handle these resources, which is also a kind of knowledge. "… definition of KIFs and describe these organizations as knowledge-intensive, not only because income is generated through intangible assets, but also because of the nature of the deployment of the knowledge held (Juani, Nicholas, 2003)."

No matter which perspectives above is the best way to explain the concept of KIF, these arguments do regard knowledge as the most essential element. But the problem of all these perspective is the lack of scientific approach to measure "knowledge", because there are also many other overlap concepts such as experience, creativity and effectiveness. Some discussions try to conclude the knowledge in KIF into "intellectual work", however, the result tends to be too limited answering the development of knowledge itself. In fact, the most rational perspective has to be multidimensional, it should cover the whole process when a company process knowledge from virtual to actual, just like Milles (2005) defined knowledge intensive business services, "In many ways, what they are doing is locating, developing, combining and applying various types of generic knowledge about technologies and application to the local and specific problems, issues and contexts of their clients … they are involved in a process of fusing generic and local knowledge together".

3.2 The reason of choosing KIFs as research target?

Chinese local scholar Xu Gao (2004) wrote in his book 'The Operating Mechanism and Law of Development in Knowledge-Intensive Industry' that knowledge intensive industry is somehow taking place of the labor intensive industry and the capital intensive industry because of the scarcity of resource on earth, development in science and the change in social concept.

Undoubtedly, knowledge is valuable as one kind of resource, the social constructionist perspective argues that knowledge is not a given or external to the individual but is constructed through discourse and the patterns of interrelations between employees. Consequently, each knowledge worker builds, through social practice, a representation of how to act and who to engage with in action in complex, novel situations (Swart, 2000). Certainly, unlike the other traditional resources, knowledge can appreciate when it is shared, implemented and challenged. Thus, a capable KIF should be able to make this resource endless during the routine operations, and the whole knowledge intensive industry should be moving forward quite fast. For decades, it (knowledge intensive industry) has been the fastest growing industry sector in western industrialized economies, and its share of GDP has grown from less than 10% in 1980, to more than 40% today (Tuckova & Strouhal 2010).

However, China is still a young economic entity, from 1978 to 2005 the average growth rate of knowledge intensive industries was more than 10%, higher than the average gross domestic product growth rate in the same period, but compared with developed countries, the output value of China's tertiary industry is low, most of the industries are labor intensive, and the knowledge intensive industry is correspondingly lagging behind (Jing Yuan Zhao, 2010). The potential of KIFs has been proved, but they still require various support from other industries including communication services, business services (computer software, computer and data processing, research and development, engineering services and related services), education services and financial services. Besides the large high-tech IT companies such as Huawei and Lenovo, or the state-own heavy industry such as CSR Corporation Limited, most of the KIFs in China are in small medium size, which means, they are also suffering the common financial difficulty as the other kinds of SMEs. In fact, this problem can be even worse among KIFs because the most valuable property of KIFs is, instead of physical asset such as equipment and office, intangible asset such as the skill of employers, patent and culture, which makes KIFs relatively more problematic to be evaluated.

Chapter C. Methodology

Part 1. Research question.

The research question of this paper is to find out how P2P finance works as a solution to the difficulty of small-medium size KIFs' financing in Shenzhen, China, so that to make contribution to the further development of P2P finance industry and the discovering of the solution to the SMEs financing difficulty worldwide.

Part 2. Method.

According to the theory of Robert K. Yin (2004), when the research addresses an explanatory question which aim to answer why something happen, or to illuminate a particular situation to get a closer understanding, case study method is recommended. In this paper, interviews are used to collect qualitative data because interviews are particularly useful for getting the story behind a participant's experience, the interviewer can purse in-depth information around the topic. Interviews may be useful as follow-up to certain respondents to questionnaires (McNamara, 1999). Indeed, the topic of this paper, which aim to discover how SMEs feel about the current financial innovation --- P2P finance industry has done to them, require more direct information from the managers of SMEs.

However, the problem of gathering data via interviews is also obvious, according to the book from Erik Bleich & Robert Pekkanen, the general problem of interview data can be summarized into three main factors. The first one is the representativeness of sample, especially for projects which attempt to gauge the general views of a broad population, systematic sampling will entail random samples of business leader, bureaucrats, or politicians (Aberbach, Putam & Rockman, 1981). In this paper, medium and small size

KIFs that are chosen to be studied do not represent the whole SMEs in China but only the SMEs with potential, well management and have financial problems that are traditional financial institutions cannot deal with. Meanwhile, samples with certain among of financial knowledge or skill also reduce the deviations created by the subjective viewpoint of interviewees. The second factor is the type and quality of information obtained. The interview of this study is semi-structured following a plethora of strategies. Also, how a research a researcher obtains the interviews, how long that interview lasts, the quality and methodology behind the questions asked, whether the interview is on or off the record, whether it is recorded or not, and a host of other factors can deeply influence the quality of the information obtained from interviewees (Berry, 2002), hence, all the details of the interview will be full recorded and analyzed afterwards. The third factor is the accuracy of reporting, the interview is going to follow an apparent logic which aims to gathering the first answer of every questions from the interview, and a series of rhetorical questions based on the rely of the previous questions to challenge the interviewees' first answers in order to make sure the interview data is based on rational comparison and analysis, and to avoid leading the answers at the same time.

Meanwhile, the value of each question was measured into a scale of 5 levels, but it was realized to be limited, thus the semantic differential scale method presented by Khalid Mahmood (2012) was applied in the paper. This method allows the interviewer to measure several bipolar attributes into visual numbers. The scale in this research will be set into 10 levels from "1" to "10" which represent "Very much not" to "Very much". For example, when the question is "How hard do you think it is…?" the answer will be scaled from "1 --- very not hard" to "10 --- very hard".

Part 3. Cases selection.

7 companies (Table 1) which are identified as KIF in small – medium size are selected from the client base of different P2P finance companies in Shenzhen, the nature of them

are tested based on the literature review in part 3, chapter A, during the interviews (see appendix, table 3). The senior managers who are handling or use to handle the financial sector of these companies were chosen to make interviews (see appendix, table 2). The result from the interviewees who do not have qualified financial skill has been screened, for example, in the interview to the CEO of company A, the interviewee confirmed that she did not have enough financial knowledge and her answer would be less creditable to the topic of this paper. This kind of situation happened as in company B, D and E, thus the solution is to propose another interview with the financial professionals in these companies. According to the theory of Kathleen M. Eisenhardt (1989), the paper stopped adding the cases when the theoretical saturation which in this topic includes different KIFs in different industry, financial situation, age and level of understanding of P2P finance. At the end, 7 sets of interview result are selected to be discussed and concluded.

Chapter C. Qualitative data analysis and findings

Part 1. The general financing difficulty of SMEs in the research targets.

The probing questions on this topic are based on the literature reviews in part 1, chapter B, and these questions focus on the interviewees' point of views towards the bank loans which is the main financial channel of them. During the interviews, questions that challenge the interviewer's answers had also been asked to test the objectivity of the specific answer, for instance, when the interviewer blindly blamed on the banks about the finance problem, questions like "Do you think the certain situation of your company at that moment also influenced negatively on the process borrowing money from the banks?" or "Do you think the it was the lack of supported policies that made the bank loans so difficult to apply?" will be asked.

According to the interviews, the finance problem of SEMs is better than expectation in KIFs, interviewees tended to believe that the ability of their companies at the moment provides positive effect to apply a loan from the banks, even though some of these companies are suffering a downhill in their business.

"*... Our company will not have too many troubles borrowing money from the banks, because firstly we have a mature financial system and our reputation in finance is also good, and then we are not high risk industry or sunset industry...*" --- Accountant of Company B.

"…It will not be very hard for us to borrow money from the banks now, we have already many stores which can be provided as mortgage, by the way our income is increasing every year and the banks know it…" --- Accountant of Company A.

But on some other cases, for example, CEO of Company C claimed that he believed to borrow money from the four state-owned banks was hard but only because of the slow working availability of the banks and plenty of complicated documents that were required. These viewpoints perfectly match the literature reviews in chapter B which tells how complicated the process it is. Also, the interviewee from company D admitted that their financial department was just been formally found in recent weeks, which means they knew their poor financial ability did not allow them to apply for a bank loan easily.

Meanwhile, while talking about the policies which were supposed to be a significant affect, only the interviewee from company G said that he could get benefit, and it was only based on his relationship with related government department. Many of these interviewee also mentioned the imparity of some government departments which created unnecessary troubles for them. For instance, interviewee from company B which is a law office that handle civil issues, told a story about how the local taxation bureau created difficulty on them because the loss of one invoice, and how this case influenced annual audit of their financial statement.

"…We were once facing an issue that one of our clients didn't received the invoice we sent, so we needed to have the document from the local taxation to fix this problem, but they were about to have a holiday of one week, so they told us those document we need can be only provide after the holiday. So we waited until the end of the holiday which is the next month already, but when we went to their office, they told us if we didn't deal with that lost invoice the month it was created, it would be a big problem. I mean, we were told to follow their process, but it was quite stupid because they were too busy thinking about the holiday and didn't think about our situation, the worst thing was this missing invoice and the lagging of its recovering made a gap between our financial statement and the audit report which almost lower our rank in the local credit rating."
--- Accountant of Company B.

It really has reflected a situation that has been mentioned many times in different research papers that the irresponsible working attitude from government departments creates a lot of troubles to SMEs. However, there was also a possibility that they were not benefited from government departments or banks because they did manage well the relationship with officers, which in China, is very important.

As a matter of fact, the experience of a successful bank loan has changed the viewpoint of these companies, they basically believe to apply for the bank loan again would be similar as the previous time and if so, it would be much easier, even though most of the interviewees thought the banks would not care much about the advantages in their business but only the disadvantages. However, the reason why they needed to borrow money from P2P finance companies was the unacceptable low speed of the banks.

"…My company runs a special kind of business which is purchasing the advertising columns in some new built community and sell them to the other companies. It requires us to pay, which is usually a large number, first to the community, and then to sell. However we don't know when exactly the community is going to sell the columns and we cannot prepared such a number or cash to wait for it. That is why we need quick money. If we borrow money from the banks, the columns will be sold before I get the money, to be honest I lost a chance because of this one time." --- CEO of Company C.

"…I just don't understand why they (banks) need that much time to lend me money. For sure my company has what it takes to borrow money from them, and I have every documents they need, it is must be the inefficiency operations inside the banks…" --- CEO of Company G.

The vales gave by all the interviewees has provided a tough ground for this finding, the speed of bank loans somehow makes the borrowers very dissatisfy and damage the confident towards the bank system.

Part 2. How good is P2P finance as a solution?

This part of the interview generated two results, firstly the interviewees' direct feels about P2P finance, and secondly the comparison between banks and the P2P finance companies. The first result was directly generated by the probing questions, the interviewee were required to answer these questions base on their rational and personal analysis. According to the answers, some interesting findings can be easily identified. First of all, as the customers of P2P finance companies, most of these interviewees didn't have a deep understanding about this kind of financial institution before the loan, only two of them claimed that they knew how P2P finance works very well which was based on their experience of working in a P2P finance company before. When it came to the questions why they would buy money from somewhere they totally unfamiliar with, their answers tended to be result – oriented, which means they didn't care much about the agency as long as they can borrow money successfully.

Meanwhile, all of the interviewee said that there was almost no special requirements to borrow money from P2P finance companies, thus, besides one of the interviewees who concerned serious on the confidentiality of information that he provided to the P2P finance company, the rest of the interviewee didn't really think the advantages or disadvantages would influence the loan.

"…No, I don't think they pay attention to our business, because when we apply for a loan, they just asked for some basic documents and sent some very young staves to negotiate with us, actually it can be hardly called an negotiation but just a short conversation and it was a deal, we got the money very soon after that." --- Accountant of Company D.

"…It has nothing to do with our company, I told them our boss is local (Shenzhen) people, 45 years old and drives Mercedes-Benz, after that I invite them to a dinner and

you know, job done." --- Accountant of Company E

It is interesting to see these P2P finance companies which are using model b (on-line platform plus guarantee institution) and model c (assignment of debt) don't participate very responsible as an agency, which makes the loan very risky to the lenders. However, it makes the borrowers much easier to get the loan too, interviewee from company G who indicated himself as an expert of P2P finance declared that most of the small and new P2P finance companies don't care so much about risk control especially to the SMEs, because they tend to believe the chance of default from organization is much lower than from individual. Other interviewee also claims it is better for these P2P finance companies to have lower requirements.

However, lower requirements represents higher risk, and higher risk usually represents higher price for the borrowers, comparatively speaking, small local P2P finance companies have even higher price than the big ones, the P2P finance companies which the interviewees chose have an average interest rate of 26%. This interest rate seems to be unacceptable because it is so high that almost illegal.

"…Firstly they are unreasonable expensive, 22% interest rate is as much as usury. Secondly, they don't provide flexible loan which we were forced to pay a fixed period --- 6 months, meanwhile, the minimum money that we can borrow was also fixed --- 100k…"--- Accountant of Company A.

"…For example, our project has an estimation of 20% profit per year, and a half year loan in 20% interest rate from P2P finance company will make our project lost half of the profit. Just imagine what happen if that project doesn't go as well as we expect?" --- CEO of company F.

According to the data from question 5, table 5, beside one from company B thought it was fair because he thought most of the private capitals in China were more expensive, the rest of the interviewees believed the price was too high, also, during the interview, and word “compromise” has been frequently used. It seems to be quite contradictory that they still accepted this price, but it is much clear when research went deeper. In regards to this doubt, the questions were developed into two directions, the first one focus on the nature of the loan to answer if it was a “help” or a “loot of a burning house”, the second one limited the answer to only the result in order to see if the loan, putting aside the price, was a solution to the problem the interviewees were facing. By comparing the result of these two question, it is obvious to conclude that the interviewees regard the loan from the P2P finance companies as less fair but successful trade.

Therefore, between the options that the loan from banks is cheap but slow and the loan from P2P finance companies that is expensive but fast, these KIFs chose the latter one, which means the extra price they paid was to buy a faster speed, and in other words, the main factor of a loan that these KIFs require is the speed.

“…Almost all the P2P finance companies I know in Shenzhen say the same thing about themselves that they are solving the problem of low speed in financing but cannot solve the problem of expensive at the same time.” --- CEO of Company G.

All in all, what the KIFs needs reflect an important fact in the current capital market in China which is the lag of capital, P2P finance companies catch this opportunity and make great profit out of it, however, the great profit they made aggravate the problem of the other factor of a loan which is the high cost, and that is why the interviewees were not thankful to the P2P finance companies. Meanwhile, the essence of model b (on-line platform plus guarantee institution) and model c (assignment of debt) is the strong relationship between the borrowers and the P2P finance companies, which aims to a situation that the borrowers can use P2P finance companies as their external financial resources and the P2P finance companies can used borrowers as long term investment targets. But due to the interview, none of these P2P finance companies seems to have this perspective. Fundamentally, this is caused by the appearance of the market which provides information to the P2P finance companies that they would always have enough borrowers, it may be the general situation at the moment, but it shouldn’t influence the basic rules of business model.

According to all this findings, it is more appropriate to say that P2P finance is the easiest solution of SMEs financing problem, however, a good solution should be able to eradicate the problem but not transfer the problem to another potential problem, otherwise it would be opportunism. P2P finance has the suspicion to be like this. It may be just a short-lived phenomenon, and still needs the adjustment from the market.

Chapter D. Conclusions and suggestions.

Motivated by the discovering of solution to the problem of SMEs finance difficulty all over world. This paper studied one of the hottest financial channel in the Chinese capital market --- P2P finance, however, unlike the other research papers, it doesn't implement a research towards the P2P finance industry directly, but study the clients of them and analysis their behaviors from a different side, and that is the reason this study gains a lot of new perspectives about both the SMEs' financing problem and the P2P finance industry.

The main discovery of this study can be divided into two parts, the first part is related to the SMEs' financing difficulty which has been studied over and over again, existing literatures have already presented a very integrated theory to explain the reasons, however, most of these studies are done with a quantitative methods which deliver general results not precise to apply on some special groups. In this paper, the knowledge about the financial difficulty of small – mediums size KIFs has been sharped, the result of the research claims that the most significant reason in their finance difficulty was the need of quick money, the general reasons in literature reviews such as the lack of credit system or supportive policies doesn't influence these companies very conspicuous. The second parts is related to the P2P finance companies including the deliberately setting of low requirement of loan, poor management of risk control in small and new P2P finance companies and many other non – standardization behaviors. The biggest finding of the research is the "compromise attitude" from their borrowers, which is cause by the extremely high interest rate, in the other words, the expensive price of loan. P2P finance companies might not notice this problem because they will always have enough clients before the market saturation.

P2P finance companies are not charity organizations, it is wrong to expect that they could help SMEs with finance difficult selflessly, but following the findings of this paper, some suggestions could be made:

(1) The interest rate to the SMEs can be lower, the loss of profit because it could be maintain by increasing the risk control management and lower the ratio of lending money to risky borrowers.
(2) Try to communicate with the SMEs and made customizable loan for specific cases, try to manage better the CRM system and retain a health relationship with the clients. Especially for those small local P2P finance companies that are using model b and model c, if they could have a long-term cooperation with a group of SMEs with good potential, it would be a great strategy to lower the cost.
(3) Just as the words of Peter Drucker "Profit should be a mere consequence but not the aim of an enterprise", P2P finance companies need to have sustainable purpose to regularize their own behaviors, if they look at the SMEs as gold mine, the gold will be washed and ended someday.

Also, there are some limitations which may influence the application of the research result of this paper. Firstly, the sample is chosen from Shenzhen where is one of the most advance city financially in mainland China, those SMEs in the other territory may have very big different. Meanwhile, the P2P finance industry also have a significant difference between the different areas. Secondly, the research content of this paper is related to the financial sector of companies, which means most of the information has to be confidential, it lowers the reliability of the data and result. Thirdly, the P2P finance in China is still new, not much academic research had be done on this topic and could be able to support this paper, many of the data also was found on none-official website or statements. Finally, it is hoped that this paper helps the managers of P2P finance companies and at the same time offers an objective comment for the their clients' reference, while the P2P finance industry are changing into a standardized financial resource.

Solving the finance difficulty of SMEs in China, let alone the whole world, cannot come to the end with a burst of some financial channels, it requires a positive and sustainable effects from both the SMEs and their investors. P2P finance as a new participant of the investor's side should have been a powerful strength, however, P2P finance industry in China has not yet been so positive and sustainable, thus more academic researches need to be made to guide this industry to further and better position. Thankfully, this specific financial channel can be well applied in China and became a model which can be copied by the rest of the world to build a more energetic financial environment for SMEs.

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Table 1 --- Information of interviews

Company Code	Ownership	Core business	Age	Situation	Number of employees
A	Privately-owned	Flower bouquet training	16 years	Developing smoothly	50
B	Privately-owned	Law office	25 years	Downhill	300
C	Privately-owned	Advertising agency	22 years	Downhill	50
D	Privately-owned	Software development	3 years	Starting	27
E	Partnership	Information agency	8 years	Downhill	200
F	Privately-owned	Language education	15 years	Downhill	300
G	Partnership	Management consulting	4 years	Starting	30

Table 2 --- Information of interviews

INTERVIEWEES	STATUS	FORMAT	LENGTH	RECORDING	ADDITIONAL INTERVIEWS	TRANSCRIPT
Company A						
CEO	Conducted in person at 14/7/2015	Semi-structured	50 minutes	Audio recording	Yes	Transcript check available
Accountant	Conducted in person at 20/7/2015	Semi-structured	1 hour 25 minutes	Audio recording	No	Transcript check available
Company B						
CEO	Pass on to accountant	N/A	N/A	N/A	N/A	N/A
Accountant	Conducted in person at 3/8/2015	Semi-structured	50 minutes	Concurrent notes & Supplementary notes	No	Confidentiality required
Company C						
CEO	Conducted in person at 9/8/2015	Semi-structured	1 hour 35 minutes	Concurrent notes & Supplementary notes	Yes	Transcript check available
Company D						
CEO	Pass on to accountant	N/A	N/A	N/A	N/A	N/A
Accountant	Conducted in person at 10/8/2015	Semi-structured	1 hour	Concurrent notes & Supplementary notes	No	Transcript check available
Company E						
CEO	Conducted in person at 14/8/2015	Structured	N/A	E-mail	No	Confidentiality required
Accountant	Conducted in person at 22/8/2015	Semi-structured	45 minutes	Concurrent notes & Supplementary notes	No	Confidentiality required
Company F						
CEO	Conducted in person at 29/8/2015	Structured	N/A	E-mail	No	Confidentiality required
Company G						
CEO	Conducted in person at 4/9/2015	Semi-structured	1 hour	Concurrent notes & Supplementary notes	No	Transcript check available

Table 3 --- Knowledge-intensity of interviewee's companies

	Company A		Company B		Company C	Company D		Company E		Company F	Company G
	CEO	Accountant	CEO	Accountant	CEO	CEO	Accountant	CEO	Accountant	CEO	CEO
1. How important do you think the employees' knowledge (education, skill, experience) is for your company?	10	10	10	10	8	10	10	10	9	8	10
2. How important do you think the overall management is for your company?	6	6	10	10	8	7	6	8	6	7	8
3. How important do you think knowledge is for the quality of the product or service of your company?	10	7	10	10	8	10	10	8	9	8	10
4. How important do you think the technology (innovation, idea, patent, network) is for your company?	10	10	9	7	4	10	10	8	10	7	8
5. How important do you think the fix asset (office, factory, equipment) is for your company?	8	8	6	7	1	6	7	6	6	6	4

Table 4 --- Value of questions about the bank loans.

	Company A	Company B	Company C	Company D	Company E	Company F	Company G
	Accountant	Accountant	CEO	Accountant	Accountant	CEO	CEO
1. How hard do you think it is for your company to borrow money from these banks?	4	6	4	8	6	7	5
2. How fast do you think it is for your company to borrow money from these banks?	3	5	1	4	4	4	2
3. How much do you think the ability of you company effect the ratio of a successful loan from the banks?	8	8	8	7	6	8	8
4. How much do you think the potential of you company effect the ratio of a successful loan from the banks?	1	1.5	2	4	4	4	10
5. Do you think the banks are helping your company with financial problems?	6	2	1	4	4	4	6
6. Were you satisfy with the last loan from the banks?	*	4	2	**	4	6	6

* &** Interviewees did not participate in the last application for the bank loans.

Table 5 --- Value of questions about P2P finance companies.

	Company A	Company B	Company C	Company D	Company E	Company F	Company G
	Accountant	Accountant	CEO	Accountant	Accountant	CEO	CEO
1. How much do you know about the business model of P2P finance companies before the loan?	4	9	4	6	6	4	10
2. How much do you know about the business model of P2P finance companies after the loan?	7	10	4	6	6	6	*
3. How hard do you think it is for your company to borrow money from P2P finance companies?	2	1	6	4	4	4	1
4. How fast do you think it is for your company to borrow money from P2P finance companies?	8	8	8	9	10	9	10
5. How expensive do you think it is to buy money from P2P finance companies?	10	4	10	8	6	7	8
6. How much do you think the ability of you company effect the ratio of a successful loan from the P2P finance companies?	6	9	2	4	4	4	4
7. How much do you think the potential of you company effect the ratio of a successful loan from the P2P finance companies?	8	6	4	4	3	4	4
8. Do you think the P2P finance companies are helping your company with financial problems?	3	6	2	8	4	6	4
8. Were you satisfy with the last loan from the P2P finance companies?	4	8	2	8	6	8	8

*** This interviewee already knew P2P finance very well, thus the question 2 was not asked in the interviews**