SMEs Network Solution to Enter Big Emerging Chinese

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1 - Introduction

The Chinese market, is a huge market very attractive with much potential, being the fourth economy in the world, performing a sustainable rapid economic growth, with an annual average GDP growth around 9,7%, on the last twenty years, and 15% foreign trade growth on the same period becoming the third world trade power. China is also the most attractive country as FDI-Foreign Direct Investment choice destination (A.T. Kearney Index, 2006).

Companies of all types and sizes are realizing the tremendous business potential of China's market, the lure of 1.3 billion consumers is irresistible, so the eyes of just every international manufacturer are focusing Chinese market, and although at this stage, only around 20% of population can be consider as consumer, which still being still a small percentage, is already an interesting market with 260 million persons. It can be considered an upper market; with around 5 to 9% of the population (65 to 117 million), witch has purchasing power, to buy imported products (A.T. Kearney 2003, Deloitte Research, 2003, InterChina Consulting May, 2007, Ilhéu 2008).

The liberalizing process, resulting from the adhesion to WTO, is turning Chinese domestic market in a new very challenging opportunity with growth rates of 11% per year, is already the third market for luxury goods, with 12% of global market, just after the USA market with 17% and the Japanese market with 41%, and the emergent middle class foreseen to reach the 290 million people in 2011 and 520 million in 2025, cannot be ignored (Farrell, Gersch and Stephenson, 2006, InterChina Consulting April 2007).

But the Chinese market also presents a lot of difficulties and risks, which constrain the presence of the foreign firms as per conclusions of Ilhéu, 2006, namely the following:

1- Difficulties – the main difficulties are fragmented market, high competition and poor market infrastructure, mostly distribution.
2- Risks – the main risks are lack of transparency of political and legal environment, unknown rules of the games Chinese wants them to play, difficulty of getting "*guanxi*", difficulty of understanding local partners because of cultural distance, with lack of effectiveness and also despite government efforts, the corruption and disrespect for intellectual property rights.

This is a very complex environment requiring a lot of capabilities from a foreign firm to enter the market, normally to break entry barriers a lot of knowledge is required, and also a lot of investment to face high competition and build up market infrastructures, making it difficult for SMEs, without many resources, to find a suitable strategy to enter the market. Being so we chose to research the importance of networks approach to Chinese market entry of companies coming from small countries like Portugal, where the big majority of firms are SMEs.

2 - Literature Review

2.1 - Network Perspective of Internationalization Process

The most far-reaching consequence of dynamic global markets, revolutionizing information technology, and the imperatives of high flexibility and quick answer may be accordingly with Achrol, 1991, a weakening of the vertical organization as a requisite of international success, "*hierarchical organizations have not proved adept of* *today's turbulent global environment where speed of response to changes are vital*", see Achrol & Kotler, 1999, p.147.

Achrol, 1997, call the attention for a new form of organization, the network, referring its development through the necessity to adjust to the turbulent environment firms face today.

Johanson & Mattsson´s, 1988, use social exchange theory to define business networks as a set of two or more connected business relationships in which each exchange is between firms that are conceptualized as collective actors and these actors include suppliers, customers, distributors, competitors and government, Axelsson & Johanson, 1992.

Achrol & Kotler, 1999, refer that "*large vertically integrated hierarchies are inefficient means of governance in knowledge-rich and turbulent environments*" and the critical imperative in a turbulent environment is "*maximizing organizational learning and flexibility to adapt to change, rather than economizing in transaction costs*", see p.148.

Häkanson and Snehota, 1995, refer the essence of the network as business relationships, which when they arise, form a structure of actor bonds, activity links and resource ties, and call our attention for the dictionary definition of a network as being "*a fabric whose components strands are knotted, twisted or otherwise fastened to form an open mesh*", see p.269.

The business relationships are interconnected in the sense that things happening in a relationship have a bearing in what is happening in other relationships. For example what a firm offer in a relationship with its customers depends on its relationships with suppliers, banks, and R&D centers among others. In network theory, markets are seen as "*system of relationships among a number of players including customers, suppliers, competitors and private and public agencies*"; see Coviello & Munro, 1995, p. 50.

There are horizontal and vertical interdependences involved in these relationships; horizontal interdependence has the main purpose of coordinating the skills and the functions that contribute to the production of a certain good or service, vertical interdependence focus the exchange of resources between different levels of the distribution channel and assure and coordinate the flow of resources, Elg and Johansson, 2001.

The different interdependences of business relationships (connections) are referred by Häkanson and Snehota, 1995, as "*Connectedness*" and the generalized connectedness of business relationships imply "*the existence of an aggregate structure, a form of organization that we have chosen to qualify as network*", see p.19.

Thus relationships are part of a broader structure that links its elements, the actors (firms) and the result of the connectedness of the network structure is that it has a chain effect, "*in principle the chain of connectedness is without limits and can span over several relationships that are (indirectly) connected*", see Mcloughlin and Horan, 2000, p.91.

The interconnectedness of these relationships progress in a dynamic formal or informal way and contribute to increase mutual knowledge and trust leading to grater commitment between international market actors, Bell, 1995.

The network structure as a form of organization differs from a "*hierarchy*" in which actors are functionally linked and also differs from a "*market*" in which actors are atomistically and occasionally linked is more a hybrid structure, Achrol, 1997.

Review literature suggests that network theory can offer a new perspective on the internationalization process, particularly for small and medium firms whose internationalization tend to be dependent on relationship with others.

Actor bonds (links) like technical, commercial, administrative links connect actors (firms) and how the firms perceive each other's. Bonds arise in a relationship between firms when they direct a certain amount of attention and interest towards each others and became mutually committed, developing activity links, when this happen it can affect the way the firms are utilizing resources, allowing new resources combinations as their relationship develops. Marketing channel actors are "*linked in networks of interconnected exchange relationships, forming the context for actions and changing structures*"; see Andersson and Molleryd, 1999, p.291.

A relationship between companies may affect the way the companies perform their activities, that is their activity structure, and certain of their different technical, commercial or administrative activities can became linked to each other's.

The network relationships of a firm is capable of providing the context for international activities; Coviello & Munro, 1995, refer that internationalization is largely driven by network relationships and the inter-firm relationship seems to appear influential in terms of both market selection and mode of entry, Bell, 1995.

Networks are more adaptable and flexible because they work in a loose net of dense interpersonal relations between members with different knowledge bases, each of them transmits new and different information and for the network as a whole, this means superior knowledge assimilation.

Network theory places a strong emphasis on personnel as a resource; expertise perceived integrity and social integration are often person-specific rather than firm specific. Organization knowledge creation takes place in a knowledge spiral when individual knowledge is converted into explicit knowledge and then into organizational knowledge, only then can the organization as a whole benefit from the knowledge acquired in the market, Karlsen, Silseth, Benito, and Welch, 2003.

Business networks can be regarded as sets of connected firms or alternatively as sets of connected relationships between firms, Anderson, Häkanson and Johanson, 1994.

Achrol & Kotler, 1999, defines the network organization, as an "*independent coalition of task-or-skill-specialized entities (independent firms or autonomous organizational units), that operates without hierarchical control but is embedded, by dense lateral connections, mutuality, and reciprocity, in a shared value system that defines «membership» roles and responsibilities*", see p.148.

Organizations of the future are likely to be disaggregated with many of their functions performed by a network of independent specialized organizations, hold together and coordinated by market driven organizations. We can see today the emergence of global markets for standardized consumer goods, foreseen by Levitt, 1983 and a the same time technologic solutions for responding to fragmented preferences and consumer tastes is creating the opportunity to mass-customization, Kotler, 2003.

The problems raised with the necessity of avoiding messy design and control situations on the management of a multiplicity of distribution channels and structures of production, spread all around the world, can be alleviated with aid of the use of the concept of network organization or networking as providing alternatives between market arrangements and hierarchical channel structures, as franchising which is clearly a network option, Ayal and Izraeli, 1997.

Instead of approaching the internationalization as an incremental process between a firm and a market, network theory stresses the relationship between independent firms, such kind of relationships often take time to be established and developed and especially in long term relationships, mutual trust and knowledge implies high degree of connectedness and commitment by different types of bonds, Johanson and Mattsson, 1988, Madsen and Servais, 1997.

Network theory do not necessarily refuse the notion of psychic distance or challenge existing views concerning incremental nature of internationalization, however suggests that the whole process is much more complex and less structured that the earlier models imply, Bell, 1995.

2.2 - Networks and Entry Mode Choice

Classic literature on foreign market entry has been focused in entry mode choice and cooperative strategies in international business has focused mainly on formal cooperative arrangements, such as strategic alliances and joint-ventures, but cooperation may well be informal, since both formal and informal cooperative strategies are pursued in international business, Häkansson, and Johanson, 1988.

Holm, Eriksson and Johanson, 1996, indicates that a development of cooperative strategy with customers, suppliers and other business partners may be an answer to market entry choice, the results of their research shows that entry mode choice "*may be a matter of managing relationship development process rather than of choosing an appropriate entry mode*", see p.1049.

Holm, Eriksson and Johanson, 1996 findings, shows that business relationship in a foreign market is not isolated from other business relationships, the focal relationship is part of an international business network and its development depends on the ability and willingness of the relationship partners to coordinate activities in the focal relationship with activities performed in the surrounding business network.

Foreign market entry in the network approach is best understood as the whole process by which firms enter foreign markets over time rather than by the characteristics of mode of entry decisions, Axelsson & Johanson, 1992.

Under this view foreign market entry can be a process where the firm who wants to enter a foreign market develops relationships with partners in that market and coordinates its connected business network relationship with exchange in the focal relationship, "*the firm had to form new relationships in new business networks as it tried to enter new markets*", see Chetty and Holm, 2000, p. 89.

Accordingly with industrial networks approach, internationalization requires that the firm creates and develops network positions in foreign markets and this can be done in several ways, namely by following international expansion of country based networks, by establishing relationships with counterparts in countries that are new to the firm (international extension) or by strengthening commitment in foreign networks where the firm already has a position (international penetration) and also by increasing coordination between positions in different country based networks (international integration), Johanson and Mattsson, 1988, Axelsson & Johanson, 1992.

In this perspective international market entry has been defined as "*the way in which existing relationship in the domestic and third markets as well as those in the entry market are utilized in the entry process*", and as "*the process whereby the strength of the relationship in different parts of the global network increases*", see Bridgewater, 1999, p.102.

We are talking of an external interaction which influences market entry decisions in the complex web of international organizational relationships; both direct and indirect relationships may exert an influence in the entry mode process and they can be located in domestic market or in the host market or even in other international markets.

A firm current business networks can form a bridge to enter new markets and a network relationship might control which markets a firm enters, Chetty and Holm, 2000.

A firm must manage the relationships between different activities in different markets, considering the differences between those markets, Axelsson and Johanson, 1992, and in the international environment a firm has to be prepared to pursue new opportunities and face uncertainty, Elg and Johansson, 2001.

Networks can help firms to "*expose themselves to new opportunities, obtain knowledge, learn from experiences and benefit from the synergistic effect of pooled resources*", see Chetty and Holm, 2000, p.77, this study findings illustrates the way how firm interact with their network foreign partners to extend, penetrate and integrate their international markets, thus accelerating access and entry into new markets.

As per Coviello and Munro, 1995, internationalization is largely driven by existing network relationships and they are influential both in terms of market selection and mode of entry, they are perceived as important vehicles to "*accessing local market knowledge and accessing distribution channels as well as means for reducing market entry costs, risks and time*", see p. 57.

Accordingly with Kao, 1993, Overseas Chinese entrepreneurs have been prospering in a network of family and clan "*laying the foundations for stronger links among businesses across national borders*" which extends from Asia to America and Europe forming a "*Chinese Commonwealth*", see p.24.

But nowadays this commonwealth is no longer exclusively Chinese neither only a family network. With business growing and with the objective of managing complex worldwide empires the core group has been enlarged to include loyal managers who are treated as quasi family, Williamson, 1997.

By participating in such comprehensive economic networks, potential partners of Chinese entrepreneurs can obtain not only greater access to Chinese based markets including China itself but also access to other world markets.

These extended networks organizations that rely on continual share sharing of information are particularly important to small and medium size companies looking for entering those markets, since through these networks many small units can came up with a variety of entry mode solutions at an acceptable level of risk, Kao, 1993, Williamson, 1997.

2.3 - Overseas Chinese Network

Overseas nationals- the so-called Diaspora- has been a special important subset of foreign investors in countries such as China, Ojah and Monplaisir, 2003.

Huntington, 1999, p.197, refer "*The government consider mainland China the mother country of a Chinese civilization, in relation to which all the Chinese communities should be oriented*" and "*to the Chinese government the Chinese Diaspora even when citizens of any other country, are members of the Chinese community and in a certain extend subjects to the Chinese government*"

The Chinese government to call upon the patriotic feelings of their Chinese compatriots living overseas, to participate on the development of Mainland China with trade cooperation, investment and to teach China the entrepreneurial spirit and introduce efficient management has utilized this vision.

For many generations emigrant Chinese entrepreneurs have been operating in a network of family and clan laying foundations for stronger links among business across national borders. Chinese owned businesses in East Asia, USA, Canada, Australia and Europe and are increasingly becoming part of what is called the Chinese Commonwealth, not based in any country; their commonwealth is primarily a network of entrepreneurial relationships. For Chinese, network has always been a very important part of their culture, following Confucianism's belief in the individual's inability to survive by him, Chu, 1996.

Different activities, different dimensions, this Chinese Commonwealth consists of many individual companies spread around the world, that share a common culture, "*Overseas Chinese is an empire of 55 million people interlaced by systems of guilds, benevolent societies, tongs, triads, kongsi, and name-and-place associations, which individually and together supply the personal connections and financial linkages that make the Overseas Chinese such a potent force. It is an empire without borders, national government or flag*" see Seagrave, 1995, p.2.

Anwar, 1996, refer that from these 55 millions Overseas Chinese around 50.3 million live in East Asia and comprise heterogeneous groups based on many dialects and sub dialects; of course this correspond to many subcultures, diverse occupation styles and entrepreneurial specialization.

The Chinese Diaspora is emerging as the main force behind the sizzling growth of the Pacific Rim economies, it is fast establishing herself as nothing less than the world's most vigorous capitalist, Fortune, 1994, p.45 quoting Barton Biggs refer "*No group is more entrepreneurial and intensely commercial*"... "*Experienced investors in Asia have long known that the best way to get something done there is to plug into the Overseas Chinese network*". In the studies of Chinese business, network has been viewed as one of the key factors contributing to the enormous success of Chinese business in Hong Kong and other Asian countries, Chu, 1996.

Members of Chinese Diaspora dominate trade and investment in every East Asian country except Korea and Japan. They possess not only the biggest reservoir of capital but also actual political connections and the best practical information for surviving in different markets such as China, Indonesia, Vietnam, Malaysia, Singapore, Fortune 1994, p.46 quoting Victor Fung, mention "*If you are being considered for a new partnership a personal reference from a respected member of the Chinese business community is worth more than any amount of money you could throw on the table*."

Start with values, regardless of where they live on how rich they are the Overseas Chinese shares an abiding belief in hard work, value of trust, role of strong family ties, frugality, emphasis on higher education, integrity, long-term planning and entrepreneurial abilities. For the Overseas Chinese these attributes aren't relics from their culture's past but compelling rules to live by. According with Anwar, 1996, the success of the Overseas Chinese is due to "*a propensity for hard work, good connections, and an ability to keep business expenses low*", see p.813. The explanation for this is given by some academics that stress the teachings of Confucius to the ancient Chinese philosopher who exalted the virtues of family and clan solidarity and education.

But Confucius legacy also had a downside, in this hierarchical vision of society merchants ranked at the very bottom, which helps to explain why China created few notable businessmen in Mainland China itself even before Mao Zedong communist revolution. Fortune, 1994, p.38, Lee Shau Kee refers "*The success of the Overseas Chinese is the result of bad times in China itself. The Chinese who left the mother country had to struggle and that became a culture of its own, passed on from father to son through each generation. Because we have no social security, the Overseas Chinese habit is to save a lot and make a lot of friends.*"

Overseas Chinese rose only when they reach foreign countries, and this in not merely a recent phenomenon mostly concentrated on post-communist revolution. In fact the biggest wave of migration came at the high tide of European colonialism in the last century, when Chinese run away from famine and plague and streamed into Southeast

Asia as poor peasants and coolie laborers. Many who started, as workers at western-owned rubber plantations and tin mines later become small merchants, by the times the colonialists departed from places such Indonesia and Malaysia, after the Second World War, the Chinese were the most experienced local businessmen left.

The uncertainties and risks raised by their life as immigrants have reinforced the Overseas Chinese penchant for a guarded controlling style of doing business. Most of their enterprises even multibillion-dollar public companies are family affairs, ruled by a patriarch who makes all key decisions. Major deals are done, only with people he knows and trusts. Just about every Chinese business proprietor is a hand ´s on entrepreneur.

Above all, business intelligence and capital flows across the Overseas Chinese community because its members are superb networks. The foundation of this persuasive network is "*guanxi*", personal connections, "*cross-shareholding, family connections and* a *system of intricate business practices based upon achieving economies of scale and putting stronger emphasis on dealing with other Chinese firms*" see Anwar, 1996, p. 812.

These often extending beyond mere business connections to include relationships with political power Lee Kwan Yew, former Prime Minister of Singapore in Fortune 1994, p.54, refer "*Overseas Chinese use guanxi in China to make up for the lack of law and transparency in rules and regulations. In that hasty business environment, speaking the same language and sharing cultural bonds is a vital lubricant for any serious transaction*."

Anwar, 1996, refer three successful forms of capitalism in Asia-Pacific: Japanese, South Korean and Overseas Chinese Network whose business activities with their worldwide operations resemble Western MNCs and helps to drive the economies of fast-growing countries of Asia including China. These networks are characterized by small and medium size business units, normally family owned, most often they have centralized structures in terms of authority and power, they are conscious on costs running their businesses with tight control of inventory, they link up with other ethnic Chinese businesses and networks and they concentrate on sectors like, land and property development, banking, engineering/construction, textiles/fiber, finance, consumer electronics, food, computers/semiconductors and chemicals.

But how can fifty-five million expatriates' helps to drive the modernization of a poor continental giant with a population of 1.3 billions?

1 - A strong sense of still belonging to China even if their ancestors emigrate many generations ago. The fact that the majority of them have not psychologically left China is the feature which unites them and which provides them with one of their most important strengths, the capacity to cooperate between them and all together on the development of Mainland China.

2 - Countries with Chinese-based economy have astonishingly large capital surplus, Taiwan with only 21.4 million people has the second largest exchange resources in the world. Then there are the private and informal markets of Chinese family and clan associations in which financial resources are deployed for new ventures activities without the intervention of commercial banks, professional ventures or capital companies "*The resources at their command are enormous, ...Worldwide, the Overseas Chinese probably hold liquid assets (not including securities) worth two trillion dollars, ... This capital flows through the unique social system of guanxi connections*" see Seagrave, 1995, p.273.

3 - Combining the PRC exports and imports with those of Hong Kong and Taiwan - the "*Greater China*" a term arranged by former Communist Party Secretary Zhao

Ziyang to refer to a political reunified China of the future Hong Kong, Macau, Taiwan and People's Republic of China into one interdependent MegaChina, already accounts for a larger share of world trade.

4 - That edge can only grow, drawn by China's capable pool of low-cost labor and its growing potential as a market that contains 1/5 of the world population. Foreign investors continue to pour money into PRC, but on the period of 1983-1999, 50% of capital comes from Hong Kong a base of Overseas Chinese investment, and more 15% from East Asian NIEs where Overseas Chinese have preponderance in business, see OECD 2002.

In total, including investment from Overseas Chinese leaving in USA, Australia and Europe, nearly 80% of unbound FDI in the 1980´s come from Chinese Diaspora; the flood of non Chinese FDI began only in 1990´s, in other words China's development might have been very different had there not been the strong patriotic sense of 55 million Chinese leaving overseas, many of whom pooled their capital, technology and access to export markets with cheap Chinese labor force to produce China's export boom, Ojah and Monplaisir, 2003.

Also UNCTAD, 2002, refer, that investors of ethnic Chinese origin, from Hong Kong (China) 48% from Taiwan 8% and from Singapore 6%, owned a large number of Foreign Funded Enterprises (FFEs).

This attraction China exercise on these investors is not a surprise since the common Chinese culture, language and close geographically distance greatly reduces the costs of doing business in China for them. Historically "*networks are essential to foreign-Chinese success in China*", attributes such as "g*uanxi*", familiarity and knowledge of the Chinese culture and language together with cheaper land and labor, explains the success of this formula, Anwar, 1996, p. 814.

It is important to refer that Chinese influence is not limited to the Greater China it is extended to countries where Chinese have predominance in business. In fact Chinese make up 10% of Thailand and owned 90% of all investments in the commercial sector, 90% of all investments is the industry sector and 50% of all investments in the banking and finance sector, in Indonesia they make 4% of total population and they dominate 70% to 75% of private domestic capital, in Malaysia they account for 37% of population and they control between 55% to 60% of the economy, in Singapore, Chinese make up 80% of the population and they control the economy, in Philippines 3% control 70% of the economy.

Chinese are also making a presence in Canada, in Vancouver 20% of population is already Chinese, in California, luxurious residential areas are being reshaped with Chinese culture landscape, and on London Stock Exchange and business area their presence is well noticed. "*In the west the least understood Asian phenomenon is the role of the Overseas Chinese who live outside the mainland of China, not only in Taiwan, Hong Kong and Singapore, but also those in Indonesia, the Philippine, Malaysia, Thailand and in Vancouver and Los Angeles and London. The most successful entrepreneurs in the world they are the force that will catapult Asia to economic dominance*" see Naisbitt, 1995, pp.xi and xii.

5 - China is strongly betting on feelings of Overseas Chinese towards Mainland China and on the acceptance of the concept of Chinese Commonwealth as an important arrow to attain its development. By the interlocking of China with Overseas Chinese that are investing in China not only by its own initiative but also because they are invited by Chinese Government. Seagrave 1995 p.272, refer "*Many Overseas Chinese were motivated by government but they were also driven by tribal self-interest, which*

perpetually seeks to renew and enlarge tribal leverage in ancestral heartland. Up to a point, they saw and continue to see the mainland as gold-rush opportunity".

An important business strategy to foreigners to enter Chinese market is "*to team up and create partnerships with Overseas Chinese companies*", Anwar, 1996, p. 814. Firms particularly the small size ones are particularly keen on "*utilizing relational linkages to establish themselves in Southeast Asia and China, where the ethnic Chinese population serves as an interface for networking*", see Chen & Chen, 1998, p. 463. For instance many small and medium-size firms from Taiwan which are known to be weak organizations linked by strong networks, Redding, 1996, established themselves in Southeast Asia and China, because Chinese business community serves as an interface assisting to link up

3 - Empirical Case - The Case of Portuguese Companies in China

3.1 - Objectives of the Research

The objectives of this research were to know: 1) how the Portuguese companies perceived the importance of Overseas Chinese Networks for their strategic market entry in Chinese market, 2) how the most successful Portuguese companies in Chinese market entered the market, 3) how the relationship with Chinese formal or informal partners influenced their strategy in the market.

3.2 - Sample

For the answer to the first question we consider as objective population of this research all Portuguese companies exporting or investing in China as per databases (309). The target population is the objective population companies or groups that are already internationalized and that in a consistent way export or invest in China for more than 3 years (175), we didn't consider the subsidiaries of multinational companies, since their strategy of export market choice and mode of entry is normally done my their headquarters so on final we get for our target population 111 companies. For selecting these companies we utilized the data banks of Icep – Portuguese Institute of Foreign Trade, now AICEP, and the CCIL-C (Portuguese-Chinese Chamber of Commerce) that includes also companies on services sector. These databases are the most comprehensive and up-to-date databases available in Portugal to access this type of information.

Due to the small size of the objective population it was possible to contact all the companies in the database in this situation doesn't make sense to select the sample in a probabilistic way, so our option fall into a non-probability sample, and within it we utilize the technique of convenience sample.

We received 52 answers which mean 46.8% return rate. From these 52 answers, 13 companies have external offices or factories in China, which mean 81% of the total of Portuguese companies with productive investment in China.

The majority of the firms are SMEs (75%) and are fully internationalized with 98% of them working in international market for more than 5 years and 76% of them make more than 50% of their turnover in international market, also 63% classified themselves as international and 37% as global firms. Our sample concentrates mostly in traditional Portuguese products as marbles and granite, textiles, cork and articles of cork but also industrial equipment and industrial products, wine, footwear etc.

The sample also shows a wide diversification on the type of international activities performed in international market with majority of the companies making direct export 86.5% and direct import 69.2% in line with their degree of internationalization. It can also be observed that they are less committed to investment with 32.7% declaring that invest in full ownership legal form and 26.9% in joint-venture arrangements.

Only 25% of the companies in the sample have an external office in China, and 72% of the companies in the sample make less then 5% of theirs total turnover in Chinese market, these offices are characterized by being 61% commercial representative offices, 8% FDI production units, and 31% have both production units and commercial representative offices

For the answers to the second and third questions we utilized qualitative criterions and interviewed the companies that were distinguished by the Portuguese Chinese Chamber of Commerce and Industry, with Oscars and Honorary Mentions, for their performance as exporters or investors in China.

3.3 - Results

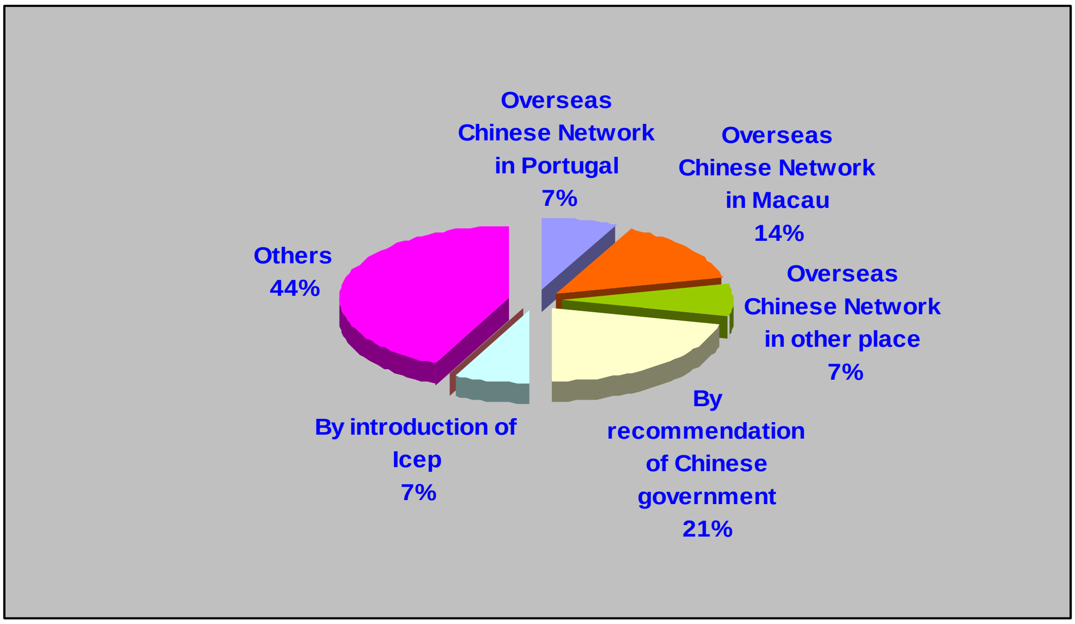
For the answer to the first question the Portuguese companies tend to agree that the Overseas Chinese Network is a good approach to enter Chinese market, 58% agree or strongly agree, (mean=2.44; std.dev. =0.97), see Table 1.

Table 1 - Perception of Importance of Overseas Chinese Network to Enter Chinese Market

Variable	% of respondents (n=48)					Mean	Std Deviation
	Strongly agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly desagree (5)		
Overseas Chinese Network (Macau, Hong Kong , Portugal, other places) is a good approach to Chinese market entry	14.6	43.8	27.1	12.5	2.1	2.44	0.97

We research further to know if the Portuguese companies utilize the Overseas Chinese Network to choose their partners in China to enter Chinese market, and we found out that only 28% enter the market with this strategy, see Fig.1.

Fig.1- Choice of Business Partners in China



The results were different when we interviewed the firms with more success in Chinese market.

A) - Company A

Characterization

SME company with the capital belonging to one family.

Business scope

The Company A imports, produce and exports ornamental stones (mostly marble and granite), offer a full line of products from stones to civil construction to works of art. They work with Portuguese stones from Pêro Pinheiro and Alentejo, but also import to transform stones from quarries all around the world. The quality of their work is internationally recognized, being for instance selected to manufacturer sculptures designed by reputed international artists for the Nagasaki Memorial to Second World War victims.

Around 40% of their production is exported to countries like Qatar, Dubai, England, and Japan.

Presence and strategy in Chinese market

They initiated exports to China in the end of the 70´s following their presence in Japanese market. With Japanese importers they learned China's market potential and the advantages of integrating part of their value chain in China due to the low wages costs offered by this country. During the 80´s they intensified their contacts with Chinese partners developing strong links with them, these contacts and links were highly tighten by reciprocal visits to both countries.

Company A- supplied Chinese manufacturers with production know-how and in exchange their Chinese counterparts to Chinese distribution channels networks introduced them and they learn a lot about Chinese culture and they build their "*guanxi*". They never created any joint venture; they worked under the outsourcing system.

In the measure that China became the world's bigger importer and exporter of marble and granite the importance of China for Company A also developed a lot. Nowadays the Company exports to China 600-800 tons a month from 50-100 on the 80´s. They go on working with 8 to 9 regular old clients.

The weight of exports to China in their total exports is 18%, weight of income of business done in China in total income of Company 10%.

Future development strategy

Long distance and lack of support difficult an higher commitment to Chinese market with FDI, in joint venture with local partners with whom they have a very good relationship.

B) - Company B

Characterization

Big company, limited company, founded in 1991. Belongs to an important group specialized in cork business.

Business scope

Company B is focused in stoppers (cork and PVC). Factory has an international presence in Australia (22% of sales), USA, France, Germany, Argentina and China (6% of sales).

Presence and strategy in Chinese market

The presence in China is part of the company strategy of being present in big wine producer countries. China is historically a great user of cork and is expected that its wine production growth will be 15-20% in the coming years (resulting from big investment in plantations). Sector sources forecasts that China can become in 15 years the biggest world producer of wine.

Company is Chinese market since 1997, with a joint venture with a Chinese winery, which is the biggest wine distributor with channels in the whole country (has 50% of capital) and a Chinese business entrepreneur living in Portugal, who introduced the Chinese winery to company B (has 10% of capital).

Company B produce in China 80 millions of cork stoppers / year, 80 to 90% of which is sold to the Chinese winery in the joint venture, the reminder is exported namely to Portugal. They diversify now to the production in China of 80 million PVC stoppers / year.

Weight of China in their total investment in China 61%, weight of income generated in China in total income 6,5%, weight of actives in China in total actives 6,8%, weight in exports to China in total exports of the Company in Portugal 4,8%.

Future development strategy

The strategic future of Company B passes through expansion in China with different FDI projects with the objective of:

- ✓ Duplicate the production capacity of cork stoppers to 160 million / year.
- ✓ Raise PVC stoppers production to 120 million / year.
- ✓ Train Chinese technicians in Portugal.
- ✓ Send to China a Portuguese controller, in this moment the joint venture is exclusively managed by the Chinese partner.
- ✓ Launch a new joint venture with Chinese partners, may be the same, for the production of cognac and Portuguese old brandy with Portuguese technology.
- ✓ Develop Chinese market for parquet and compound cork, and wall decorative papers in cork, open two shops, one in Beijing and the other in Shanghai.
- ✓ The Company B consider that although China present several risks such as finance credit system, reorganization of labor market, increase of competition with the development of wine market in China, they have some factors of success, namely:
- ✓ A strong partner
- ✓ Low risk of partner copy their technology
- ✓ Investment in diversification of business

C) - Company C

Characterization

Company C is a big company, operating since 1953.

Business scope

Company C is in the sector of paper pulp and paper, with integrated business from forestry production till the paper, 90 % of sales are done in exports to European market.

Presence and strategy in Chinese market

Company starts exports of pulp paper to China 20 years ago, being the majority of their exports BEKP (Bleached Eucalyptus Kraft Paper). Being the paper pulp a commodity, the opportunity of exports to China depends of the evolution of the market quotations and the attractiveness of margins gap on CIF prices between Europe and China.

Company C developed strong commercial links the Chinese Trading Company for Paper Pulp, which allows them to profit from opportunities. This good relationship is very important since the market is very instable, being very good in some years and almost 0 tons in other years.

Lately competition from other countries mainly Indonesia diminishes the opportunities of business of Company C in China (cheaper raw materials due to high growth rates of forestry and lower transport cost).

Weight of exports to China in the total exports of Company C, 2%, weight of income generated in China in total income 1,6%.

Future development strategy

As mention before the key success factor to capture the market opportunity in this type of business is to guarantee that the relationship between partners is kept even in periods when Portugal doesn't export, which is done through frequent contacts with the Chinese trading buyer.

Due to the characteristics of this business the management is done in Portugal, and at short run, company C doesn't consider necessary to have any important investments in Chinese market.

4 - Conclusions

We can conclude that the Portuguese firms established in China with more success, entered the market utilizing business networks and establish long term relationship with Chinese partners in a formal or informal way and this was very important to know the market, follow its evolution, know the Chinese culture, establish strong interchange with Chinese manufacturers and establish their strategy in China, namely their projects for the future. But we also concluded that although the majority of the firms perceived the importance of the connections with the network of Overseas Chinese to enter the Chinese market, they don't follow that strategy.

Network connections may complement firm's specific capabilities and enable firm's especially SMEs to establish themselves in China, by reducing transaction costs, entry barriers, shortage of strategic assets and encouraging FDI. Network linkages can be utilized to obtain logistical support, market information, technological assistance to support overseas operations and top gain economies of scale and scope.

When a firm strengthens its relationship with its Chinese partners in networks, the firms gain knowledge about Chinese market and culture and this bring forward new opportunities.

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