KNOWLEDGE A CRITICAL FACTOR IN THE INTERNATIONALIZATION OF SMES TO – THE CASE OF PORTUGUESE SMES IN CHINA

Introduction and motivation

Companies are finding that they are unavoidably dealing with foreign customers, competitors and suppliers even within their own borders. As mentioned by Govindarajan and Gupta (2001, pp.2-4), "Today, globalization is no longer an option but a strategic imperative for all but the smallest corporations." Globalization of the economy allows companies to have access to raw materials, capital and technology on the international markets and locate activities within a world scope to gain competitive advantages on international markets (Bradley, 2002).

New information and communication technologies, allows products and services to be seen, experienced or in some way acknowledged in most parts of the world with short time lag. They act as agents of change, diminishing cultural differences and driving world markets toward *"converging commonality,"* (Levitt, 1983). The world is becoming a common market place where most people desire the same lifestyles and products, currently significant market segments are considered with similar demands for the same product the world over, and communication technologies integrate producers into networks of suppliers, processes and customers´ lifestyles. By expanding its presence in foreign locations, the firm can benefit from economies of scope and scale, having access to new customers, entry in markets with greater potential, and in a broad sense get capabilities abroad.

The customer orientation of today's competitive strategy emphasizes the satisfaction of the client through the delivery of value and leads to differentiation and rapid product innovation, shortening the product life cycles (Bradley, 2002). Also, each time, higher expenses in Research and Development (R&D) need big markets to be paid on such a short-term basis.

China is one market where the trade-off of these capabilities is very attractive, since the country offers abundant workforce with low wages and rising productivity, and a huge market with enormous potential; and it is looking for technology, branding and superior management. In today's global context China is considered to be the single most important growth opportunity in the global economy. Its accession to the World Trade Organization (WTO), made the Chinese market more predicable and more accessible, turning it into a fuel for the globalization process. China is the world's factory and is indubitably a factor in every global industry. Companies around the world are feeling the impact on price levels of low labor costs in China and are suffering from the growing competitiveness of products made in China and its effect on their domestic and international market shares. China is performing a sustainable rapid economic growth, with an annual average GDP growth of around 9.7%, in the period 1980-2008, making it at present the third economy in the world; has had 15% foreign trade growth on the same period reaching the position of second commercial world power, and is the world market leader in some products and sectors. Being the most attractive country as Foreign Direct Investment (FDI) choice destination both short and long term (A.T. Kearney Index, 2003; 2007), the liberalization process of China forced by WTO accession means a lot of growth opportunities for foreigner companies (Ianchovichina and Martin, 2001; Ianchovichina and Walmsley, 2003).

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 now fixed on China, the world's largest potential consumer market (Ilhéu, 2005).

Nevertheless, given the importance of Chinese business, the presence of Portuguese companies in the People´s Republic of China (PRC) is being neglected, considering any aspect of its internationalization. Very few Portuguese companies are working in the Chinese market and that the value of Portuguese exports to that market is very low, concentrated in few group of products and very dependant of multinational companies. According with INE [1]and AICEP[2] figures, in 2006 Portugal recorded 17721 export companies, but only 293 were identified as exporters to China. In Icep´s list of the 20 top exporters, 55% are multinationals, and they are the ones that contribute more to the total value of export flows of Portugal to China. Although the value of Portuguese exports to China registered a growth trend of 20 in the period 2004-2008, the value registered in 2008 is still very low, only US$ 183 million. Behind this value, it can be observed that 57% of Portuguese exports to Chinese market concentrate in four groups of products - electrical machinery (27%), mechanical machinery (7%)., marble and granite (13%) and cork products (9%). Considering Portugal's FDI in China according to MOFCOM[3] and AICEP statistics, from 1979 till the end of 2008, Portuguese FDI in China recorded a utilized value of US$ 120.6 million, which is a small figure in absolute and relative terms. As per AICEP´s list in 2006, only 21 Portuguese companies had offices or factories in China, which means a very high failure rate during this period.

The most common explanation for this situation is that Portuguese companies are in majority Small and Medium Enterprises (SMEs), and China is a huge country and Chinese business is for multinational companies. But there are 24 000 European firms in China and 95% of them are successfully engaged in the processing trade, according

[1] INE, Foreign Trade Statistics, 2001-2006.
[2] AICEP, Portuguese Foreign Trade Institute, 2001-2006.
[3] MOFCOM, Ministry of Foreign Commerce, 2001-2006.

to Premier Wen Jiabao[4] in its speech on the EU-China Business Forum held in Helsinki in September 2006. Egurbide (2006) in El País, refer that there are 350 Spanish firms, and 1200 Italian firms in China in majority medium firms, so this could not be the only explanation for the weak Portuguese presence.

In this research we are going to investigate the role of knowledge in the internationalization process of the SMEs to a transition economy, developing an empirical explanation for the small presence of Portuguese firms in China, and analyzing in which extend the lack of knowledge constrains the commitment of Portuguese firms in Chinese market.

2. Revised literature and research hypotheses

Historically International Business (IB) activities seemed to be interesting only to large firms, namely Multinational Corporations (MNCs), but this may be changing, because in recent years a significant development within the broad internationalization trend has been the increasingly active role played by SMEs, "with advances in information and communication technologies, the globalization of markets, and other facilitating factors more and more SMEs are venturing abroad" (see Liesch & Knight, 1999, p.383). As a result an increasing number of works on international entrepreneurship are now calling the attention of scientific community (Oviatt & McDougall, 1994; McDougall & Oviatt, 2000).

Bradley (2002, p.58) states that "the small firm usually has less knowledge and information about markets than the larger firms with market scanning activity". The size of the small firm has been classically appointed as an obstacle to success in international marketing, because small firms have less knowledge on the potentiality of foreign markets and less know-how on exporting and find risks and finance demands

[4] Wen Jiabao, September 2006, www.ek.fi/businessforums/eu_chiuna/en/index.php.

too high. But, he also founds that this may be alleviated if the firm is positioned in an enterprise favorable domestic environment. Also the new technologies of communication and transport, the deregulation of external markets and the actual characteristics of financial markets enable small firms to participate in international market. This is particularly verified among high-technology firms where R&D costs, shorter product life cycles and an increase in demand for high-technology products accelerate the pace of internationalization (Bell, 1995).

The Uppsala School Model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) emphasizes learning, for example familiarization with the national cultures, as the driving force behind the internationalization process of firms. Most firms experience a large amount of uncertainty when operating internationally and, in order to reduce uncertainty related to necessary adjustment to local habits and business practices, customers preferences and market structure, the sequential steps are small, (Barkema, Bell and Pennings, 1996).

Melin (1997, p.77) stated that “firms start their internationalization on markets with the lowest perceived market uncertainty in other words markets they can rather easily understand often in neighboring countries”. They move to distant countries only after having established a presence in neighboring countries. Firms initially target neighboring and subsequently will successively enter countries with increasing “psychic distance”, in terms of cultural, economic and political differences, and also with increasing geographic distance (Bell, 1995). Psychic distance from a market is a function of the uncertainty that the market represents to the entrant; the more psychically distant the market, the greater the uncertainty the new entrant has to face (Liesch & Knight, 1999). Accordingly to Bell´s, (1995) research psychic distance, is a key factor in the selection of export market, but has become much less relevant as global communications and transport infrastructures improve and as markets became increasingly homogeneous.

In the U-Model the international process is a continuous process of incremental adjustments in two key words - "*knowledge*" and "*commitment*" (Johanson and Vahlne, 1977). Knowledge is divided into objective knowledge and experimental knowledge. Objective knowledge is obtained through collecting and treating information under the market research project, while experimental knowledge is the result of country-specific operations and cannot be transferred between firms - in other words the necessary knowledge can mostly be obtained through experience abroad (Andersen, 1993). Knowledge incorporates implicit and tacit dimensions along with those that are explicit, and codifiable. Tacit knowledge is acquired through experience and can be regarded as an intangible strategic asset (Tallman & Shenkar, 1994, Luo & Peng, 1999).

Knowledge comprises, general knowledge, meaning information on the international environment, and localized knowledge, witch refers to information on particular countries´ environment. Some forms of local knowledge are almost impossible to internalize in a research project, since they could not objectively be acquired. They are local-based intangible assets, and their acquisition results only from local operations experience. Examples of such knowledge are the local firm´s skills and capabilities to negotiate with the local governments and business community, its ability to manage local labor force, its competence to enter the local market and so forth. Access to this kind of knowledge may be difficult in developing countries and former centrally planned economies because market research infrastructure is often underdeveloped, and getting information from local counterparts may also be difficult because it needs time to develop such relationships and trust (Ghauri and Holstius, 1996).

Experience can be defined both as the intensity of exposure to a certain host country environment, which is the length of operations and the diversity of such exposure, which is the breadth of business in a given host country. With regard to length of operations: "moreover, a long established presence in a transition economy such as China often results in a favorable image perceived by local customers, suppliers, competitors and governments" (Luo & Peng, 1999, p.273). In this kind of environment companies with a high intensity of experience are likely to have superior performance, because the ones who stay longer have more time to cultivate local strong relationships with the local business community and government, and their cultural environment is group oriented, requiring wide connections and acceptance by the group to obtain business success. Experience leads to country specific-knowledge and such knowledge improves the performance of foreign operations. This positive relationship is even greater when stronger environmental hostility, dynamism and complexity are verified.

This concept is particular important when we study the internationalization process to a transition economy, which is passing from a centrally planned system to a market system, such as China, Eastern European Countries and Russia, which are emergent markets with growth potential (Qian, 2000). These transition economies, characterized by fragmented markets, unfamiliar organizational forms and inconsistent regulations, have a tremendous amount of environmental turbulence that makes the international expansion to these countries more difficult, requiring greater efforts in organizational learning. Turbulent environments with weak regulatory regimes, underdeveloped factor markets and poorly protected property rights are typically hostiles. Dynamism is an important dimension of these transition economies. A dynamic environment open up to firms more opportunities for exploitation, and exploitation in turn requires experimental knowledge. Experience in dynamic environments increases the firm's ability to scan, analyze and seize opportunities in external environments and this contributes for a better performance. Experience in this kind of environment is likely to positively contribute to the survival and growth of the firm. The complexity of these transition economies is another critical dimension of the environment because it determines the diversity of the market segments and the heterogeneity within each segment.

A firm's experience in a highly complex environment constitutes tacit knowledge, which cannot be easily learned or imitated by competitors. The growing foreign presence can be attributed to firm's accumulated knowledge about country-specific markets, which is called experimental knowledge. This kind of knowledge is "a critical resource since the knowledge needed to operate in any country cannot easily be acquired" (see, Barkema, Bell and Pennings, 1996, p.153). It can be concluded that experimental accumulative knowledge helps the firm to reduce operational uncertainties and as a result contributes to a better performance (Makino and Delios, 1996). It works as a driving force behind international expansion performance, because such knowledge cannot be easily acquired (Luo & Peng, 1999).

Knowledge and experience are ownership-specific assets and previous studies of Dunning (1988) have concluded for a positive correlation between ownership-specific assets and international success. These findings are also consistent with the Uppsala model for international process and with more recent Resources Based View (RBV) theory, which place emphasis on firm's knowledge and learning capabilities.

It can be concluded that "SMEs can achieve internationalization outcomes similar to those conventionally attributed to the larger firms not by internalizing external markets, but by internalizing information on external markets" and one of the most valued resources of a firms it is its managers´ knowledge of the external markets (Liesch & Knight, 1999, p. 386). Therefore one important investment to be considered is the cost of systematic collection and treatment of information as well as the learning from experience in foreign markets.

The concept of marketing commitment has to consider two factors: the amount of resources committed to a market and the degree of commitment. The degree of commitment reflects the decision to move resources from one market to another. The involvement of a company in a market has a progressive evolution according to the different stimuli and reasons, and it corresponds to different attitudes of a company on the market, from no regular export activities or experimental involvement to committed involvement with overseas resources commitment, mostly in the form of FDI in overseas production. The least committed stage is the experimental involvement when the management has only some perception regarding the attractiveness of the market. The active involvement is reached when experience-based expectations are done the company has key resources availability and is willing to commit them to that market. In this stage the company is working the market in a systematic way, and is expanding its presence there. The stage of committed involvement is achieved when a marketing program is developed and the performance is overcoming the barriers, the resources allocation is based on the market opportunities, the market accounts for more than 5% of total turnover of the company (Gençtürk and Kotabe, 2001).

Knowledge and commitment interact in positive spiral way: "*knowledge - commitment – knowledge*". The obtaining of knowledge of foreign markets leads to the decision to commit more resources to these markets, and the increased commitment enables the company to continue gathering improved knowledge, which drives to further commitment. Lack of knowledge is an obstacle to the development of foreign markets, through the lack of commitment of resources to those markets (Johanson and Vahlne, 1977). The decision to commit resources to Chinese market and the degree of commitment is based on knowledge about relevant aspects of Chinese market environment, that is, the knowledge of opportunities and risks is assumed to initiate the decision of commitment. Improved market knowledge will significantly reduce the perceived barriers and complexity of a market and increase commitment to the market. Lack of knowledge of Chinese market environment may constrain Portuguese companies' decision to commit resources to Chinese market.

RBV models (Barney, 1991; Conner, 1991; Fladmoe-Lindquist and Tallman, 1997) argue that stages models are too much deterministic and propose a contingency view of internationalization wherein a firm's initial reaction to foreign markets and subsequent strategies reflect prevailing circumstances and existing resources capabilities. In RBV models firms-level performance does interact with the environment of the firm. Barney (1991, p.99) suggests that "firms obtained competitive advantages by implementing strategies that exploit their internal strengths, through to responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses" which leads firms to analyze competitive environments.

RBV theories and models link competitive advantages through firm's internal characteristics with performance. Resources are valuable when they enable a firm to conceive or implement strategies that improve its efficiency and effectiveness. The classic design school strategy model "SWOT assessment of strengths and weaknesses of the organization in light of the opportunities and threats in the environment", suggests that firms are able to improve their performance only when their strategies exploit opportunities or neutralize threats in a firm's environment (Mintzberg, Ahlstrand and Lampel, 1998, p.24).

RBV models see international expansion as enlarging the scope for development of existing assets and skills to increase results of core technologies, creating opportunities through market exposure to new markets. These international opportunities can proportionate an organizational learning, build up new capabilities and reduce risks, thus competing more successfully with national and international competitors (Tallman, 1992). Knowledge and information is a critical factor to the expansion of SMEs into foreign markets, “of all the resources information and knowledge are perhaps the most critical to the expansion of SMEs into foreign markets” (Liesch & Knight, 1999, p.384). Leonidou and Katsikeas (1997,p.66) consider that “information can assist firms in improving marketing expertise, enhancing international customer orientation, adopting market-driven strategies and ultimately achieving positional competitive advantage”.

Based in the literature review described above the following hypotheses were researched:

H1: Lack of objective knowledge constrains Portuguese company’s commitment to the Chinese market.

H2: Lack of experimental knowledge constrains Portuguese company’s commitment to the Chinese market.

3. – Empirical research

3.1 – Questionnaire, sample and data collection

The questionnaire inquired about the internationalization stage of the companies in the sample, their objectives for Chinese market, their philosophy of business there, their market knowledge and experience, their degree of commitment to the market and the constraints they face. The questionnaire was tested in 23 companies in an exploratory survey with the objective of identifying opportunities and obstacles for Portuguese companies in Chinese market (Ilhéu, 2002). We performed a reliability analysis, computing Cronbach´s alpha for each set of variables that using scales to see their internal consistency which allows us to determinate how reliable a set of items or variables measuring a one-dimensional latent construct is. Cronbach's alpha varies between 0 and 1, the more near to 1 the better. In our set of variables Cronbach's alpha proved to be always bigger than 0.60, which means that these set of variables present reliable scales.

The universe of this research is all Portuguese company exporting or investing in a foreign market; this means with international experience. China is not geographical or culturally close to Portugal and if the Portuguese companies are still domestic they will not be prepared to export or invest in China, since the internationalization process is a gradual process occurring in stages, by beginning to export first to countries physical or psychological close (Johanson and Widersheim-Paul, 1975; Johanson and Vahlne, 1977; Bilkey and Tesar, 1977; Cavusgil, 1980, 1984). The objective population is all Portuguese companies exporting or investing in China (309). The target population is the objective population companies or groups that in a consistent way export or invest in China for more than 3 years (175) and the sample is composed of the target population respecting all our pre-established criterion, namely not to be a subsidiary of multinational company (111). For selecting these companies we utilized the data banks of AICEP, and the CCIL-C (Portuguese-Chinese Chamber of Commerce) which also companies in the services sector. These databases are the most comprehensive and up-to-date databases available in Portugal to access this type of information.

Owing to the small size of the objective population, it was possible to find our target population by exhaustively contacting all the companies in the database to confirm the address, fax, e-mail and the name of the high-level executive in the company responsible for business in China, to whom the questionnaire should be send. In this situation doesn't make sense to select the sample in a probabilistic way, so our option fall under non-probability sampling, and within it we utilize the technique of convenience sample, where the researcher selects the most accessible population members. In this case they were almost all accessible (Kotler, 2003).

From our target sample and we received 52 answers which mean 46.8% return rate which is quite satisfactory, given that average top-management survey response rates are in the range of 15-20% (Menon *et al.*, 1999).

Firms' majority are SMEs (75%) and are fully internationalized, with 98% of them working in international market for more than 5 years and 76% of them making 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 such as marble and granite, textiles, cork and articles of cork, and 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 exports (86.5%) and direct imports (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 investments in full-ownership legal form and 26.9% in Joint-Venture (JV) arrangements.

We researched the commitment intensity of the Portuguese companies in Chinese market, that is, we analyzed the percentage of companies committed to this market having investment in China at least with an external office there, and the percentage of Chinese market in the company's total turnover. We also inquired into the type and form of legal entity that Portuguese company's external offices.

We found out that 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. We have already referred that, to consider a firm is committed to a market it should have more than 5% of its turnover made in that market. We also mentioned that the firm's progressive commitment to an external market passes for having an external office there.

We also observed that 61% of the Portuguese firm's external offices in China are commercial representative offices, which is the legal form with less commitment in China. Since this legal form doesn't allow the foreign firm to sign any contracts in China, these offices cannot buy or sell; they can only act as representatives of the foreign firms to make procurement, promotion and similar jobs.

Only 8% of the inquired companies into are present in China exclusively with FDI in production units, and 31% have both a production units and commercial representative offices. From these investments 15% are made in the form of Wholly Foreign-Owned Enterprises (WFOEs), 31% in the form of JVs and 54% in other forms. We wanted to know which other legal forms the companies were considering, and after making phone calls, we could confirm that 31% are representative offices of banks, while the remaining are the presence of firm´s staff working in agents ´offices.

3.2 – Statistical analysis

Hypothesis 1 assumes that that lack of objective knowledge constrains Portuguese company's ´commitment to Chinese market. We researched if the availability of information that the Portuguese companies have to make their decision of commitment to Chinese market can be considered sufficient. We found out that there is a strong consensus of the firms that the information available is not sufficient (mean =1.95; std. dev = 0.60) (see Table 1). We performed the T-test for a confidence level of 0.95%, were a value lower than 2.5 would show a non satisfactory availability of information and that is what we observed ($p<0.000$), so we concluded this is a constraint.

Table1 - Availability of Information

Variables	% of Respondents (n=39)						
						Mean	Std Deviation
	Not satisfactory (1)	Little satisfactory (2)	Satisfactory (3)	Enough satisfactory (4)	Very satisfactory (5)		
Availability of information	20.5	64.1	15.4	0.0	0.0	1.95	0.60

We also inquired if the companies and their staff considered that they have a good knowledge of Chinese market. We concluded that in both variables the knowledge tends to be neutral. The means are 2.92 and 2.80 respectively, very close to neutral value, and the answers are not very dispersed since the std. devs. are not very high (see Table 2).

Table 2 - Good Knowledge of Chinese Market

Variables	% of Respondents (n=51)					Mean	Std Deviation
	Strongly agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly disagree (5)		
Our Company has a good knowledge of Chinese market	13.7	27.5	21.6	27.5	9.8	2.92	1.23
In our Company there is staff with good knowledge of Chinese market	5.9	43.1	23.5	19.6	7.8	2.80	1.08

We performed the T-test for this variables assuming that a value below 3 (since 3 is a neutral value) that has a statistical difference from the mean of the sample, would signify that the company would have a good knowledge of Chinese market. The conclusion of the T-test was that the distances between the mean of the samples and the neutral value are both not significant ($p<0.651$ and $p<0.200$) for a confidence level of 0.95% (see Table 3), so these variables don't contribute to reject or accept the null hypothesis.

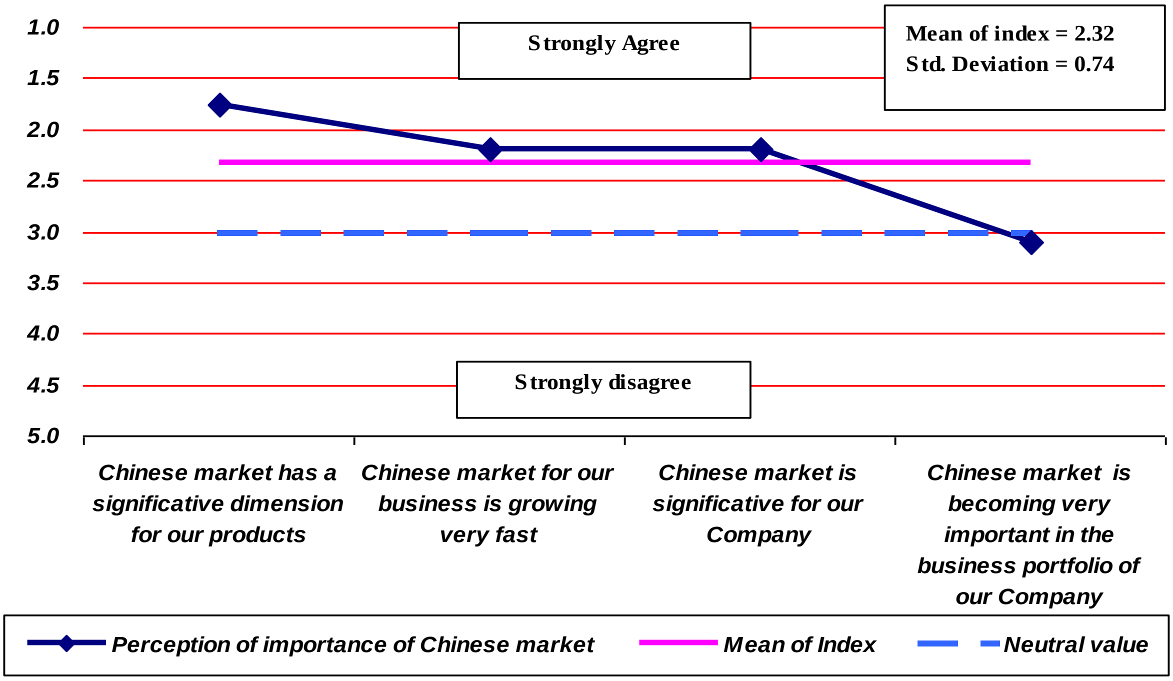
Table 3 - T-test Results to Good Knowledge of Chinese Market

Test Value = 3				
	Mean	Mean Difference	Sig. (2-tailed)	
Our Company has a good knowledge of Chinese market	2.92	-.08	0.651	=
In our Company there is staff with good knowledge of Chinese market	2.80	-0.20	0.200	=

Legend: + (stimuli) ; – (constrain); = (nor a stimuli nor a constrain)

We also researched the perception that the Portuguese companies have of the importance of Chinese market and we found out that they tend to strongly agree in a consensual way that the Chinese market is growing very fast, has a significant dimension for their products, and for their companies, but is not becoming very important in their business portfolio (see Fig.1).

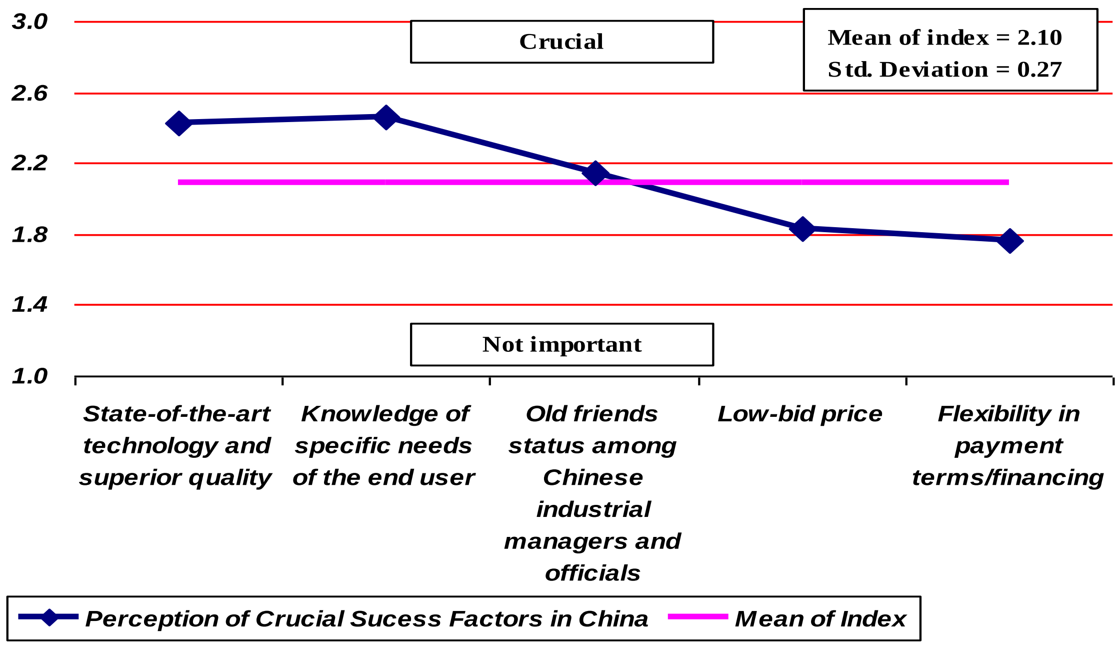
Fig.1 - Perception of Importance of Chinese Market



This is also confirmed by the index of means of the perception of the importance of Chinese market, where a mean index below 3 tell us that the company agrees that the Chinese market is important. The mean index of these variables is 2.32 with a std.dev. of 0.74, this shows that these answers are consensual. We performed T-test and the difference between the mean of index and the neutral value is significant ($p<0.000$), for a confidence level of 0.95%

We also considered it important to inquire into the Portuguese company's perception of crucial success factors in China. We concluded that the Portuguese companies tend to consider that the crucial factor to succeed in Chinese market is the knowledge of specific needs of end user followed by state of art technology and superior quality (see Fig. 2).

Fig.2 - Perception of Crucial Success Factors in China



We considered it important to compare these results with the results of a similar survey done by Engholm (1994) with managers of 150 US companies having experience in the Chinese market and ranked in Fortune 500. They were asked to answer the question "What does your firm consider crucial in order to succeed in developing business in Peoples Republic of China", (see Engholm, 1994 p.75). Although there is a lag of more than ten years between these two researches, Ilhéu (2005) shows that the crucial factors to succeed in Chinese market remain the same. Comparing the answers of both groups we can conclude that the US managers consider the most crucial factor to succeed in Chinese market, the state-of-the-art technology and superior quality and the Portuguese managers tend to consider as more crucial the knowledge of specific needs of the end user, nonetheless the conclusions are very similar.

We also consider important to investigate if the Portuguese companies have a correct business philosophy in Chinese market. On the environment survey we conclude that the Chinese are long term oriented and companies that are doing business with China should have a long-term business philosophy.

We also conclude that although the risks are now minimized with the entry of China in WTO, high risks should be considered and so the companies willing to do businesses in Chinese market should accept a business philosophy of medium-/high-risk exposure. We found out that the business philosophy of the Portuguese companies is long term oriented (80% of answers) and medium-risk exposure (60% of answers).This is an acceptable business philosophy for China if we consider that the risks are now more predicable and controllable.

In conclusion, the surveyed companies agree that the availability of information in Chinese market is not sufficient. They neither agree nor disagree that the company and its staff has a good knowledge of Chinese market. But they show that they have correct perceptions of importance of the Chinese market, the crucial success factors in China and the business philosophy in China (see Table 4).

Table 4. - Summary of Objective Knowledge Analyze

Availability of information	–
Our Company has a good knowledge of Chinese market	=
In our Company there is staff with good knowledge of Chinese market	=
Perception of importance of Chinese market	+
Perception of crucial success factors in China	+
Correct perception of business philosophy in China	+

Our conclusion is that the Hypothesis 1 should be rejected. But availability of information should be considered a constraint.

The Hypothesis 2 assumes that the lack of experimental knowledge constrains Portuguese companies´ commitment to Chinese market. We inquired if the companies considered themselves to have experience in Chinese market, and we found out that 57.7% consider themselves to have experience in that market, (see Table 5). We performed the T-test for this variable and we found that the difference between the mean =2.62 and the neutral value 3 is significant ($p<0.022$), for a confidence level of 0.95%, which indicates that the respondents consider that they have experience in Chinese market and so the null hypothesis should be rejected.

Table 5 – Experience in Chinese Market

Variable	Nº of respondents (n=52)					Mean	Std Deviation
	Strongly agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly desagree (5)		
Our company has experience in Chinese market	13.5	44.2	19.2	13.5	9.6	2.62	1.17

We also researched the intensity and diversity of experience of Portuguese companies in Chinese market to know if these indicators confirm the perception of the respondents. To know the intensity of experience, we inquired into the number of years that Portuguese companies have been working in Chinese market and we found that 52% of the companies in the sample have been working the Chinese market for more than five years and 36% for less of three years, 19% being new comers in this market. We concluded that the intensity of experience in Chinese market is medium level for the firms in this sample.

To research the diversity of experience, we analyzed the diversity of activities developed in the Chinese market by the companies in the sample we found that 63.5% perform direct export activities, 9.6% direct import, 5.8% assembling, 5.8% established JVs in China and 9.6% are still studying the market. We also concluded that only 17.3% realize more than one of these activities, namely they have a very small experience in investing in China, and we have concluded in the literature review that during all these years FDI was the most important mode of entry in Chinese market. This conclusion is consistent with the small commitment of the Portuguese firms in China demonstrated above. This means that the surveyed companies have a very limited and concentrated experience.

We can conclude that the Portuguese companies have a medium-level limited experience in Chinese market very concentrated in direct export activities (see Table 6).

Table 6 – Summary of Experimental Knowledge Analyze

Perception of experimental knowledge	+
Intensity of experience in Chinese market market	=
Diversity of experience in Chinese market	-

Legend: + (stimuli) ; – (constrain); = (nor a stimuli nor a constrain)

Our conclusion is that Hypothesis 2 should not be rejected or accepted. But diversity of experience should be considered a constraint.

4 – Conclusions

Our first conclusion is that the Portuguese companies have in general a very small commitment in Chinese market. Only 25% of the companies in the sample have an external office in China, and 72% of the companies make less then 5% of their total turnover in Chinese market. Also, 61% of the Portuguese firm's external offices in China are commercial representative offices, which are the legal form with less commitment in China; 8% of the inquired companies are present in China only with FDI in production units; and 31% have both a production units and commercial representative offices. From these investments 15% are made in the form of WFOEs, 31% in the form of JVs, 31% are representative offices of banks, being the remaining, presence of firm´s staff working in agent's offices.

The second conclusion is that the Portuguese companies agree that the availability of information on the Chinese market is not sufficient: They neither agree nor disagree that the company and its staff have good knowledge of Chinese market, but they show that they have correct perceptions of the crucial success factors in China and business philosophy in China,

The third conclusion is that the Portuguese companies have correct perceptions of the importance of Chinese market - it is growing very fast and has a significant dimension for their products and for their companies, however, it is not becoming very important in their business portfolio.

The fourth conclusion is that the Portuguese companies in the sample have the perception that they have experience in Chinese market and, analyzing the degree of intensity and diversity of their experience in this market to confirm their perception, we concluded that in reality they have a medium-level limited experience in Chinese market very much concentrated in direct export activities. This conclusion is consistent with the degree of commitment of the Portuguese firms in China demonstrated above and with the fact the Portuguese companies choose Chinese market mostly by market-driven reasons (86%) and they basically want to expand their market via direct exports (63.5%); but the mode of entry in China for most business during all this years has been through FDI (Ilhéu, 2005).

We can conclude than that experience of Portuguese companies in China, although in existence, is not enough to select the right entry mode into the Chinese market and the diversity of experience is a factor constraining Portuguese companies´ commitment in that market.

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Notes

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