



Swiss International Entrepreneurship Survey 2013

Internationalization efforts
of Swiss small and medium-sized
enterprises (SMEs)

Imprint

Author

Prof. Dr. Rico Baldegger, Fribourg School of Business Administration

Editors

PostFinance Ltd and Bisnode D&B Switzerland Ltd

Date: August 2013

Baldegger, R. J. (2013): Swiss International Entrepreneurship Survey 2013: Internationalization efforts of Swiss small and medium-sized enterprises (SMEs), Fribourg/Bern

aussehenhandel.postfinance.ch

ISBN 978-3-906201-00-9



9 783906 201009 >

Introduction from our partners

Dear Readers

You have before you the third in a series of surveys conducted by the Fribourg School of Business Administration on the internationalization efforts of Swiss small and medium-sized enterprises. Following the first two surveys carried out in 2007 and 2010, we can now make assertions and comparisons for the first time about internationalization efforts over a long period of time. We hope that this study will inspire further research and projects to support the Swiss export economy. Why?

Firstly, foreign trade is vitally important for Switzerland. Our domestic sales opportunities and resources are limited. Secondly, the know-how and quality of Swiss companies are becoming highly-valued across the world. "Swissness" is in international demand and Switzerland is a well-known and popular brand abroad. This is thanks to Swiss companies (and their exports) whose quality-conscious export services bring to life and embody Switzerland's fundamental values.

The following survey shows how and where Swiss companies are successful. It also sheds light on the various challenges for SMEs in comparison to bigger companies and born globals, which are already internationally active when they are founded. Small companies in particular sometimes have more potential in an international market than a domestic market. In order to better achieve this potential and to support these companies in their internationalization efforts, we have collected some useful and inspiring research on the aussehenhandel.postfinance.ch platform (currently available in French, German and Italian). The literature is freely accessible and constantly updated.

The partners in this study, the economic information service Bisnode D&B Switzerland and PostFinance, are proud to have helped the Fribourg School of Business Administration in this endeavour. The present survey provides important information and contributes to improving transparency regarding the internationalization of Swiss companies.

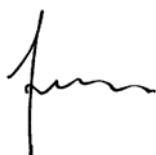
We hope this provides you the reader with useful insights, and we wish you all the best for your activities in foreign trade.



Nicole Walker
Head of Marketing – Business Customers
PostFinance Ltd



Charly Suter
Marketing – Business Customers
PostFinance Ltd

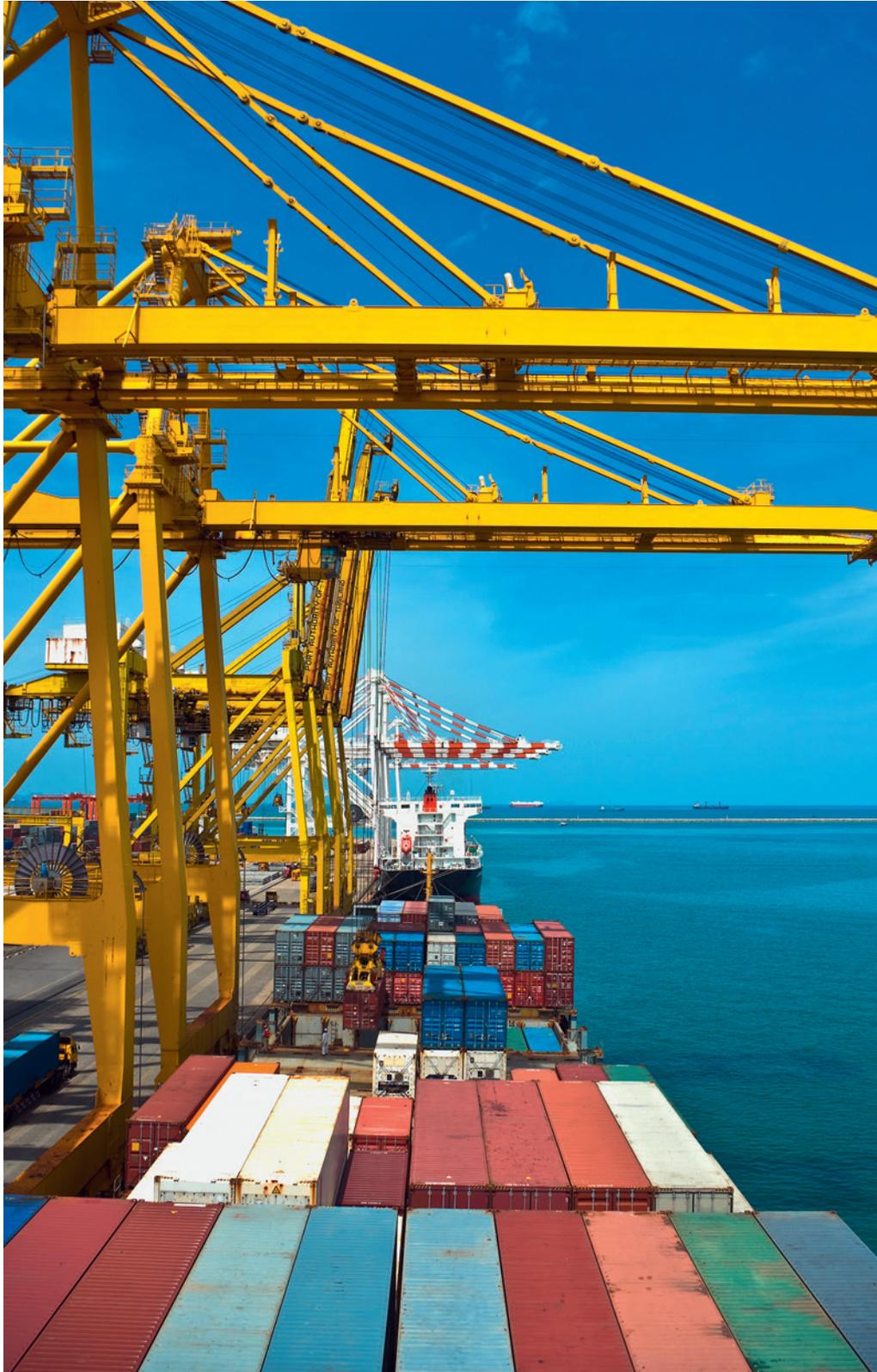


Macario Juan
Managing Director
Bisnode D&B Switzerland Ltd



Andreas Hungerbühler
Director Marketing
Bisnode D&B Switzerland Ltd

Bern/Zurich, August 2013



Expansion abroad is complex and must be well planned.

Contents

Foreword	6
Executive summary	7
1. Background, aims and scope of the survey	8
1.1 Economic context	8
1.2 Internationalization trends	8
1.3 Aims	9
1.4 Scope of the survey and description of the participants	9
2. Internationalization efforts of Swiss SMEs in a global context	12
2.1 Strategies for SMEs to enter foreign countries	12
3. Entrepreneurial view of internationalization	17
4. Reasons for and challenges facing internationalization	22
5. Implementing internationalization – obstacles and support	26
6. Factors for successful internationalization	33
7. Performance of internationalization	39
8. Conclusion	41
List of figures	43
List of tables	44
Literature	45

Foreword

The internationalization of SMEs has gained increasing importance in recent years with regard to economic policy – especially in countries with a small domestic market – and is enjoying a great deal of media coverage. Expanding abroad is considered more and more as a fundamental strategic option for gaining a competitive advantage, even for SMEs. The heterogeneity of the SME and its efforts in internationalization make it difficult to measure success or to identify the factors of success. We need to take a differential approach to the current conditions so that decision makers in SMEs can have a targeted influence on their internationalization and in doing so gain more efficient and effective support from public and private internationalization advisors.

For a start we need to know which different types of SME there are. Young, globally active Swiss companies, for example, which, in their role as important leaders and developers of innovation, provide highly qualified work forces with an interesting task. Other examples are medium-sized companies which are present in international markets and have more success in traditional sectors than established providers, or SMEs which successfully expand their international focus and break into new markets through constant innovation. All of these medium-sized companies, along with major global corporations, find their place within the spectrum of internationally active companies.

Furthermore, the attitude and views of the entrepreneur regarding internationalization are an interesting topic which could provide useful insights into which operating framework should be used in the future to increase success in foreign markets.

The following report is based on a comprehensive survey on the topic of internationalization of Swiss SMEs. After the first two surveys in 2007 and 2010, this research sheds light for the third time on the interesting facts of international entrepreneurship in Switzerland which also relate to insights on the corporate vision amongst small and medium-sized enterprises. On the one hand, Switzerland's entrepreneurial potential is cause for optimism, however this survey clearly demonstrates that there is a need for improvement at various levels, for instance better supporting companies in their internationalization efforts.

We hope that as many SMEs, managers, professors and internationalization advisors as possible get ideas, impetus and motivation to help strengthen the competitive edge of Swiss SMEs on the basis of innovation and entrepreneurship.

Executive summary

The following survey investigates the state of internationalization among Swiss SMEs and highlights the new trends. With the help of the Bisnode database, a multi-lingual (German, French, Italian, English) questionnaire was sent to the decision-makers of SMEs involved in export activities. Thanks to the large amount of interest in the topic, many of the companies came out of anonymity and showed a lot of interest in the workshops which were held across Switzerland in autumn 2013.

The entrepreneur was at the centre of the survey with his global vision and the acknowledgement that the required skills of a management team differ at every stage of a company's life cycle. This is why it is important to recognize early on which skills are essential for the current situation, act accordingly and acquire any lacking expertise. The key to successful internationalization is without a doubt the entrepreneur or management team. The international experience of the entrepreneur or team is vitally important. In the present survey, the current influence of international experience is confirmed. It is therefore suggested that an internationally experienced leadership team is employed before planning to move across the border. The importance of international experience should not be underestimated, and it not only influences the speed of internationalization, but also its success.

The survey clearly demonstrates the importance of adequate preparation for the internationalization process as well as a strategy which is based on the company's own expertise. By looking at the example of other companies which have succeeded in positioning themselves in the international value chain in an innovative way, decision-makers can learn how to maintain a competitive advantage in foreign markets. The results suggest that entrepreneurs and SME managers invest less in material assets and more in sectors which directly generate a competitive advantage. That includes, for example, research and development as well as the creativity of employees. The practical examples show the many modes of internationalization available for SMEs and clearly demonstrate to managers that internationalization does not necessarily result in the export of market services, but rather that internationalization can help to achieve a specific position in the international value chain.

1. Background, aims and scope of the survey

1.1 Economic context

Switzerland topped the list of competitive countries in the World Competitiveness Ranking of the World Economic Forum 2012 (Schwab 2012), ahead of Singapore which moved down to second place. What proved crucial for achieving this outstanding position atop the rankings was Switzerland's strong performance in areas of efficiency, labour market, technology, innovation and business culture – despite the global financial and economic crisis.

Although the Swiss domestic economic situation is in good shape, as the strong growth in gross domestic product (GDP) for the first quarter shows, certain sectors are exposed to the economic peaks and troughs abroad and are currently suffering from the continued precarious economic situation in Europe. According to the most recent economic data for the first half of 2013, several countries find themselves in a persistent recession with no recovery in sight.

Investment in equipment is also cause for concern as it has been on the decrease for a year now. There is much to suggest that companies are not prepared to invest whilst the current capacities are not pushed further and whilst the receipt of orders does not signal a clear revival for business performance.

The companies under the most pressure are those in the export business which are suffering not only from the recession in the important European sales market, but also from the strong Swiss currency. In comparison to the dominant trading currencies, this is only 13% below the record level observed in August 2011 (Rütti 2013).

1.2 Internationalization trends

When we look at internationalization it is evident that a few years ago all the talk was of globally active major corporations whereas now internationally active SMEs are drawing increased attention. In the heterogeneous picture of SMEs, a considerable amount of companies are still operating in a local, regional or national sales market. The number of dynamic and innovative micro and small enterprises which are internationally active or are planning to build up an international business, is however visibly increasing.

The internationalization of SMEs has become more of a hot topic in various countries over the last few years, be it to describe the internationalization process or to elicit the reasons for and obstacles to internationalization. Numerous empirical studies have been carried out, above all in countries with a small domestic market, which address the reasons why companies initially strive to achieve fast internationalization. Further insights into the key factors of successful internationalization are extremely valuable to SME management, investors, researchers and public research institutions who are all interested in improving their knowledge in this area.

1.3 Aims

The aim of the following survey is to investigate the internationalization efforts of Swiss small and medium-sized enterprises, which are already operating, abroad in order to gain insights into the internationalization process as well as the factors for successful internationalization. The study focuses on the competitiveness of international SMEs and is centred around the following sub-goals:

- Gaining insights into the attitude of entrepreneurs towards internationalization in order to, amongst other things, recognize international opportunities for business and to align their company with them
- Verifying the existence of rapidly internationalizing global start-ups
- Eliciting the factors for successful internationalization
- Preparing and formulating recommendations for decision-makers in SMEs, internationalization advisors and consultants

1.4 Scope of the survey and description of the participants

A cross-sector, quantitative survey of internationally active Swiss SMEs was carried out between March and May 2013. The survey was aimed at company **decision-makers**. The results are based accordingly on the answers of company founders and CEOs (49.4%), CEOs (13.5%), successors and CEOs (19.4%), senior management (7.8%) and others (9.9%) who are involved in making strategic decisions. The respondents have been in their current role for on average 14 years, whereas decision-makers in medium-sized enterprises have been in their position a slightly shorter time, with an average of 12 years.

In total, 876 evaluable questionnaires were returned (online or on paper), representing **788 Swiss SMEs** from all over the country. The average age of the respondents was 31 years. They were categorized according to their size (see table 1): 382 of them, i.e. 48.5%, number among the smallest companies. They have on average four employees. The 294 small businesses represent 37.3% of the SMEs polled and have on average 21 employees, while the 112 medium-sized businesses, i.e. 14.2%, employ on average 107 people.¹ Around half of the decision-makers interviewed work in family businesses, which represent between 45.7% and 52.2% of businesses per size category.

¹ According to the Swiss Federal Statistical Office, the effective distribution in Switzerland is 87.37% for the smallest businesses, 10.65% for small businesses and 1.99% for medium-sized businesses.

	Total number of companies (2012)	Number of companies as percentage	Average number of employees (2012)	Average age of the company (2012)	Number of family businesses as percentage
0–9 employees (smallest businesses)	382	48.5%	4.1	20.1	45.7%
10–49 employees (small businesses)	294	37.3%	20.8	35.6	52.2%
50–249 employees (medium-sized businesses)	112	14.2%	107.1	55	45.5%
Total	788	100%	25	30.8	48.1%

Table 1: Structure of the sample according to company size

The **sectors** represented in this survey can be classified as follows: 1.5% come from the primary sector and include agriculture, silviculture, fishing, hunting and cattle farming, use of hydroelectric power and mining. 65.2% come from the secondary sector, which covers the manufacturing industry, production of goods, energy and water supply, waste disposal and environmental pollution management activities. 33.3% of the survey participants fit into the tertiary sector, which covers a wide range of services such as trade, transport and storage, information and communication technology, the hospitality industry, gastronomy, finance and insurance services, real estate, public administration/defence, social security, education, health and welfare and other such services. In Switzerland, 3.5% of employed people work in the primary sector, almost 23% in the secondary sector and almost 73% in the tertiary sector.² The secondary sector is therefore strongly and adequately represented, since this survey is focused on SMEs and the tertiary sector is mainly made up of bigger companies.

Classification in size categories, adjusting ownership structures or sectors were only mentioned in part by the companies polled. What is also interesting is which direction you take and what is important to you. In order to better characterize the SMEs represented in this study, **elements of their competitive strategy** will be described in more detail below (see figure 1). Customer service (average value³ 6.46) and product quality (AV 6.27) are of the utmost importance, combined with long-term considerations about profitability (AV 6.17), efforts concerning the company's reputation (AV 6.13) and experienced and trained personnel (AV 6.11). Security-motivated measures such as the purchase of raw materials (AV 4.13) and maintaining a high level of stock (AV 2.9) are less important for the SMEs questioned but have however generally increased in importance in comparison to 2010. The minimization of external financing was clearly less important in 2010 (AV 3.84) than in 2012 (AV 4.66).

² According to the Swiss Association of Employers.

³ The average values (AV) are based on a scale from 1 to 7.

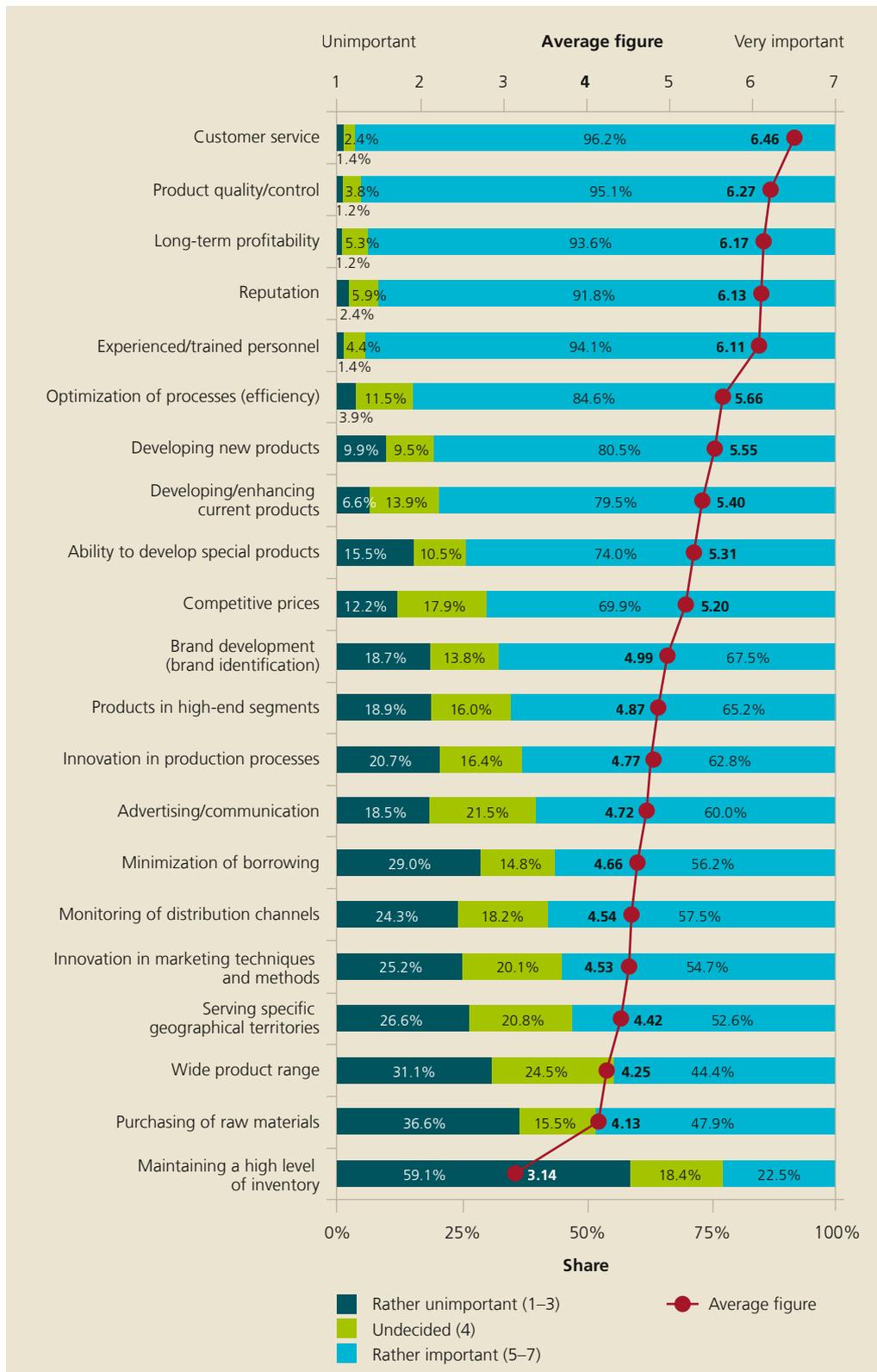


Figure 1: Importance of elements of a competitive strategy

2. Internationalization efforts of Swiss SMEs in a global context

Following the description of the survey participants, the study will now focus on the internationalization efforts of companies. In recent times, due to the expansion of international value chains and the support of network organizations, more and more smaller companies have followed their major customers and have changed countries where they operate, and their timing. In light of this development we must take stock of the situation in order to be able to take a differential view on efforts towards internationalization. A main part of this is analyzing how SMEs enter foreign markets.

2.1 Strategies for SMEs to enter foreign countries

Some companies opt for the so-called **sprinkler strategy** which targets various countries and continents; others choose the **waterfall strategy** as an option, whereby the company gradually starts operating in one country after another. With this method you can continually gather valuable experience for the next market.

The majority of SMEs polled (61.4%) undertake **gradual internationalization** (see figure 2) – as already established in the 2007 and 2010 SIES. A distinguishing feature of this type of internationalization process is that each step is defined by the entrepreneur's specific approach, and the use of resources, along with the uncertainty, increase with every step (Johanson/Vahlne 1977). You only take limited risks at each phase as the company invests step-by-step and gradually gains experience which is useful for the future course of action. Most often the markets which are close geographically or socio-culturally are the first to be worked on and only after gaining some confidence do companies risk embarking on markets further afield.

In recent years, alongside the companies which internationalize gradually, the existence of a unique type of company, the born global, has been established, including in Switzerland (Oviatt/McDougall 1994). The born global is a company which already operates in various foreign markets shortly after or even right at the beginning of the commencement of business activities. Studies furthermore confirm the special behaviour of **born globals** in the internationalization process and the need to sketch out an individual profile. The present survey established that 19.4% of the SMEs questioned can be described as born globals.

Born globals however are not to be confused with **born internationals** which internationalize immediately, but not in a global way. These are young companies which focus on closer foreign markets and therefore remain on the same continent (Kuivalainen et al. 2007). 10.7% of the SMEs polled fit this description.

A fourth type of company is the **born-again global** (Bell et al. 2001, Baldegger/Wyss 2007). This type of company, in contrast to the traditional gradual approach, is characterized by a long-standing focus on the domestic market before it suddenly and quickly internationalizes without having previously shown any great interest in doing so. Critical incidents are responsible for companies suddenly altering their strategy and strongly pressing ahead with internationalization. Critical incidents can refer to events which strongly influence corporate development, e.g. change of owner, company acquisitions or following customers into international markets. The change of focus from being a company centred around the domestic market to becoming an international company is usually caused by an influx of new human or financial resources, the access to new networks in foreign markets or the acquisition of new product and market knowledge. Around 2.4% of the 788 companies questioned fit the profile of a born-again global and 6.1% fit that of the **born-again international**. A fifth type refers to companies which internationalize late but then enter close foreign markets much more aggressively.

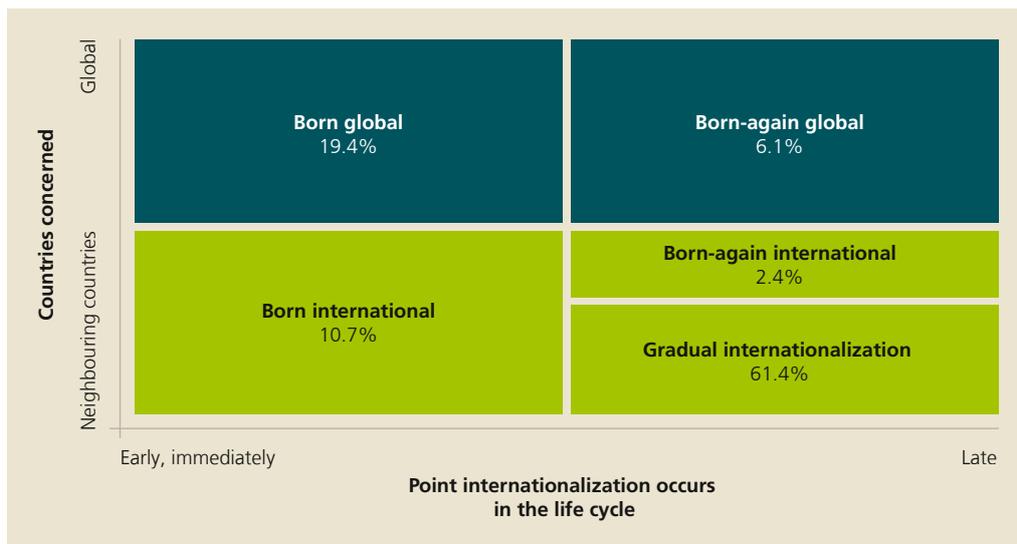


Figure 2: Internationalization typology

We can add concrete details to this analysis. Firstly, the intensity of exportation and its development over the years is relevant here (see figure 3). On average 56.2% of turnover in 2012 resulted from export, whereas the proportion of export only marginally increases with the size of the operation, as the results for small businesses (56.6%) and medium-sized businesses (57.5%) show. Even micro businesses can claim an export percentage of 55.4%. However in the past three years a gentle increase in export intensity has been observed among the companies questioned.

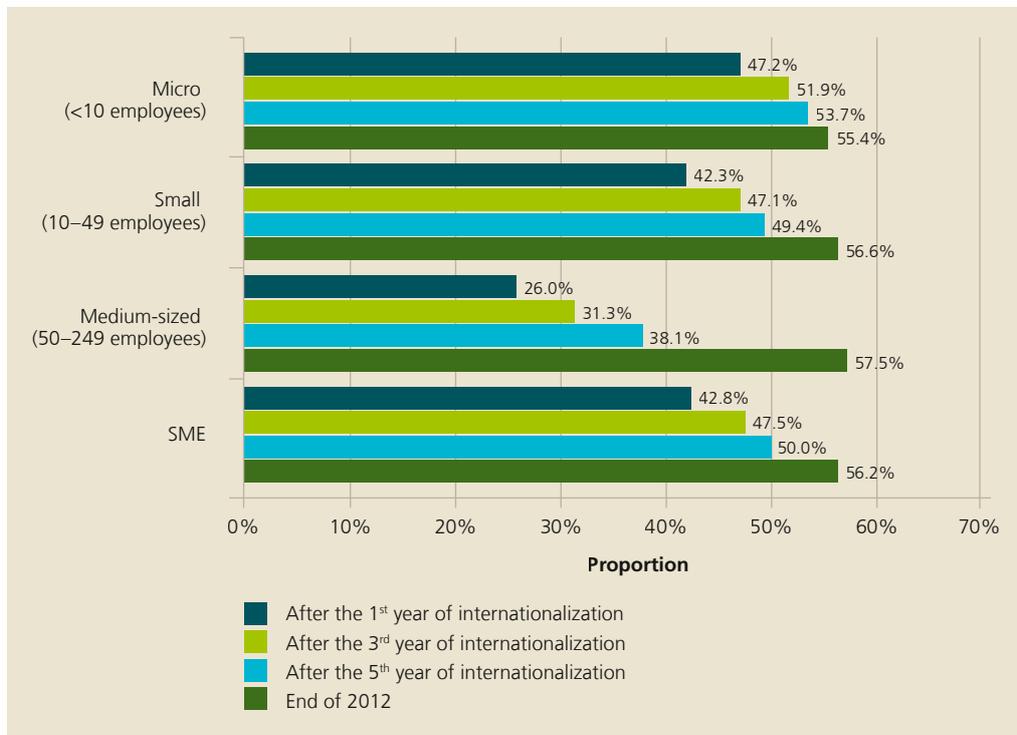


Figure 3: SME's export intensity: average proportion of exports as a percentage of net sales

General expansion abroad is never long in coming. Table 2 provides more background information about internationalization. After one year, small and medium-sized enterprises operate in 3.8 foreign markets, which are not limited to one continent. After three years this figure climbs to 6.2 and after five years to 8.5 foreign markets on more than two continents. Today, the geographical expansion of Swiss SMEs has reached an average of 14.3 foreign markets across 2.6 continents. Born globals are not only conceptual but can also be labelled as practical and empirical due to an even quicker internationalization speed and range. After just one year they operate in 7.2 foreign markets, after three years in 11.5 and after five years in 14.6 foreign markets, which are even more spread-out geographically. In 2012 they had the highest internationalization quota by targeting 18.1 additional markets in more than three continents to achieve their goals. Born globals achieve an average foreign sales rate of 84.2% in these markets.

	Smallest businesses	Small businesses	Medium-sized businesses	Average SME	Born globals
Proportion of total sales from foreign sales	55.4%	56.6%	57.5%	56.2%	84.2%
Foreign markets after the first year of internationalization	4.0	3.7	3.7	3.8	7.2
Number of continents after one year of internationalization	1.6	1.5	1.5	1.6	2.3
Foreign markets after three years of internationalization	5.9	6.8	6.4	6.2	11.5
Number of continents after three years of internationalization	2.0	1.9	1.9	1.9	2.9
Foreign markets after five years of internationalization	7.0	9.6	11.1	8.5	14.6
Number of continents after five years of internationalization	2.1	2.2	2.2	2.2	3.2
Foreign markets 2012	8.6	16.7	27.1	14.3	18.1
Continents 2012	2.3	2.9	3.2	2.6	3.3

Table 2: Key figures of internationalization

Expansion into a foreign market most often occurs first in a neighbouring country before probing geographically, physically and culturally distant regions such as Asia, North America and Eastern Europe. Table 3 depicts exactly this kind of internationalization, with increased involvement abroad at every step, which means 93.4% are present in Europe, 49.2% in Asia, 40% in North America, 25% in South America, 19.8% in Africa and 21.2% in Australia/Oceania (see table 2). Born globals are however the most present in Europe, but can also be found in other continents. No other type of internationalization is more present on the ground than this one, especially in Asia, North and South America, as well as in Africa, Australia and Oceania.

	Europe	Asia	North America	South America	Africa	Australia/Oceania
0–9 employees (smallest businesses)	92.9%	43.2%	31.4%	18.3%	14.9%	13.1%
10–49 employees (small businesses)	93.5%	54.4%	46.3%	29.9%	25.2%	27.2%
50–249 employees (medium-sized businesses)	94.6%	56.3%	52.7%	34.8%	22.3%	33%
Average SME	93.4%	49.2%	40%	25%	19.8%	21.2%
Born globals	94.8%	82.4%	66%	45.1%	37.3%	35.3%

Table 3: SME's international activity per continent (as per end of 2012)

When we also take **family companies** into consideration we can observe the following: Family companies are classified less often than born globals (15.6%) in comparison with non-family companies; they generally deal with the topic of internationalization later on. A non-family business operates abroad for 6.1 years whereas for family businesses the figure is 11.5 years. Their proportion among born internationals (11.4%) is similar to that of non-family businesses (10.1%). If we consider later internationalization, born-again internationals make up a similarly low percentage of family businesses (1.9%) as do non-family businesses (2.9%). Finally, born-again globals are also found among Swiss SMEs. They are more common than born-again internationals. 6.6% of family businesses and 5.7% of non-family businesses fall under this category.

In conclusion, it is clear that almost two thirds (64.5%) of family businesses among Swiss SMEs expand abroad gradually (versus 58.2% of non-family businesses). This however means that for more than a third of family businesses and more than 40% of non-family businesses a different, non-geographical approach is adopted.

A further insight rounds off the general principles influencing the internationalization efforts of Swiss SMEs: Decision-makers admit that the number of employees involved in international projects will generally and on average increase over the next three years. The smallest businesses are the only ones not anticipating significant growth. We can expect somewhat less growth among all size categories (see figure 4), especially if we make comparisons with the **growth estimates** from 2007 and 2010. This also applies to born globals.

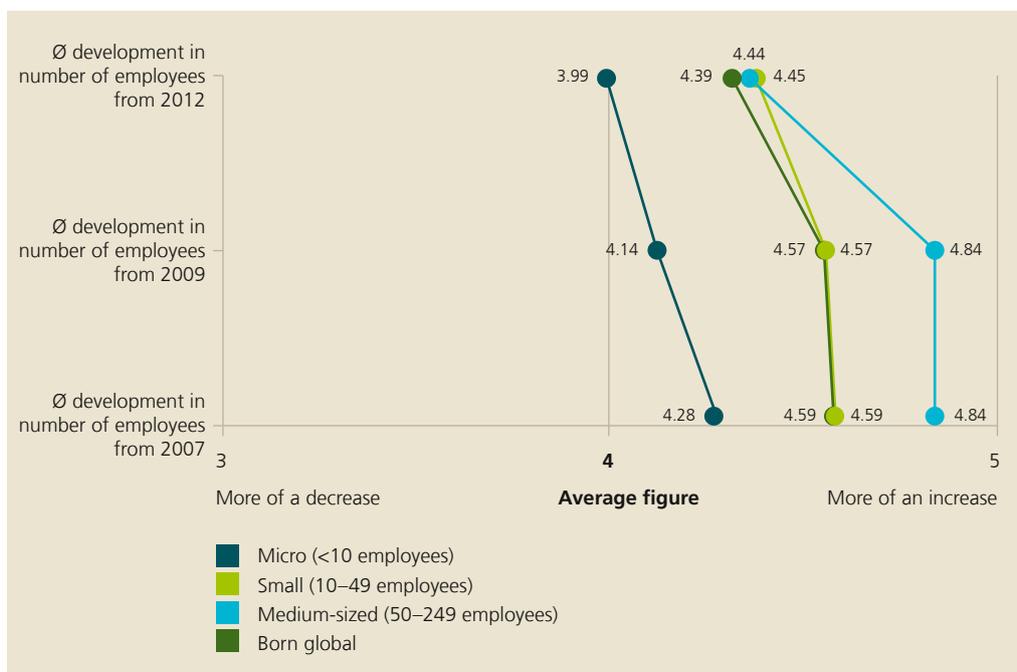


Figure 4: Growth estimates

3. Entrepreneurial view of internationalization

Next we want to know how to recognize and make the most of international opportunities. Various surveys in the past have already examined the influence of factors on the internationalization of SMEs. In the same way we are now dealing with entrepreneurial thinking and actions. We are investigating the potential which exists when a company's internationally orientated, entrepreneurial approach – International Entrepreneurial Orientation (IEO) in the technical jargon – and new business opportunities meet and become relevant for the first time. If this potential is recognized and understood correctly then internationalization processes can be mastered effectively over time.

A company has to rise to the challenge because internationalization as a new process requires new and different competencies. The skills you have acquired up until now may well have been sufficient for your old goals and tasks. An imbalanced development of sales or value-creating activities without adjusting the skill set at the same time would be taking a real chance. The entrepreneur and his management team have a key role here as it is they who must see to providing an integrated and parallel continued development of these factors. Local activities should be approached with local expertise, and international activities ideally with international expertise. This is where the international experience of the entrepreneur or the top management team proves to be essential.

At the same time we must point out that markets and success factors are continuing to develop and change faster than ever before. China in the past ten years alone has developed from the widespread cliché of being purely a “workbench for the world” into a prime location for research and development. “The Middle Kingdom” spends more on research than the whole of Europe. Where purchasing, production and logistical competencies were more dominant in the past, R&D competencies are becoming noticeably more important in the country. They are becoming more crucial for the market success there. But China just represents one target country where there is enormous vitality.

On a related note, this survey came to the happy conclusion that more than half of the respondents already had professional **foreign experience** or lengthy stays abroad under their belts (see table 4). Almost half of the professional experience was also gained in international companies. 22% were even educated abroad. However it is worth noting that alarmingly a quarter of the respondents had no experience abroad whatsoever. Interestingly, small businesses already have a considerable amount of international experience, both in the form of professional foreign experience (53.1%) and in the form of experience in an international company (51.3%). However the percentage of internationally educated workers is higher in bigger companies. What is not surprising is that born globals have considerably more international experience over all three indicators at the time of the first internationalization than the average SME.

	Professional experience abroad/extended stay abroad	Professional experience in an international company	Education abroad
0–9 employees (smallest businesses)	53.1%	51.3%	24.9%
10–49 employees (small businesses)	46.9%	43.9%	19.4%
50–249 employees (medium-sized businesses)	39.3%	36.6%	12.5%
Average SME	48.9%	46.4%	21.1%
Born globals	61.4%	65.4%	35.3%

Table 4: International experience at the time the first steps are taken toward internationalization

The previously mentioned **International Entrepreneurial Orientation** describes the basic attitude of both a company and individual executives and managers in connection with their opportunities and competitive positioning in international markets. This openness towards international, entrepreneurial activities, as well as the interest and focus on them, significantly influences both the degree and success of the internationalization.

Subsequently the international, entrepreneurial orientation immediately gains strategic value and helps shape the corporate culture. Openness towards innovation, the actual ability to innovate and the results thereof, a tendency to dare to take bold steps rather than aiming for small improvements, and a propensity for taking risks combined with a pinch of competitive aggression, are all attributes which can make up the international, entrepreneurial orientation. By studying these aspects empirically, we obtain the following results for Swiss SMEs (see figure 5):

In recent years the majority felt they needed to rethink the positioning of the company and the products or services due to the competitive environment. Furthermore, in the majority of cases new products or services were put onto the market. In this context there appears to be a minimal preference for radical advancement as opposed to more cautious ideas and small advances. Interestingly, the respondents can be divided into three groups. Firstly, decision-makers, who prefer safe projects with conservative yields. Secondly, those who approve of high-risk initiatives with above-average opportunities and yields. Thirdly, those who think both of these approaches are correct.

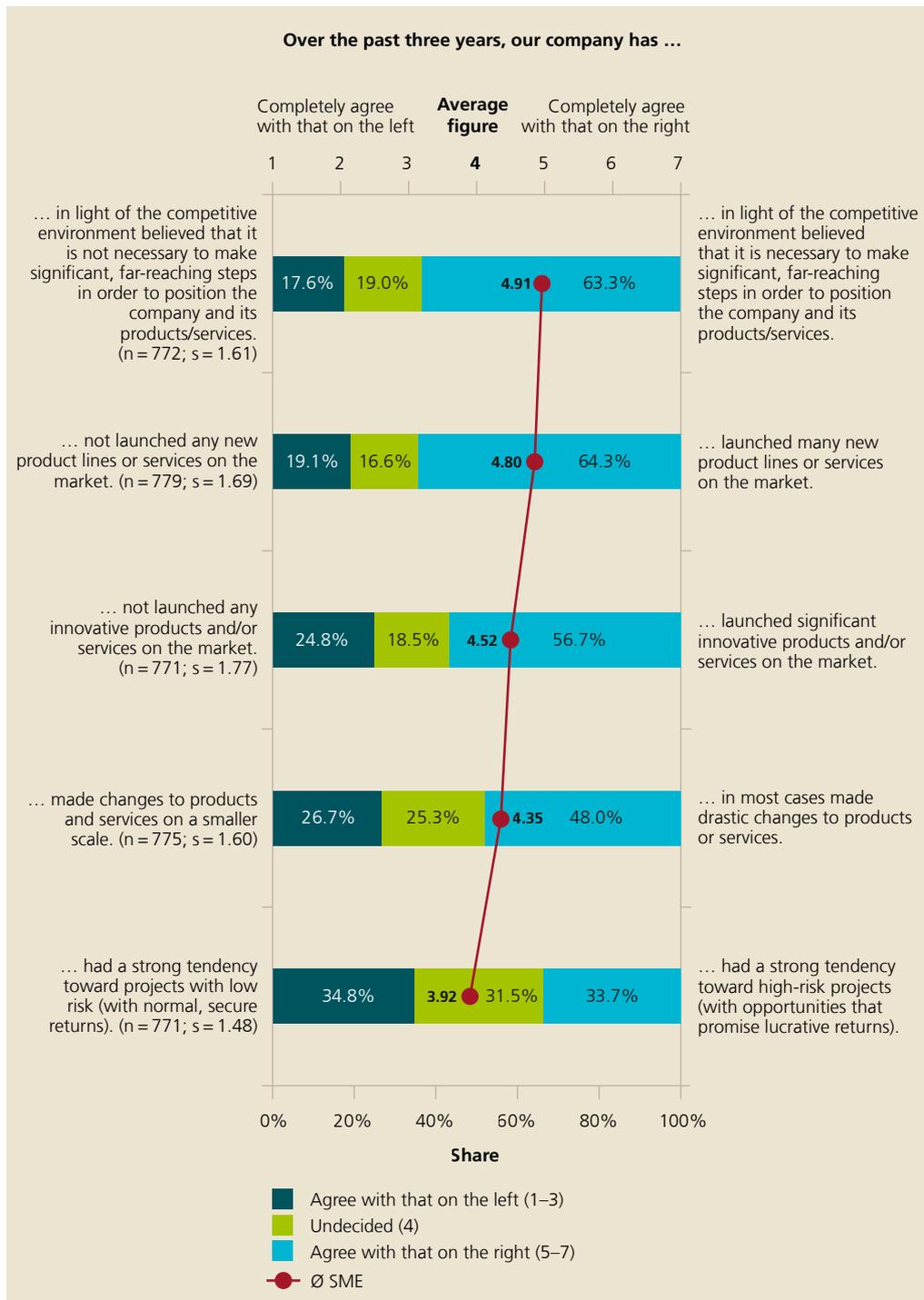


Figure 5: Effects of an opportunity-oriented strategy

When judging whether or not the size of the company plays a role here we can see that the smallest businesses and small businesses with up to 49 employees have a drastically less risky and aggressive approach. In their niche they seem too small to be taken on seriously and aggressively by the competition. In the subsequent growth phase the SMEs depend less and less on established ideas and solutions. They focus on research and development as a way to secure further marketing success. They strive to expand their technological leadership and innovations overall.

To round off the integrated understanding of the international, entrepreneurial attitude we must examine the perceptions and approach of SMEs when confronted with opportunities abroad. The following survey on **recognizing business opportunities** (see figure 6) illustrates to what extent the decision-maker's attitude is focused on opportunities. It shows that the ability to recognize business opportunities in Swiss SMEs is very highly developed. The overwhelming majority of decision-makers love approaching things in innovative ways. There are enough ideas not only for new products and services, but also for the growth of the company in general. As this survey shows, the decision-makers possess the ability to regularly spot new business opportunities which either already fit with the company as it is or can be turned into start-ups.

Decision-makers have to make sure they do not get ahead of themselves in order to ensure that these do not just remain theoretical or wishful thinking. It can be tempting to have too many aims, ideas and projects. Time should be set aside to reflect. The majority of decision-makers questioned in this survey agreed that they actually had thought about several business opportunities and ideas in recent months. This could lead to a new project or a new company. At the same time however there are many SMEs whose management disregard the possibilities for reflection. In around four out of ten SMEs there is a need for improvement, regardless of the size of the company.

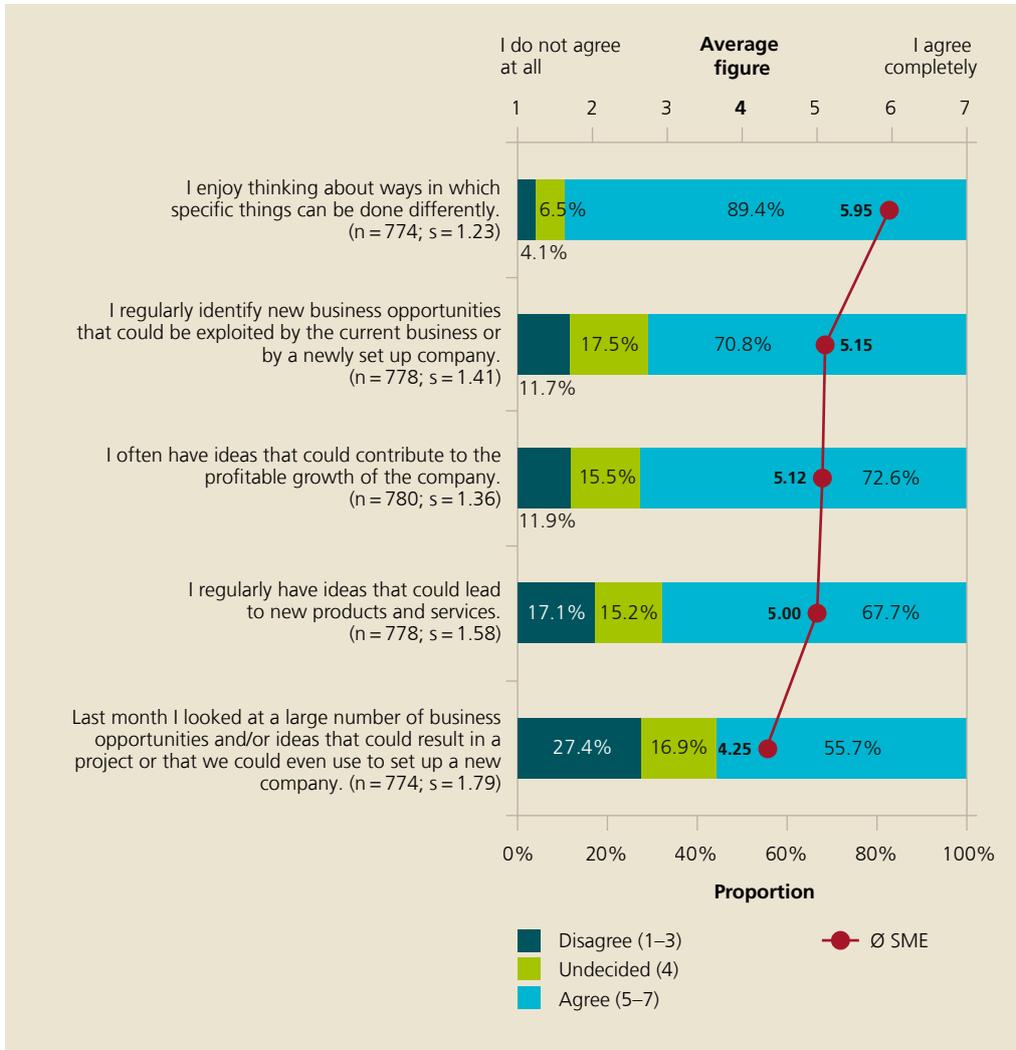


Figure 6: Recognizing business opportunities

4. Reasons for and challenges facing internationalization

Managing internationalization – from planning to implementation – is not to be underestimated for SMEs. Internationalization, as a key event for the company, can in fact determine its course of growth. The timeframe for planning internationalization, the motives and the form which the entry into the foreign market will take, need to be critically examined.

We cannot simply reduce the **reasons for internationalization** to a pull effect of the foreign market or a push effect of the domestic market. Of course this survey, as the results (see figure 7) show, demonstrates that foreign customers (71.8%) are an important and, over the years, enduring reason why SMEs devote themselves to the foreign market. There are however many other reasons for internationalization.



More and more SMEs are expanding into foreign markets.

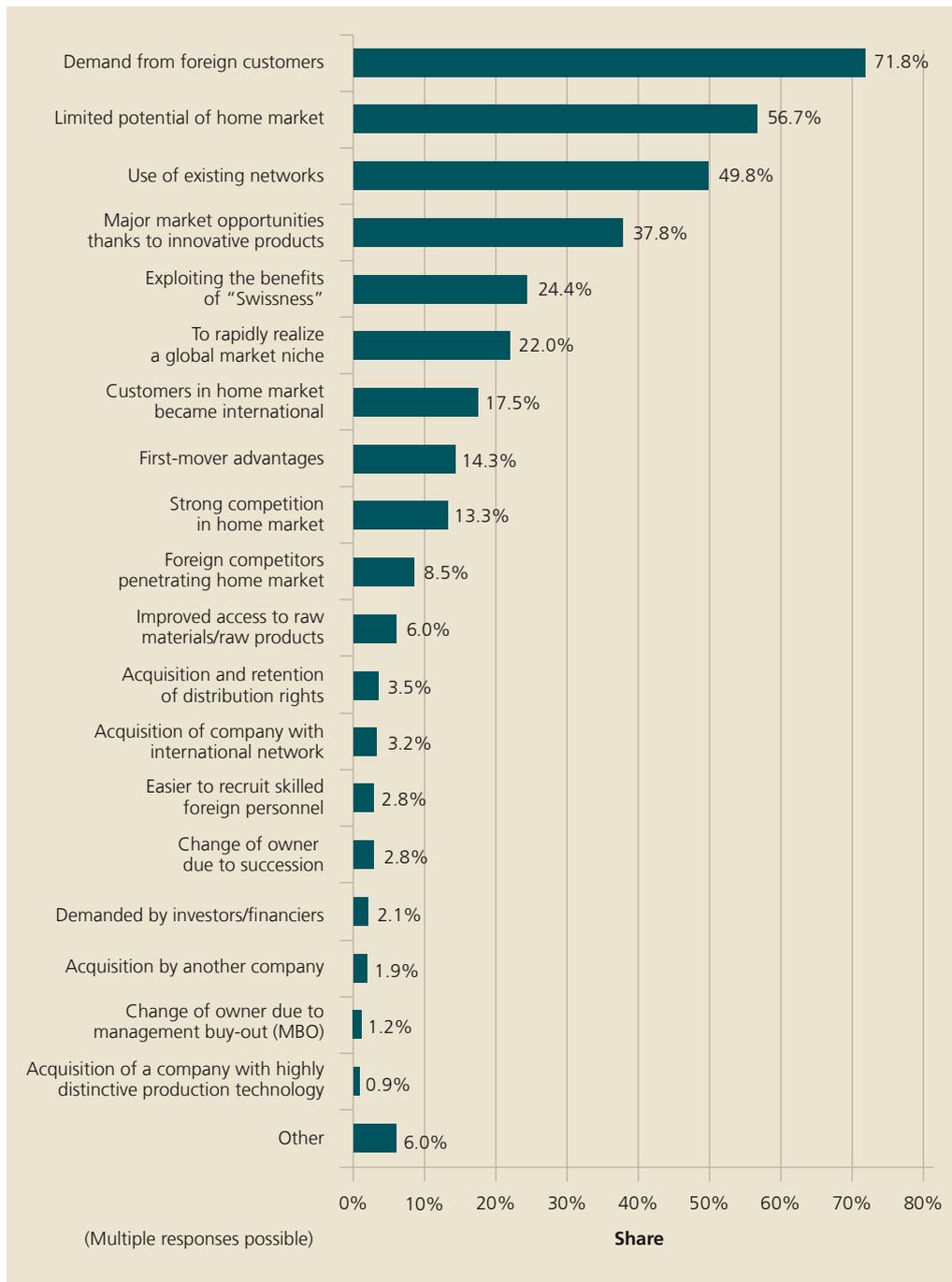


Figure 7: Reasons for internationalization

The second most often cited reason is a limited domestic market (56.7%), followed by the use of existing networks (49.8%). This is no wonder as networks have advantages in terms of trust and cost. Furthermore, knowledge exists more and more within networks these days. The intensive use of these networks now represents the third most important reason why decision-makers questioned in this survey opt for cross-border expansion. Furthermore, 37.8% of responses are based on the assumption that market chances arose as a consequence of innovative products. This also shows a certain type of dynamic. In the previous survey of 2007, networks were only the fourth most important factor in 35.9% of cases, and market chances arising from innovative products were third in the table in more than 50% of cases. Networks have therefore become more and more important in recent years.

When considering how to go about implementing expansion plans, the following can be established (see figure 8): Direct export (AV⁴ 5.62) is the most common and most successful **sales channel** for Swiss SMEs. It is also the form of market entry which companies abandon least at a later time. Of course the advantages outweigh the disadvantages of direct export in the present cases.

One clear plus-point of direct export is the direct nature of the business relationship, although around half of the companies polled did describe their range of services available as a complex product system. Parallel to this there is an intense interaction which cannot be dealt with by trade organizations or intermediaries. The low use of resources (compared with other forms of internationalization), the knowledge gained about the country, market and business partner and the low infringement on profit margins are all essential for SMEs. A lack of knowledge of the host country and failing to be accepted there are the most commonly mentioned disadvantages, although they did not feature prominently among the companies asked. Indirect export (AV 4.15) via agencies and market aides were mentioned the second most frequently, followed by market entry via industrial consumers (AV 3.93).

⁴ The average values are based on a scale of 1 to 7.

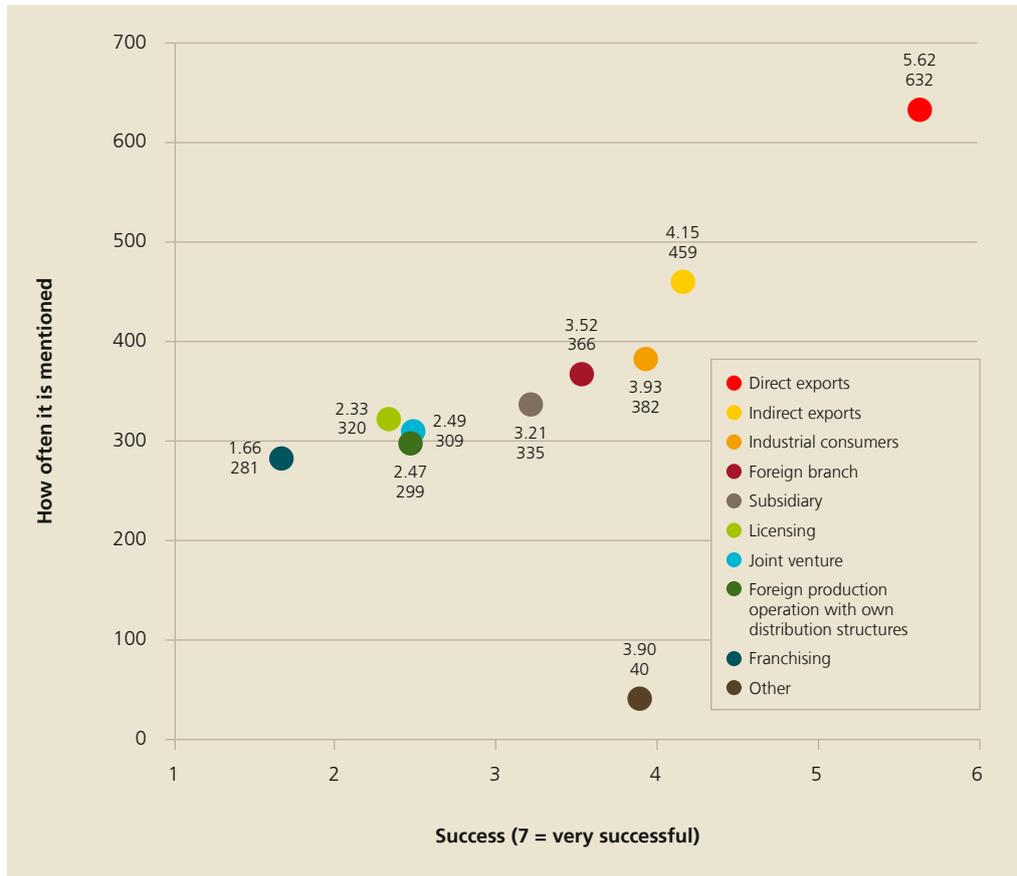


Figure 8: Frequency and success of sales channels in the internationalization process

Due to the higher need for resources and the larger range of cultural, linguistic and/or legal differences, foreign direct investment as a form of internationalization is undertaken much less frequently than the export form. The SMEs polled confirm that foreign branches (AV 3.52) and subsidiaries (AV 3.21) are only moderately successful.

In practice the less successful franchising system (AV 1.66) is only used very rarely. Furthermore, in 36% of cases franchising is given up on. As franchising is an entrepreneurial overall concept (procurement, turnover, organization and management concept) which only partially meets the needs of the companies polled, this finding is not really surprising. Franchising is most often used in areas where a higher degree of standardization is advantageous. Standardization is undoubtedly more suited to complex product ranges, as opposed to those which require a differentiated approach.

5. Implementing internationalization – obstacles and support

The internationalization process forces companies to adopt a completely different qualitative and quantitative approach to problems. Along with the usual challenges of purchasing, logistics, production, marketing and sales as well as those raised by support functions such as IT, finance and accounting or human resources, many decision-makers are faced with the challenges of finding out how best to deal with these tasks in an internationalizing network. This is the other side of the coin as internationalization on the one hand offers enormous advantages such as access to customers, capital, personnel, opportunities for learning, inexpensive or high-value materials, etc. However it also inevitably makes things much more complicated. It is therefore very important that we do not ignore this flip-side, but rather seek to proactively understand it and devise solutions to it. The more pronounced the internationalization, the more the decision-makers have to devote themselves to it. Table 5 summarizes various aspects of the internationalization of Swiss SMEs in relation to the size of the business and compares them with born globals.

	Number of years until internationalization	Number of continents after three years	Number of continents at the end of 2012	Number of years in the internationalization process	Number of countries 2012	percentage of foreign sales 2012
0–9 employees (smallest businesses)	3.5	1.97	2.3	16.75	8.62	55.4%
10–49 employees (small businesses)	10.4	1.87	2.9	24.83	16.73	56.6%
50–249 employees (medium-sized businesses)	23.1	1.89	3.2	29.02	27.09	57.5%
Average SME	8.7	1.92	2.6	21.43	14.34	56.2%
Born globals	0.46	2.92	3.26	16.86	18.1	84.2%

Table 5: Comparison of the internationalization process over the years

It is striking that as the size of the company grows, so too does the time until the first internationalization. Small and medium-sized companies with up to 49 employees run the risk that their internal procedures will already be anchored deeply in the organization by the time internationalization takes place. The complexity of the undertaking – as mentioned above – therefore also increases exponentially. Swiss SMEs however reach high degrees of internationalization, which highlights the need for a strong capability for making adjustments. Born globals form a class of their own, and not just by definition. The key data summarized in table 5 are impressive. They are beginning to cater to the highest number of continents. They achieve enormously large foreign turnover in relation to total turnover – and all this at an exceptional pace.

Which obstacles are mainly to be dealt with is the next question to consider. The present survey of decision-makers shows the influence of possible **obstacles in the internationalization process**. The price of their own products and market performance was cited most often (41%), followed by the laws and provisions that already exist abroad (34.5%), the costs of internationalization (24.6%) as well as the time senior management is available (22.9%) (see figure 9). The limited availability of time resources can lead to a company insufficiently preparing for an internationalization project or failing to make the most of an international business opportunity. Cultural and linguistic hindrances (16.3%) are more or less on a par with a lack of networks (15.5%). A lack of branches/subsidiaries (14.7%) and a lack of information relating to foreign markets (14%) should also not be neglected.

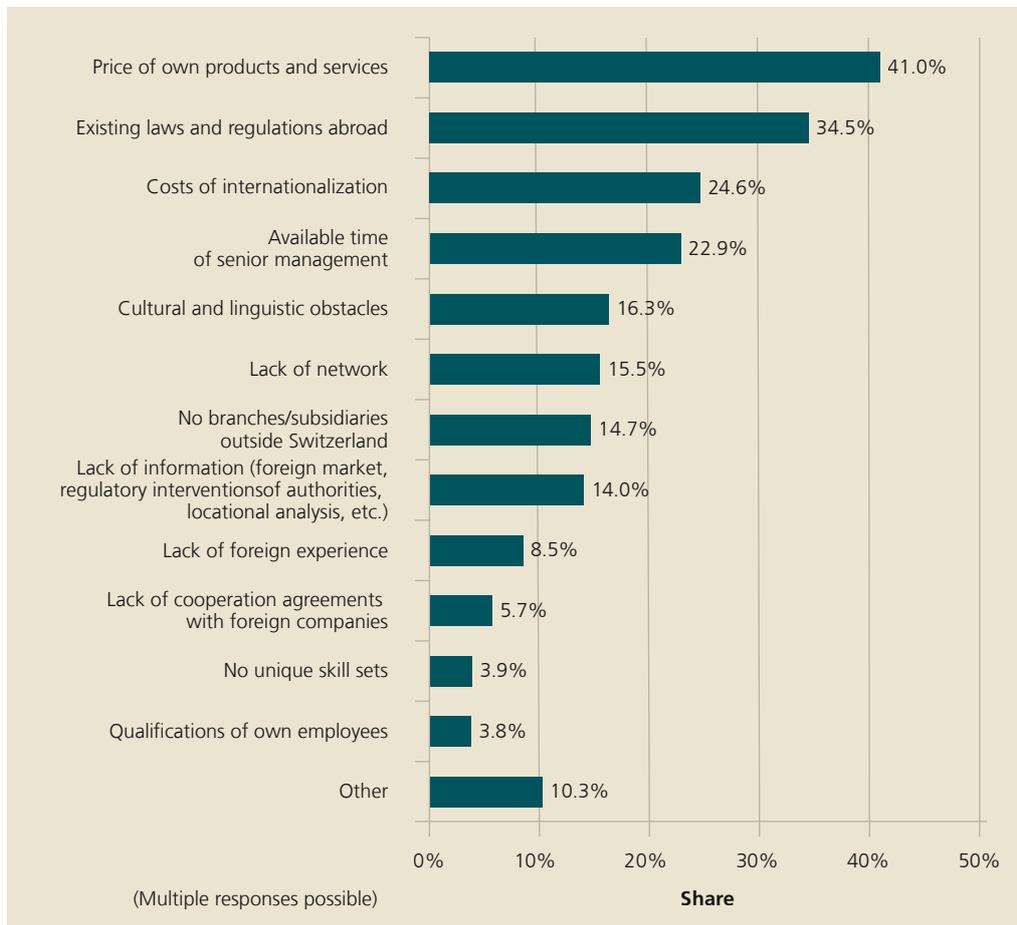


Figure 9: Obstacles in the internationalization process

Do born globals have an advantage over other stakeholders here as well? What is especially worth noting is the result that born globals suffer less than other SMEs (32.8%) from unfavourable cost structures or their products/services costing too much. Additionally, a lack of experience abroad (3.7%) or cultural/linguistic restraints (14.2%) are classed as less severe.

These obstacles do not arise by chance. They are a reflection of the weaknesses of an SME in relation to the internationalization process (see figure 10). The main points here are the high cost structures (49.1%), insufficient market research (28%) and, to a lesser extent, the lack of language competencies amongst employees (17.5%) and the insufficient knowledge about laws and provisions (16.9%).

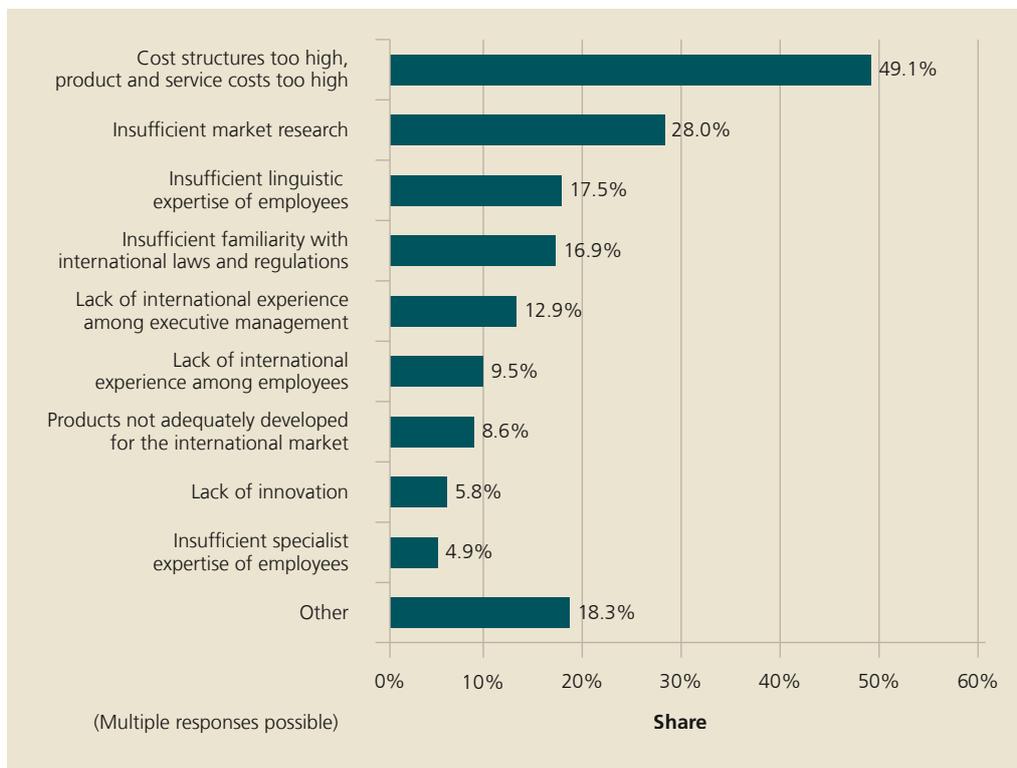


Figure 10: Key weaknesses of a company with regard to internationalization

Where there are weaknesses there are also of course strengths. The company know-how (80.3%), in other words the human capital, and a flexible organizational structure (50.1%) are **company-specific strengths** which contribute the most to successful involvement abroad (see figure 11). Strong corporate leadership (31.8%), an excellent innovation culture (31%) and a strong network (31%) contribute dramatically to successful internationalization for a good third of the SMEs questioned.

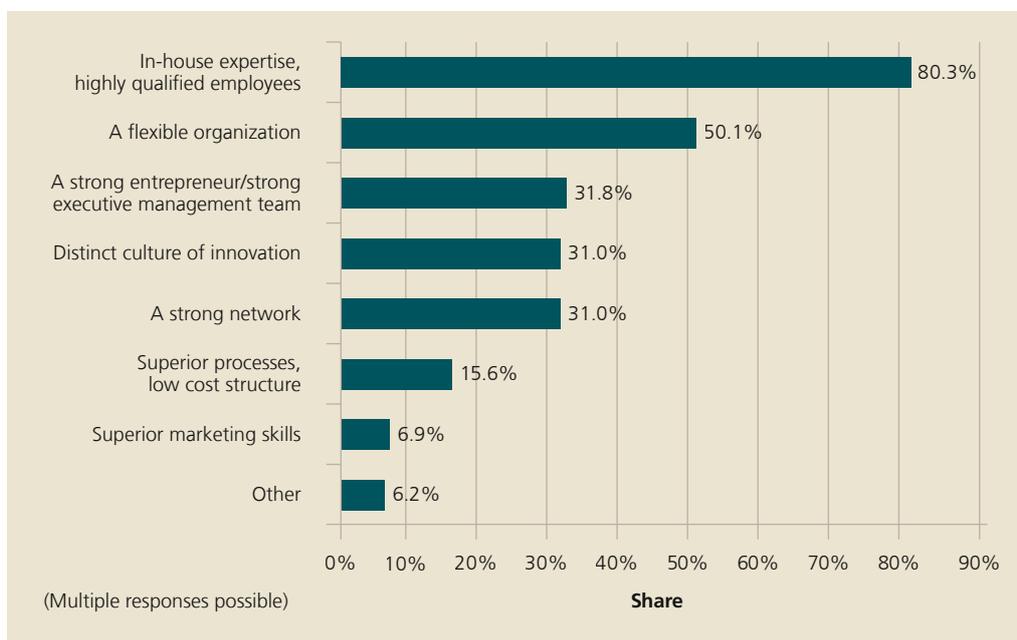


Figure 11: Key strengths of a company with regard to internationalization

Born globals, in contrast to SMEs, perceive their strengths noticeably more often as positive. Their own know-how or the highly-qualified staff (83%), the flexible organization (54.9%), a strong entrepreneur or management team (35.9%), an excellent innovation structure (35.3%), well-thought-out processes or low cost structures (19.6%), well-thought-out marketing competencies (12.4%) – all of these are factors that are perceived more positively. A strong network (47.7%) was in particular mentioned considerably more often.

Despite their strengths, these companies depend on **external support** which is focused on their needs. Swiss SMEs state that private persons assist the most during the internationalization process. This result therefore confirms the importance of informal networks. Other organizations and persons come second, followed closely by export networks and the OSEC/Switzerland Global Enterprise, which supports Swiss and Liechtenstein companies when starting and expanding their activities abroad. Cantonal chambers of commerce, economic development offices, consulting firms and banks only appear to be moderately helpful. Fargate and swissnex offered an even less useful form of support (see figure 12). Born globals evaluate the support structures in a similar way. However these rank higher than the help of private individuals (5.32%), which once again underlines the above-average number of times networks are mentioned. Decision-makers even found the performance of the OSEC/Switzerland Global Enterprise (5.29%) more useful.⁵ Otherwise, the other possibilities for support were not really evaluated positively.

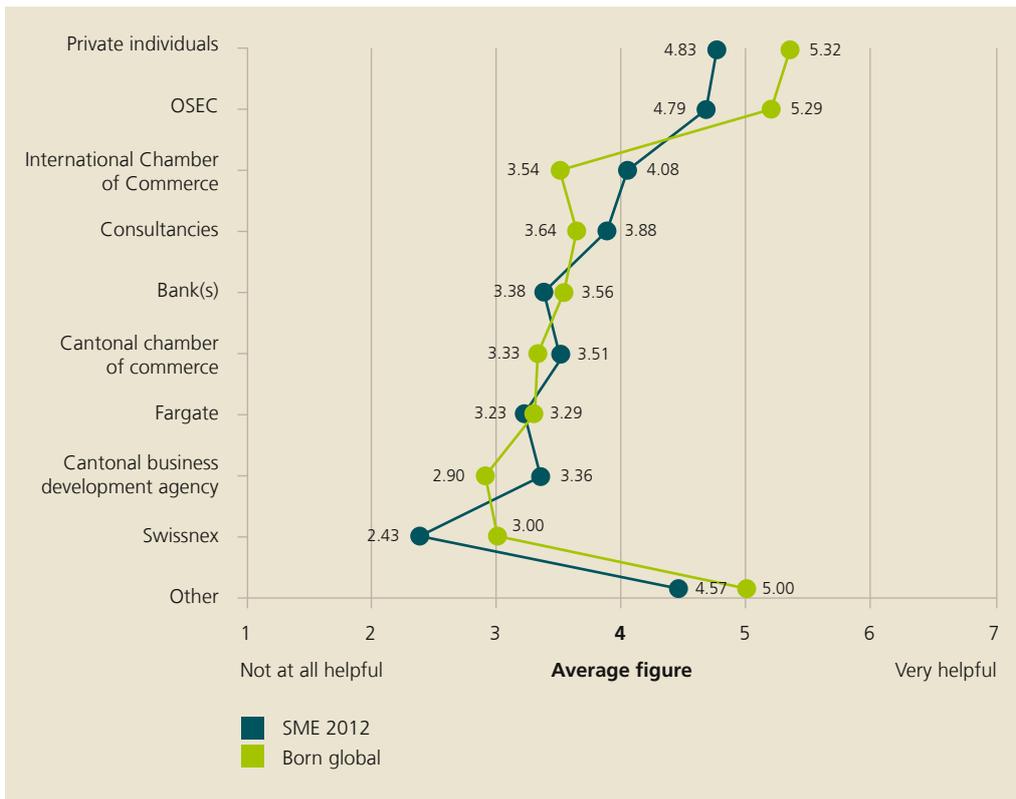


Figure 12: Organizations and services for internationalization support

⁵ The average values are based on a scale of 1 to 7.

We can further develop this information and these observations. The question arises as to why these support possibilities are not useful enough and are judged as such. The main argument cited by SMEs for **not using third party services and support** was that for almost 42.9% of them the cost-benefit ratio was not right, while for almost 41.6% the offer did not sufficiently meet their needs. The open responses showed us that in certain niches specialized providers have very specific information needs and therefore use their own networks. Other arguments include a lack of information (24.9%), a lack of trust in the relevant organizations (19.8%) and the too long waiting period before the services can be used (12.2%). A poor image or negative reputation of an internationalization advisor carries less weight (see figure 13).

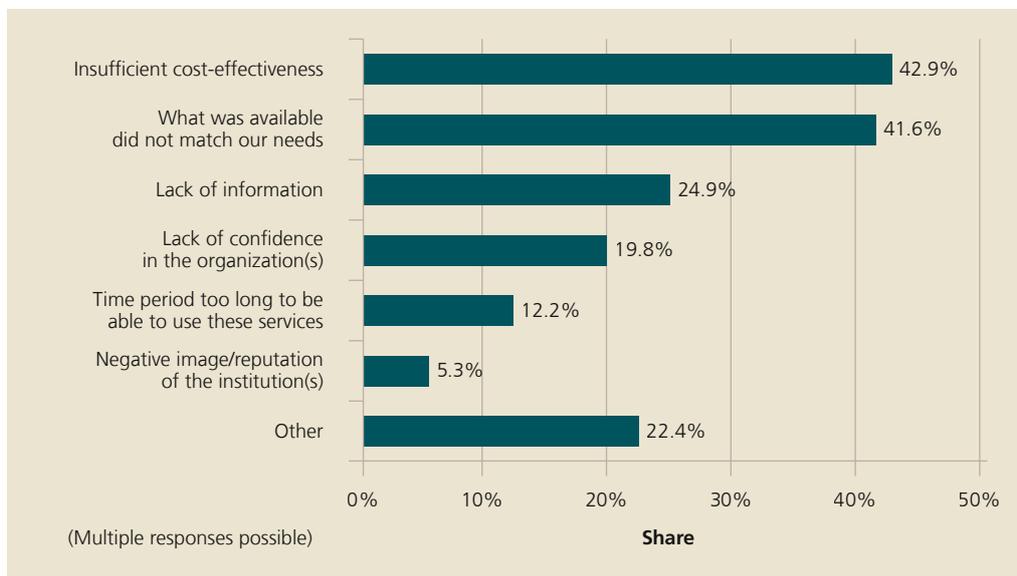


Figure 13: Reasons for ignoring support possibilities

Next, this survey considers how companies gather **information on the target markets**. Figure 14 summarizes the answers given by decision-makers in the SMEs questioned (multiple responses possible). Efforts in the scope of personal networking are the most important way of obtaining relevant information (cited 68.3% of the time), followed closely by formal networking at trade fairs or conferences (61.1%). The Internet continues to occupy third place in the rankings. More than half of decision-makers (52.5%) use the Internet actively for collecting information. A little further down the table are events (38%) and newspapers (27.8%), whereas consulting firms (14.1%) and banks (4.4%) are used noticeably less. Here there is also possibly the potential to establish services with a clear added value and offer them to SMEs expanding abroad.

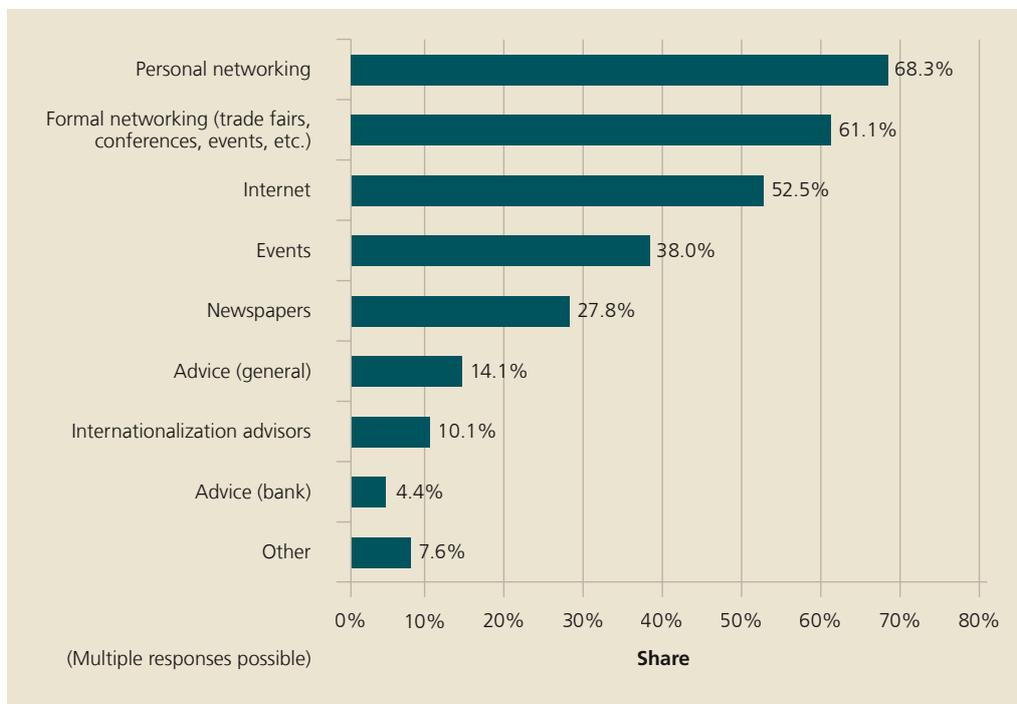


Figure 14: Ways to gather information about target markets

Decision-makers were also asked about the role of social online-networks. 37.1% mentioned that they are important for recognizing trends. 22.8% use them to recruit new talent and 40.3% use them as a marketing tool. These statistics are not representative of the majority but they do give us some information about the fact that we cannot deny the role of social networks on the Internet.

6. Factors for successful internationalization

The effects of internationalization on a company can be interpreted in a variety of ways. Objectively we can see that for the most part the entrepreneur or management team are the most important success factors. The ability to assert oneself abroad essentially depends on the international experience of the company's workforce, its network and the ability to recognize opportunities and launch innovations. These three aspects require a slowly-developed, strategic risk management as we will demonstrate below. The speed and success of internationalization can be influenced heavily by the company's leadership if a decisive, strong management team acts accordingly.

International experience

Entrepreneurs who have worked abroad or who have professional experience in international companies before internationalization, are capable of orientating their companies internationally extremely quickly. Entrepreneurs who have been educated abroad possess a similar ability. Obviously, these experiences allow managers to establish an international network in advance and set up the company in the best possible way with regard to the market situation (intensity of competition, culture, etc.). Experience not only has a positive effect on the speed of internationalization, but also on its success. Consequently, it is most often people who have had an education abroad and/or professional experience abroad who stand at the helm of companies with the highest export quotas. That is why internationally experienced executives or heads of companies have an undeniable advantage over their inexperienced colleagues when preparing to enter international markets.

Networks

We can establish a positive correlation between the use of networks and the success of internationalization. Companies with an active network have a much higher export quota shortly after internationalizing. Companies which do not have a strong network can still increase their export quota in the long term, however not to the same extent as those with good networks. This is undoubtedly because companies are in a better position to place their products on an international market due to their inclusion in the value chain.

Risk management

The move to internationalize of course does not only entail opportunities, but also certain risks. When we actively and consciously analyze the risk management of the SMEs polled, we can see a certain trend in relation to the size of the business. While only 52.6% of micro businesses have an actual risk management strategy, the proportion for small (61.6%) and medium-sized (84.8%) companies is significantly higher. On average therefore more than 60% of SMEs implement an active and conscious risk management strategy. More than two thirds of born globals manage their risks (see figure 15).

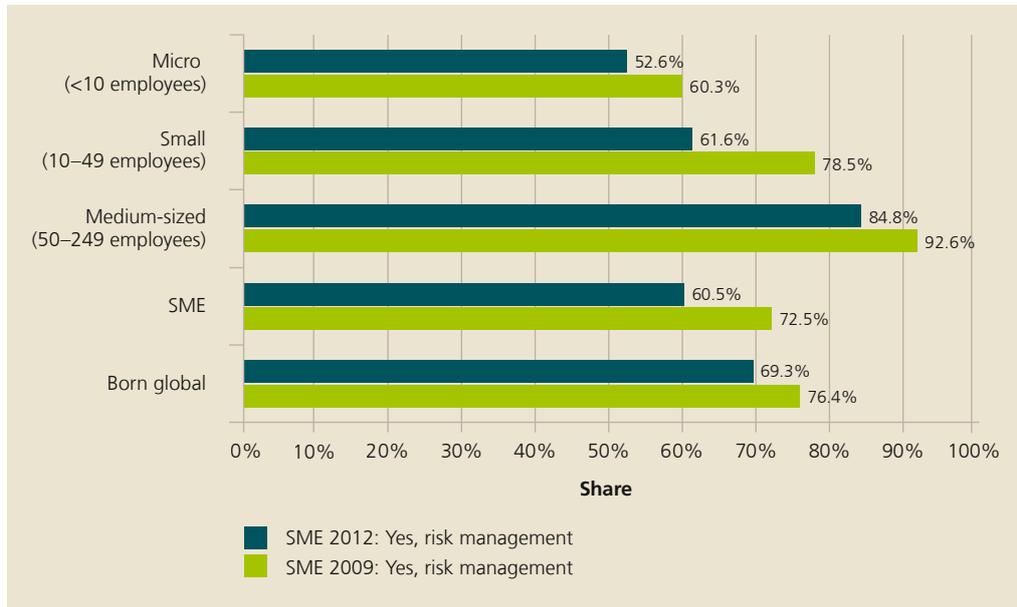


Figure 15: Risk management

Below we will focus on the **form of risk management** (see figure 16). We have, for example, ascertained which risks are managed by SMEs. Of course prioritization of risks is similar for the three sizes of business (micro, small and medium-sized) as for born globals, albeit at different levels. Almost all risks are managed the least often amongst micro businesses (except documentary credits). The low figures can be explained firstly and best by the limited financial and personnel resources, and secondly the time and effort necessary could make it impossible for a micro business to have an active risk management strategy. Medium-sized businesses are the most intensive in risk management (exception: national risks).

Strategic risk management is the most actively undertaken form. Formulating a thought-out risk policy for dealing with the threat posed to key factors of success especially falls under this category. In second position is minimization of risk based on creditworthiness information about potential business partners, followed by currency hedging. Documentary credits, that is to say directly-liable payment promises from the bank of an importer to the exporter, are popular, especially amongst medium-sized enterprises and born globals. Less frequently mentioned possibilities are country risk analyses, interest hedging and other non-specialized measures.

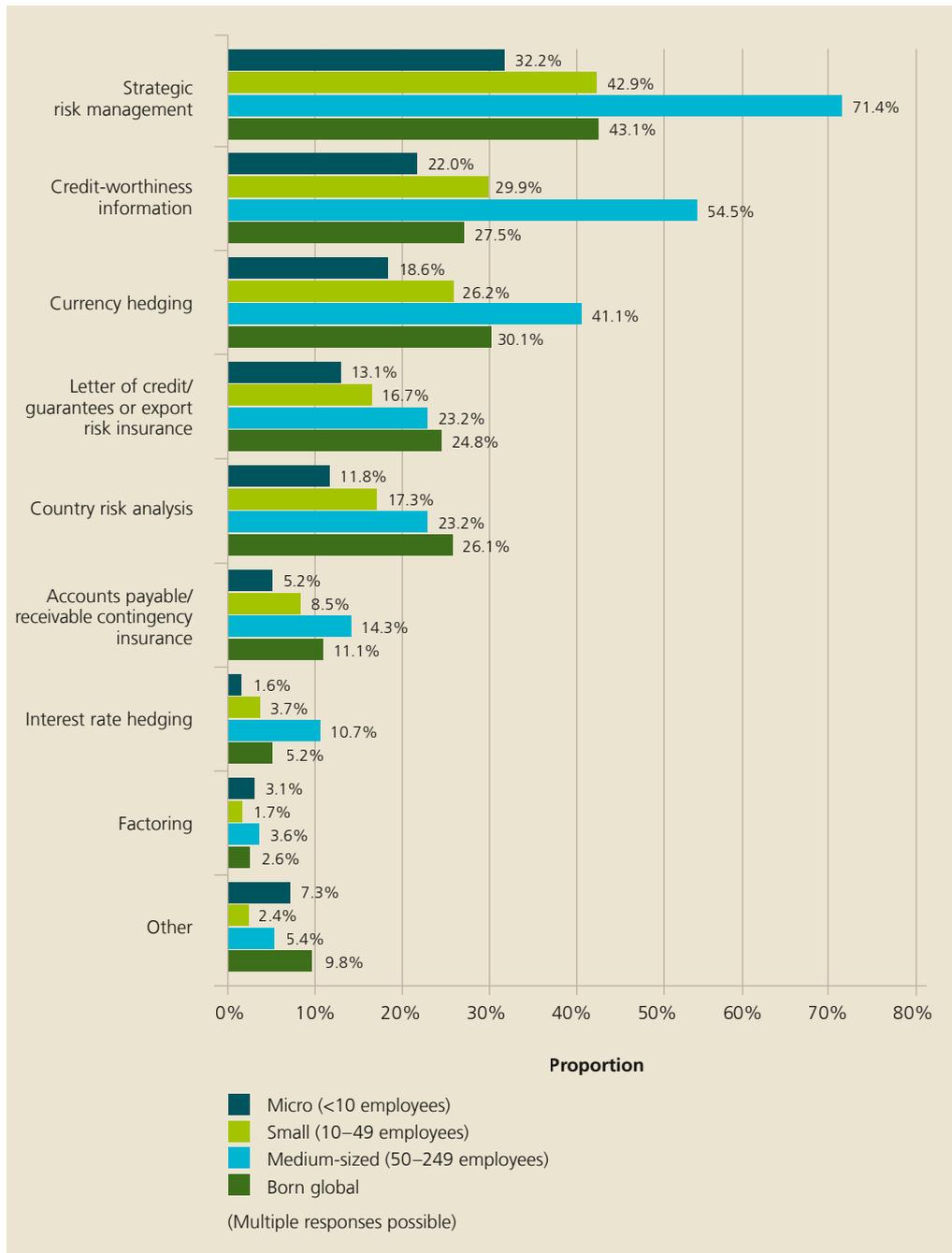


Figure 16: Form of risk management

Innovative strength

The internationalization process does not only entail certain risks, but also various opportunities. Launching an SME internationally can have a positive effect on the **innovative strength** (see figure 17), especially on the development of new products (average value⁶ 5.28) and the level of further qualifications of employees (AV 4.82). Internationalization can also bring about innovative solutions in the manufacturing process or in process management (AV 4.74). Other established positive effects are those on improvements to the business model and organizational modifications. The more neutral effects are those on the number of patents (AV 3.92).

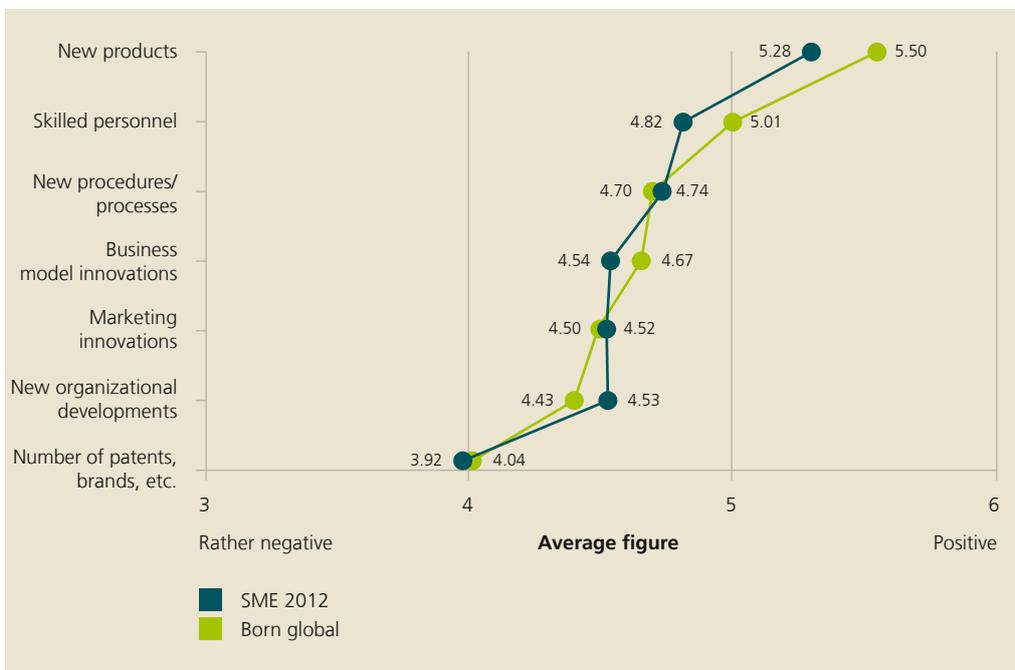


Figure 17: The effect of internationalization on innovative strength

⁶ The average values are based on a scale of 1 to 7.

As regards **motivation for the development of innovative products and processes**, it is clear to see that the majority of innovations are based on market requirements. 85.1% of SMEs mention that customer wishes were a reason to find innovative solutions. The second trigger was technology-induced innovations based on their own research and development (42.5%). Some companies felt they were more or less obliged to develop innovative solutions as a result of competitors' products (29.8%). Open innovation (16.4%), coincidence (13.6%) or investigating non-specific triggers (8.9%) less often lead to the development of new products or processes (see figure 18). It is easily conceivable that innovations are not simply based on one of the triggers mentioned alone, but rather on a combination of two or more triggers.

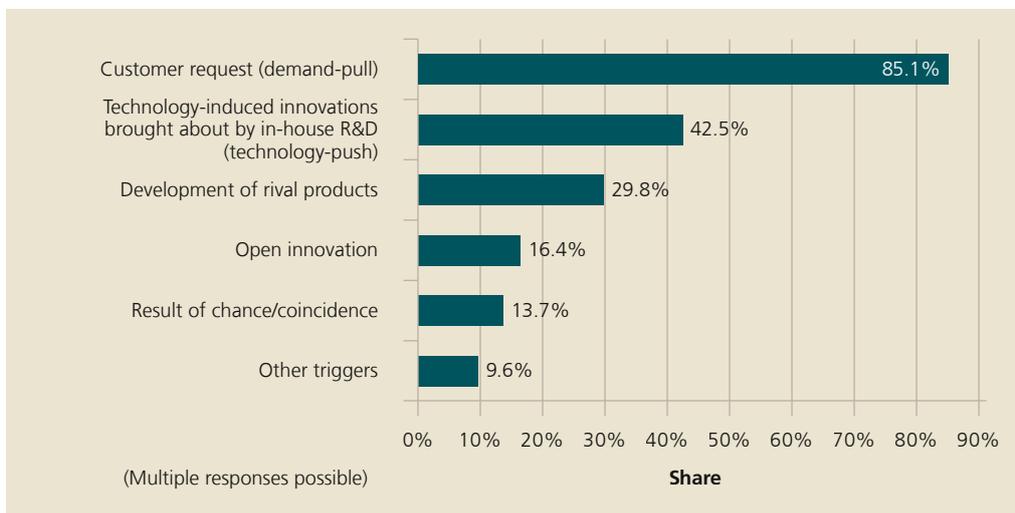


Figure 18: Triggers for the development of innovative products and processes

The customer is once again the central focus for Swiss SMEs when considering future product and process development. As a consequence, 66.3% want to focus future innovations on usefulness for the customer. In this context, the needs must also be defined using accurate market research (34.3%). From an entrepreneurial point of view improved processes (33.2%) and an increase of know-how thanks to employee recruitment (28.9%) can help provide innovative and marketable solutions. Around 21.4% of SMEs are confident that collective research with network partners and collaboration with universities and colleges of higher education in research and development would bring about success. Somewhat fewer companies (20.1%) spend large amounts for internal research and development (see figure 19).

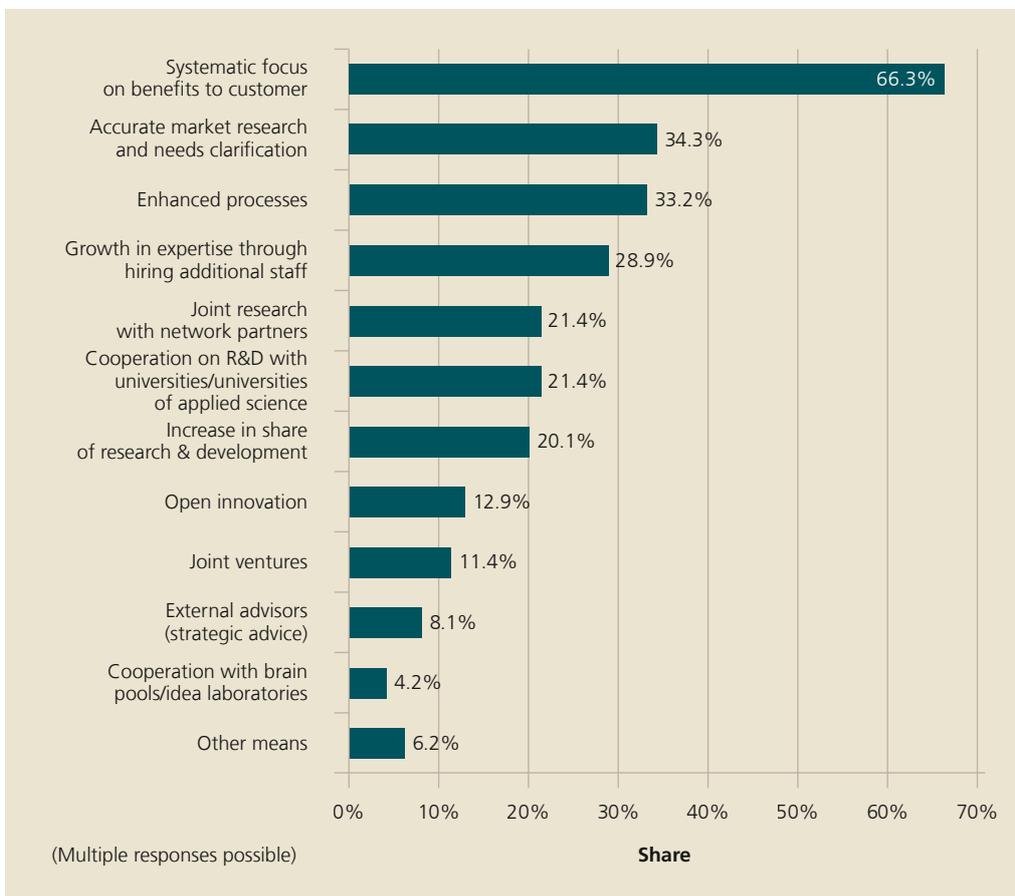


Figure 19: Triggers for the development of *future* innovative products and processes

Only 12.9% see open innovation and 11.4% see a joint venture with at least one other company as a way of making marketable improvements. Scarcely any SMEs think they could face up to challenges by means of collaboration with an external advisor or think tank. It is also worth mentioning here that the possibilities listed are not mutually exclusive.

7. Performance of internationalization

The success of international business is of course interesting for decision-makers. International performance is a complex construct which has many dimensions and therefore many different ways of being measured. Furthermore it is influenced by the actual degree of internationalization as the number of business contracts rises markedly shortly after internationalization. The small, Helvetic domestic market, the strong international orientation of Swiss SMEs and not least the free access to the European market all have a positive effect. Small and medium-sized enterprises which use a limited number of market-entry strategies can increase their performance considerably. This increase in performance can however be self-limiting if the company expands into additional countries, develops its market-entry strategy at the same time and/or does not make use of the possibilities for developing its expertise or of its experience to date.

International performance is of course directly linked to the internationalization **aims of the entrepreneur or decision-maker**. Performance monitoring differs considerably depending on the material and immaterial goals as well as the type of performance measuring. Differentiating between **subjective and objective performance** is advisable in order to approximately measure international performance, which is dependant on a variety of factors. Furthermore, internationalization is among other things considered as an opportunity to further develop a company's own ability to recognize business opportunities. In the same way it should improve the innovative capacity of key staff.

This survey measures the subjective performance on the basis of satisfaction with internationalization activities. Factors critical to success are considered here, such as the development of turnover, market share, the company's image and know-how (see figure 20).

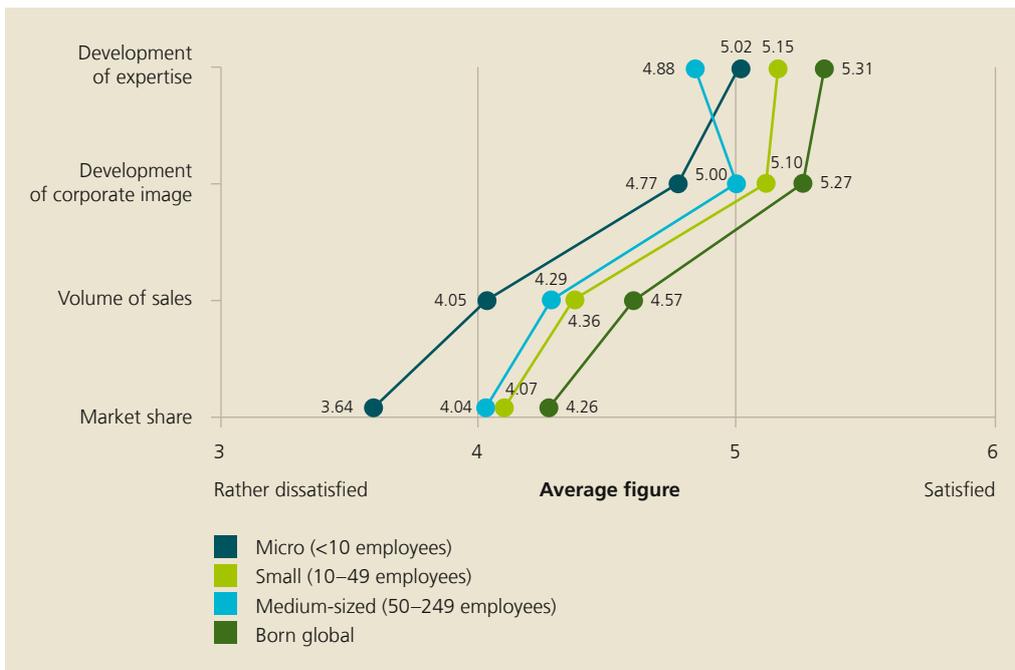


Figure 20: Satisfaction with internationalization

It is striking that born globals are the most satisfied with the development of their image and sales volume and also achieve a relatively high proportion of satisfaction in terms of the know-how dynamic. Micro businesses with up to nine employees are less satisfied than companies with up to 49 employees. Unfortunately the development of the market share is below expectations across all sizes of SME. The good news is that on average, however, the companies were not completely dissatisfied with any one aspect.

If a company operates in markets which are more distant geographically and culturally, the learning effect falls off and the coordination and transaction costs increase disproportionately. Subsequently after an initial, successful phase, the performance falls as the degree of internationalization increases. This effect can be seen in born globals which grew strongly in the first three years and first saw signs of stagnation after the fifth year. Performance can be brought back up at a later date thanks to the learning effect. It is also linked to the ability to innovate, which alongside market performance leads to innovative organizational structures and/or process innovation.

Furthermore, **an appraisal of the company's performance** was carried out with regards to the value of the company, net profit, cash flow and sales growth (see figure 21). In general micro businesses come off worse and significantly so when compared to medium-sized enterprises. The appraisal of the performance using these indicators also produces low results amongst born globals.

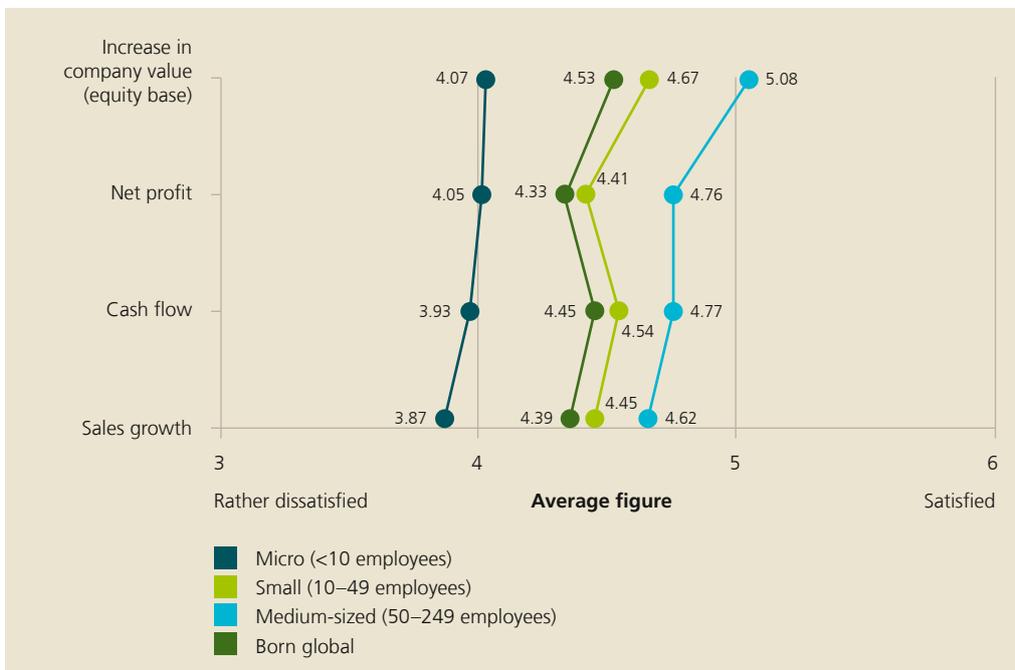


Figure 21: Appraisal of performance in comparison with competition

8. Conclusion

Internationalization, as a driving force for growth and organizational further development, opens up new horizons for Swiss SMEs in the literal sense of the word. SMEs expand extremely quickly abroad. The present survey has outlined various paths to achieve this. Internationalization begins most often with an expansion into a neighbouring country. However other continents come into view very quickly. As each market and region has its own peculiarities, Swiss SMEs have to adapt quicker than ever before and take them into consideration during their activities. This is where the decision-makers' international experience, which they gained from visits abroad, an international education or through commitments with multi-national companies, prove beneficial. Although the diverse, foreign markets are constantly changing, any past experience gained abroad is a big plus. Decision-makers must however be alert to the dynamic of the markets and constantly examine new developments locally. Our survey also examined the international, entrepreneurial approach and came to the conclusion that SMEs are in general in an advantageous situation. The ability to seek opportunities and adapt, as well as their innovation strength, are excellent.

When considering the reasons for internationalization we can say push and pull factors are in balance. Of course demand from abroad is a dominant factor; SMEs know how to use existing potential in the form of innovative, qualitative, high-value products and services just as well as their own networks. Until now export is really the only category that has been classified as particularly successful.

The present survey was concerned with, amongst other things, the question of what prevents Swiss SMEs from more intensive expansion abroad. The prices of their own products and services are not the only relevant factor here, but also the various laws and provisions abroad, which are not always easy to understand or fulfil. SMEs confront these factors with lots of their own know-how, well-trained employees and organization which is as flexible as possible.

Can Swiss SMEs also rely on strong support from external organizations? This is an area where we can see drastic room for improvement. Neither cantonal nor international chambers of commerce, consultancy firms, banks or institutions such as Fargate or swissnex are able to provide companies, except in isolated cases, with the necessary help for starting up. The cost-benefit ratio is just as flawed as the fact that their offer does not meet the needs of the SMEs. OSEC/Switzerland Global Enterprise and private individuals or self-spun networks are the most advantageous. Personal and formal networks are seen as the most helpful.

In order to ensure the success of internationalization, SMEs develop a professional result which however only achieves a critical level of maturity in medium-sized enterprises or larger. Nevertheless, smaller companies should also devote themselves to this topic.

Finally, this survey also tackled the key question of how promising geographical diversification can be. Following on from this we tried to find out which company values decision-makers strategically ascribed the highest priority to.

If a company wants to operate on a global scale, then it can learn a lot from **born globals**. On average, born globals generate significantly higher revenue abroad in relation to total revenue compared with SMEs and become active in more countries faster than the average SME. They are more satisfied with the results in terms of image improvement and learning. Rapid expansion can be achieved, at least in the short term, at the expense of other less-important goals they are conscious or unconscious of. Medium-sized SMEs, which **expand slower**, exhibit a higher level of satisfaction with financial success, at the expense of other factors such as satisfaction with sales volume or market share. Internationalization provides many dimensions of success and also helps all the more to formulate a clear and easy target system.

Having multiple aims at the same time is generally problematic. Especially when these aims clash with one another. SMEs have to deal with numerous independent factors during their geographical expansion, which they often cannot influence. However, when they have clear goals, priorities and values, these are fully under their own control. The question of the target markets is crucial. We can see indications that depending on the situation, internationalization is preferable to globalization.

There are two more factors which can help ensure success. On the one hand, you can only tap potential if the individual organizational factors are all in harmony and in line with the consciously chosen or unwittingly undertaken internationalization strategy. This too by and large falls within the decision-maker's remit. On the other hand, it is also about **accelerating and improving learning**. Internationalization with all its complexities is heavily influenced by the experience of the various parties involved. This is why it makes sense to exploit more effectively the learning effect provided by internationalization by means of exchanges between companies, internationalization advisors and researchers. To do this, we need various groups which can activate or promote the exchange of knowledge and experience and expand on it with the help of cross-sector workshops. Thanks to the insights garnered from practical examples and even more effective knowledge management, additional information provided by specialists could be added to the pool of knowledge that has been created. In this way, key performance factors which influence the internationalization process and ultimately contribute to the sustainable, successful implementation in companies, could be worked out much faster.

List of figures

Figure 1: Importance of elements of a competitive strategy	11
Figure 2: Internationalization typology	13
Figure 3: SME's export intensity: average proportion of exports as a percentage of net sales	14
Figure 4: Growth estimates	16
Figure 5: Effects of an opportunity-oriented strategy	19
Figure 6: Recognizing business opportunities	21
Figure 7: Reasons for internationalization	23
Figure 8: Frequency and success of sales channels in the internationalization process	25
Figure 9: Obstacles in the internationalization process	27
Figure 10: Key weaknesses of a company with regard to internationalization	28
Figure 11: Key strengths of a company with regard to internationalization	29
Figure 12: Organizations and services for internationalization support	30
Figure 13: Reasons for ignoring support possibilities	31
Figure 14: Ways to gather information about target markets	32
Figure 15: Risk management	34
Figure 16: Form of risk management	35
Figure 17: The effect of internationalization on innovative strength	36
Figure 18: Triggers for the development of innovative products and processes	37
Figure 19: Triggers for the development of <i>future</i> innovative products and processes	38
Figure 20: Satisfaction with internationalization	39
Figure 21: Appraisal of performance in comparison with competition	40

List of tables

Table 1: Structure of the sample according to company size	10
Table 2: Key figures of internationalization	15
Table 3: SME's international activity per continent (as per end of 2012)	15
Table 4: International experience at the time the first steps are taken toward internationalization	18
Table 5: Comparison of the internationalization process over the years	26

Literature

Baldegger, R. J., Wyss, P. (2007): Profiling the Hybrid: Born-again Global Firms: A Case Study on the Internationalisation Behaviour of Mature Firms in Switzerland, Fribourg/Bern/New York.

Bell, J., McNaughton, R., Young, S. (2001): Born-again global firms. An extension to the Born Global phenomenon, *Journal of International Business Studies*, 9(1), 7–20.

Johanson, J., Vahlne, J. E. (1977): The Internationalization Process of the Firm: A Model of Knowledge Development and Increasing Foreign Market Commitment, *Journal of International Business Studies*, 8, 23–32.

Kuivalainen, O., Sundqvist, S., Servais, P. (2007): Firms' degree of born-globalness, international entrepreneurial orientation and export performance, *Journal of World Business*, 42, 253–267.

Rütti, N. (2013). Zweigeteilte Schweizer Wirtschaft. [German only] NZZ (Zurich newspaper) online from 1.7.2013 [German only]: <http://www.nzz.ch/aktuell/wirtschaft/wirtschaftsnachrichten/die-schwierige-wirtschaftslage-in-zahlreichen-laendern-europas-daempft-den-konjunktur-gang-1.18105728>.

Oviatt, B.M., McDougall, P. P. (1994): Toward a Theory of International Venture, *Journal of International Business Studies*, 25(1), 45–62.

Schwab, K. (2012): The Global Competitiveness Report 2012–2013, World Economic Forum Geneva.

ISBN 978-3-906201-00-9



9 783906 201009 >