



HAUTE ÉCOLE DE GESTION (HEG) DE FRIBOURG
HOCHSCHULE FÜR WIRTSCHAFT (HSW) FREIBURG
SCHOOL OF BUSINESS ADMINISTRATION

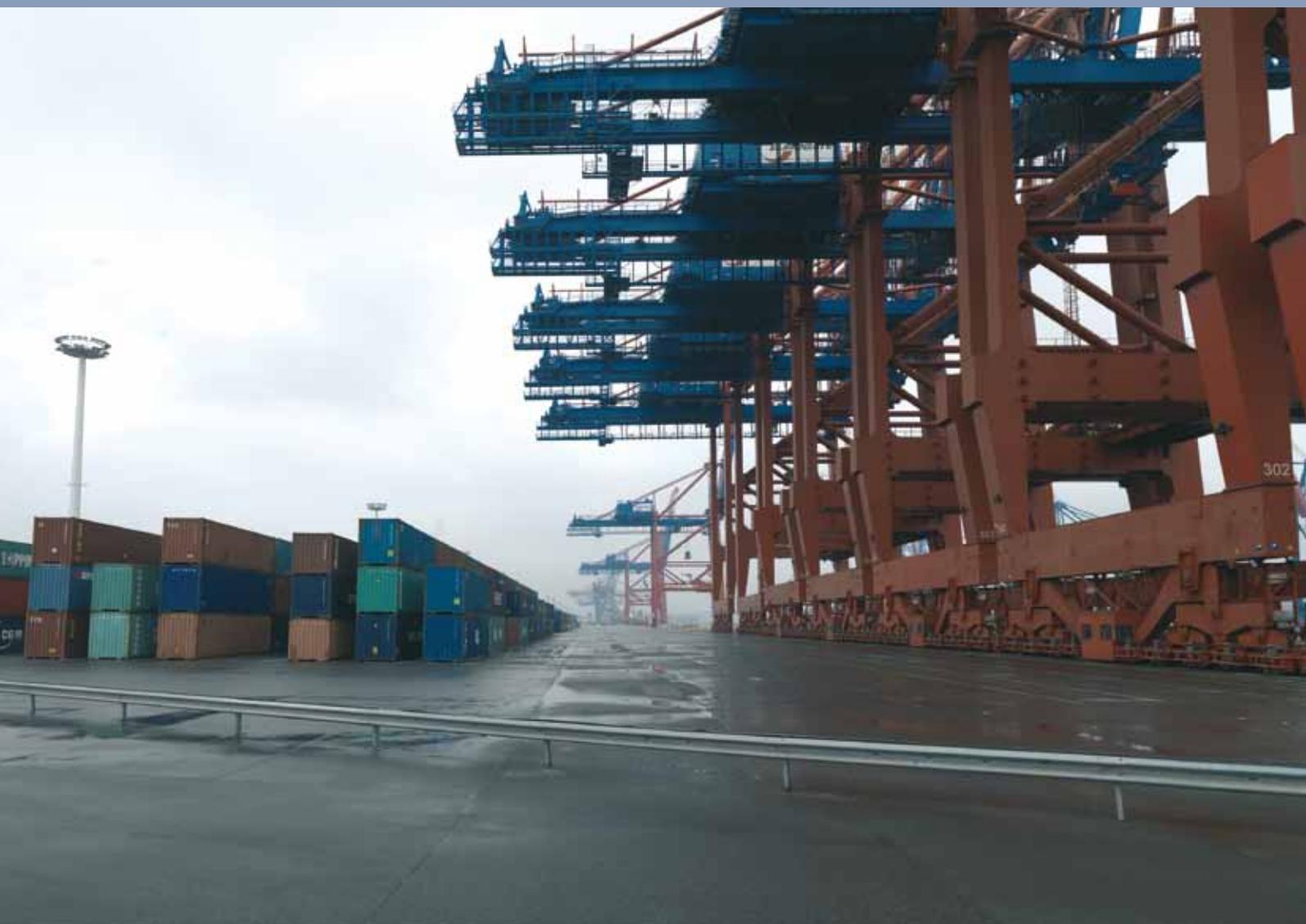
Swiss International Entrepreneurship Survey

(SIES) 2010



Decide with Confidence

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Introduction of the Industry Partners

The internationalization of companies and their activities is increasingly seen as an essential strategy to achieve added value and growth. Thanks to globalization, technological progress, and faster communication channels, goods can be moved faster and more easily, and cross-border information is available in a matter of seconds.

Accordingly, companies with a small home market and a high level of specialization are increasingly drawn to the world markets. Over the past few years, many Swiss companies have pressed forward with internationalization of their activities. Swiss SMEs have always succeeded in identifying export opportunities and firmly establishing themselves worldwide. And this trend is continuing: Thanks to growth achieved in exports, more and more new Swiss companies are succeeding in entering the global market. Swiss companies have benefited from diversification in several markets as a result of different business cycles, allowing them to safeguard jobs in Switzerland.

Credit Suisse has always been committed to the concerns of companies with an international orientation and has supported them by offering services essential for successful expansion abroad – from payment transactions, safeguarding foreign exchange and interest rate transactions, and trade financing, through to bank guarantee and documentary operations. For as this study also shows, it is essential that companies with an international orientation have a strong partner with international connections to rely on.

The information agency Dun & Bradstreet (D&B) helps export-oriented SMEs to assess country risks, analyze market potential and run credit checks worldwide. This study highlights the importance of reliable credit information on business partners from around the world, enabling SMEs to minimize their business partner risks.

We would like to thank the School of Business Administration Fribourg (HEG-FR) for its valuable contribution in shedding light on the attitude of Swiss companies towards internationalization. We at Credit Suisse hope that the readers of this study will make many insightful discoveries and we wish them luck and success in their internationalization projects.



Hans Baumgartner
Head of Credit Suisse SME Business Switzerland



Charly Suter
International Corporate Advisory Services
Manager with Credit Suisse



Juan Macavio
Managing Director, Dun & Bradstreet



Andreas Hungerbühler
Director Marketing, Dun & Bradstreet

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Preface

In recent years the internationalization of SMEs, particularly in countries with small domestic markets, has acquired a higher profile in the sphere of economic policy-making and has begun to figure in media reporting. For SMEs (as for larger corporations), internationalization is increasingly being seen as a fundamental strategic option in the quest for achieving competitive advantage. But the great diversity of SMEs and their internationalization efforts make it difficult to quantify their success, or even to identify the factors that are crucial to that success. In our view, SMEs should take a more differentiated approach to internationalization so that these companies' decision-makers can better assess their internationalization efforts and provide the representatives of public and private internationalization agencies with more effective support.

International SMEs must be broken down into their various types. Young, globally active companies that conceive and develop innovations offer attractive opportunities to highly qualified Swiss personnel. At the same time, medium-sized enterprises operating successfully as component suppliers in more traditional sectors are holding their own in international markets, and SMEs are successfully consolidating their international orientation, opening up new markets by means of incremental innovations. These companies complete the spectrum of successful larger medium-sized enterprises and major corporations active internationally. On the other hand, greater discussion of the entrepreneurial view of internationalization is needed if we are to draw conclusions that will lead to the creation of suitable operating conditions.

The present report is based on a comprehensive survey of SMEs on the subject of internationalization. This is the second study of its kind – the first appeared in 2007. It contains a number of interesting facts about “international entrepreneurship” in Switzerland in 2010, as well as information about entrepreneurial viewpoints in small and medium-sized enterprises. While Switzerland's entrepreneurial potential is most encouraging, the study convincingly demonstrates that there is room for improvement at many levels – in the support available for efforts to internationalize, for example.

We hope it will give as many SMEs, managers and academics as possible – not to mention bodies tasked with helping companies to internationalize their activities – ideas, stimuli and encouragement to strengthen the global competitiveness of Swiss SMEs on the basis of innovations.



Prof. Rico J. Baldegger, PhD.
Director Institute for Entrepreneurship & SME
School of Business Administration Fribourg

Executive Summary

The present study investigates the internationalization efforts of Swiss SMEs, highlighting the latest trends. Decision-makers in exporting SMEs were sent a multilingual questionnaire (in German, French, Italian and English). The selection was based on the Dun & Bradstreet database. Most companies underscored their interest in the topic by waiving their anonymity, and indeed by expressing a keen interest in the workshops conducted throughout Switzerland in the spring of 2011.

The study focused on the entrepreneur with his global vision, and on the recognition that the entrepreneurial life cycle makes different demands on the management team at different stages. This is why it is so important to identify the skills required for the current situation at an early stage, to act accordingly by acquiring the skills that are lacking. So there is no dispute: The key to successful internationalization is the entrepreneur or the management team. The international experience of the entrepreneur or the team is crucial. This fact was already known, and the present study has verified it. Accordingly it recommends that companies planning cross-border activities should engage a management team with international experience. The importance of international experience must not be underestimated. It affects not only the pace of internationalization, but also how successful it is.

The study makes clear how important it is for the internationalization process to be properly prepared, and for companies to tailor their strategies to their own competencies. Many companies choose the approach of occupying an innovative position in the international value chain, and this focuses the attention of decision-makers on how they can maintain their competitive advantages in foreign markets. The results suggest that entrepreneurs and SME managers invest less in tangible assets than in areas that directly generate competitive advantages, such as research and development and the creativity of their employees. The cases presented manifest the different ways in which SMEs internationalize themselves, and prove to managers that internationalization does not necessarily culminate in the export of market services. It can equally well take the form of occupying a specific position in the international value chain.

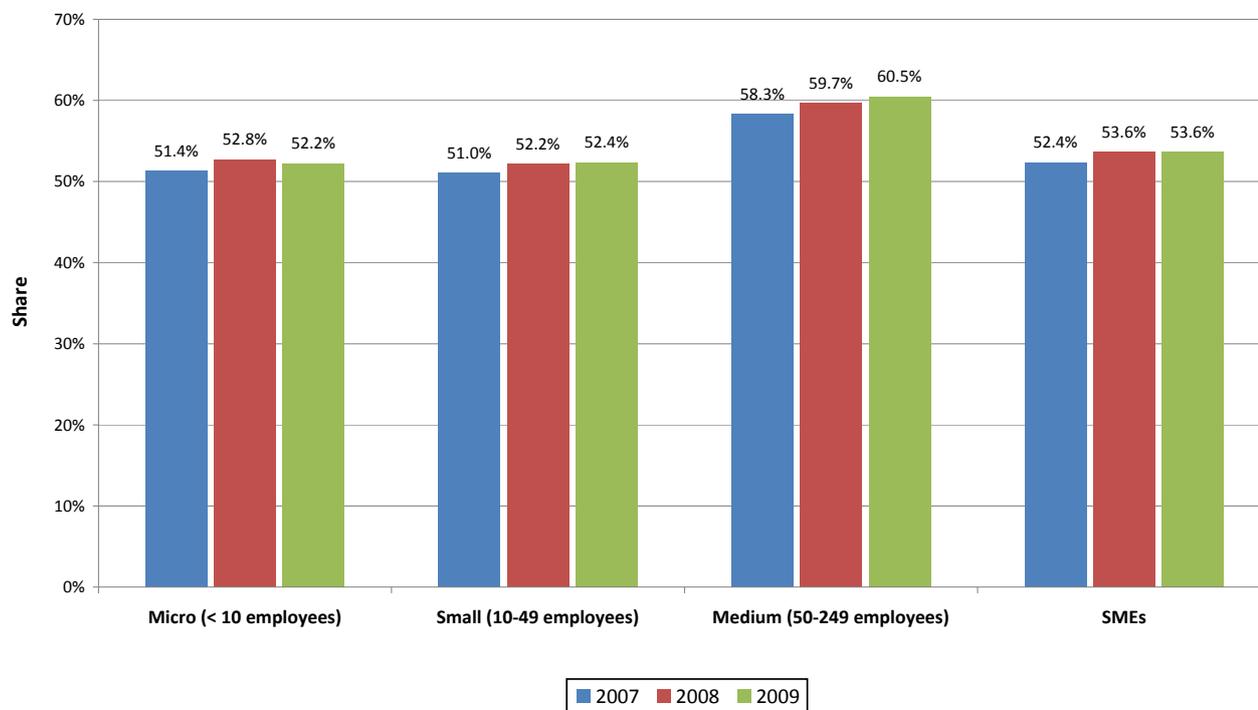
1. SMEs' Internationalization Efforts in the Global Context

In the 2010 World Economic Forum's World Competitiveness Ranking, Switzerland headed the list of the most competitive countries – pushing the U.S. into second place. Switzerland mainly owes this outstanding ranking to its excellent performance in the relevant fields of efficiency, labor market, technology, innovation and business culture – despite the global financial and economic crisis. In this connection it must be emphasized that 66.6% of Swiss companies are classified as SMEs, which makes them central to Switzerland's international success.

The Credit Suisse SME export indicator for the third quarter of 2010 also recorded a general upward trend. Finding that exports generally posted an above-average performance, it forecast strong growth in the electronics, services and consumer goods sectors. According to the study on the Internationalization of European SMEs for 2010 commissioned by the EU, there is a close link between a company's size and the extent of its internationalization. There is a correlation, in other words, between a company's increasing size and its internationalization activities. The study also emphasizes that SMEs in smaller countries exhibit a higher degree of internationalization. 75% of SMEs in Europe focus their efforts to internationalize on the European market and roughly 27% on China. Switzerland's most important partner markets include the U.S., Germany and China. It is also evident that internationalization is associated with strong sales growth, more intensive job creation, the greater use of e-commerce and above-average innovation performance.

Until a few years ago attention was focused on major international, globally active corporations, but much of it has now shifted to internationally active SMEs. SMEs are highly diverse, and a considerable number of them are active in a local, regional or national sales market – but more and more dynamic, innovative micro and small enterprises are either internationally active already or are planning to be. If the **Proportions of Exporting Companies** are analysed by company size (see Figure 1), even micro and small enterprises put up an entirely respectable showing – and almost one third of medium-sized enterprises are active exporters. This makes it all the more worthwhile to examine the experiences of the segment that concerns us: SMEs that are active exporters. As well as confirming what we know already, this yields new information about how SMEs organize and control their international behavior. The present investigation examines the exporting intensity of 625 small and medium-sized enterprises. In 2009 an average of 53.6% of sales revenues was generated by exports, and this percentage increases with company size. This is most evident in a comparison of small and medium-sized enterprises, for which the figures are 52.4% and 60.5% respectively. Even microenterprises generate 52.2% of their sales revenue from exports. The companies surveyed have slightly increased their export intensity in the last three years.

Figure 1: SMEs: Export Intensity, 2007-2009



This export intensity is particularly striking given that SMEs have limited resources. The obvious associated disadvantages – like the lack of specific knowledge, patchy knowledge of foreign markets and the impossibility of funding foreign commitments from internal resources – are often secondary. Their often-cited advantages over large corporations – reaction time, flexibility and adaptability, push effects (such as the limited domestic market) or pull effects (such as growing demand abroad) – seem to predominate, so that they are nonetheless prepared to take the risk of venturing into the international arena.

In the last few years various countries have taken a greater interest in SMEs' internationalization efforts, in order either to describe the internationalization process or to identify the factors arguing in favor of internationalization and against it. Numerous empirical studies have been conducted, particularly in countries with small domestic markets, of the forces that initially induce companies to pursue rapid internationalization. Senior SME managers, investors, researchers and public funding institutions need meaningful information if they are to identify effective criteria for the success of internationalization, because the success of the company as a whole depends on a number of other influences besides internationalization.

The objective of the present study is to conduct a detailed investigation of internationalization efforts on the part of small and medium-sized Swiss enterprises (SMEs), in order to draw conclusions about the internationalization process and the factors that determine whether it will be successful. The study focuses on the global and international competitiveness of international SMEs. It sets itself the following subsidiary objectives:

- to obtain new information on how entrepreneurs see internationalization, on how they recognize international business opportunities, and on their entrepreneurial orientation
- to obtain empirical evidence of the existence of rapidly internationalizing global start-ups
- to identify the factors determining the success or failure of internationalization
- to formulate recommendations for SME decision-makers, internationalization agencies and advisors.

2. Significance and Scope of the Study

The basis of the study is a quantitative survey of internationally active SMEs in all sectors that was conducted in Switzerland between May and July 2010. The survey was addressed to the companies' decision-makers. A total of 799 usable questionnaires were submitted, online or in writing. 625 Swiss SMEs in all parts of the country took part.¹ They can be broken down into the following size categories (see Table 1): 279 companies, i.e. 44.6%, are in the smallest category. They have an average of four employees. The next size category contains 251 companies, representing 40.2% of the SMEs surveyed, with an average of 21 employees. 95 medium-sized enterprises, i.e. 15.2%, have an average of 108 employees.² Graduate employees make up 31.1% of the overall workforce. The percentage is higher for smaller than for medium-sized enterprises.

Table 1: Structure of the Sample by Company Size

	Number of companies in absolute terms (2009)	Number of companies in %	Average number of employees (2009)	Proportion of graduate employees as a per- centage of the work- force
0-9 employees microenterprises	279	44.6%	4	37.3%
10-49 employees small enterprises	251	40.2%	21	28.3%
50-249 employees medium-sized enter- prises	95	15.2%	108	20.7%
Total	625	100%	27	31.1%
Born Globals	113	18.1%	22	38.0%

As the SIES 2007 study established, most SMEs internationalize in stages. Each stage of this internationalization process is shaped by particular behavior on the part of the entrepreneur, and at each stage more resources are committed and uncertainty increases. At every stage, only limited risks are taken as the company steps up its investment and gradually gains experience that will prove useful later in the process. In most cases, the closest markets from a geographical and socio-cultural point of view are targeted first. Only as a company builds up more experience and know-how will it venture into markets further afield. The last few years have seen the appearance in various countries – including Switzerland – of a unique new type of company: The Born Global, which is active in various foreign markets either as soon as it commences operations or very soon afterwards.³ Studies also confirm the special behavior of Born Globals in the internationalization process, and the necessity of outlining a separate profile for them. The present study found that 18.1% of the SMEs surveyed can be designated as Born Globals.

¹ The remaining 174 companies are large and are thus outside the scope of this study.

² According to the Federal Statistical Office, 87.37% of the companies in Switzerland are microenterprises, 10.65% are small enterprises, and 1.99% are medium-sized enterprises.

³ Born Globals are defined as companies that are generating 25% of their sales revenues in foreign markets within three years of incorporation, and that are active on at least two continents.

The results are based on responses from founders/CEOs (51.1%), CEOs (34.9%), senior managers (8.0%) and from other persons involved in strategic decisions (5.0%). The persons surveyed have been in their current positions for an average of 12.5 years. The equivalent period for decision-makers in medium-sized enterprises was shorter, at 10.8 years.

The average age of the companies surveyed is 29.4 years, and they have an average of 27 employees. Before they began to engage in international activities they had an average of 13 employees, and three years later the SMEs surveyed were active in an average of seven different countries – though the ranges varied widely. Swiss SMEs supply goods and/or services to an average of some 20 different countries. More than two thirds of the companies were engaged in international activities within three years of incorporation. In 2009/2010 94.2% had a presence in Europe, 50.7% in Asia, 40.6% in North America, 25.0% in South America, 22.9% in Africa, and 21.0% in Australia/Oceania (see Table 2).

Table 2: SMEs: International Activity by Continents (2009/2010)

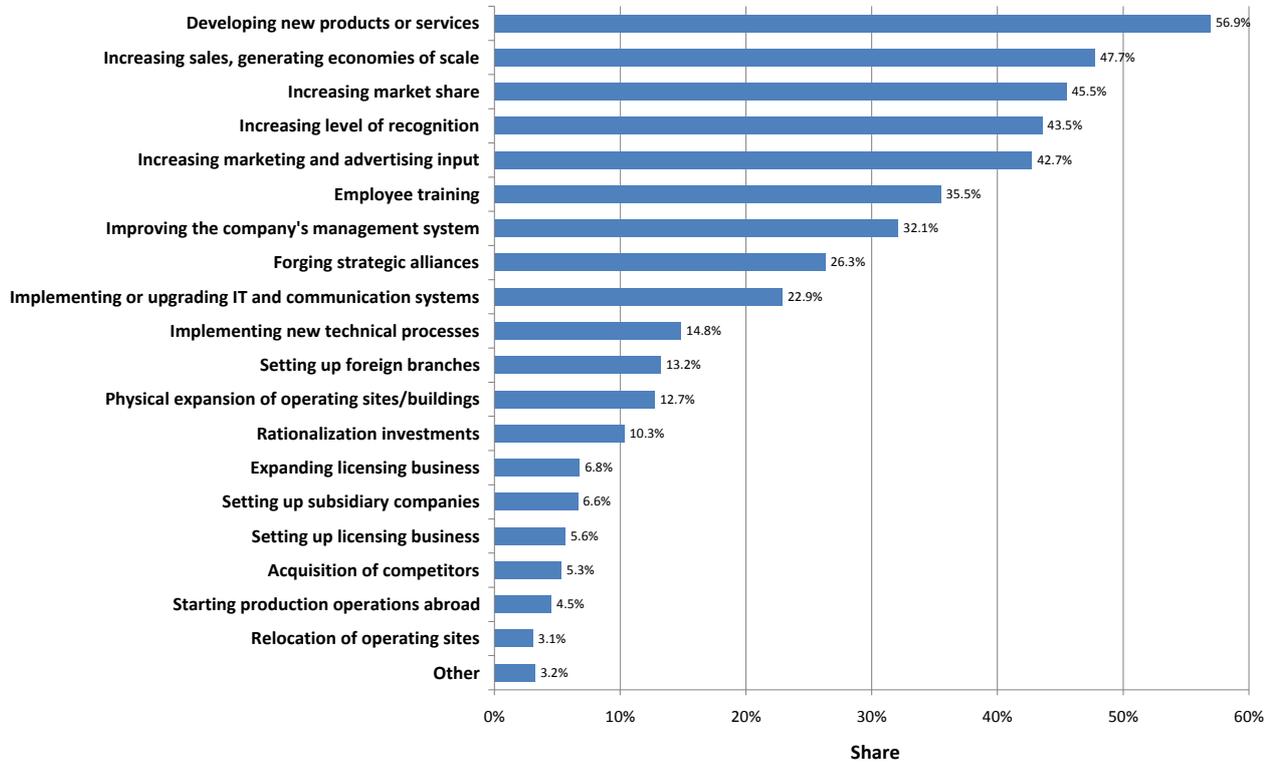
	Europe	Asia	North America	South America	Africa	Australia/ Oceania
0-9 employees microenterprises	92.8%	45.2%	35.8%	18.3%	19.4%	15.4%
10-49 employees small enterprises	95.6%	51.4%	43.0%	28.3%	23.5%	24.7%
50-249 employees medium-sized enter- prises	94.7%	65.26%	48.2%	35.8%	31.6%	27.4%
SME average	94.2%	50.7%	40.6%	25.0%	22.9%	21.0%
Born Globals	94.7%	82.3%	62.8%	49.6%	42.5%	39.8%

Most of the SMEs (78.0%) offer a product or service of high complexity and/or with numerous components. This is in line with the fact that 79.1% of the companies believe their main competitive advantage lies in the superiority of their products or services. The competitive advantages that they seek go hand in hand with their **future objectives** (see Figure 2). The main objectives in the next three years of the companies surveyed are as follows:

- to invest in the development of new products and services (56.9%)
- to benefit from economies of scale with larger sales revenues (47.7%),
- to increase market shares (45.5%)
- to raise their profiles (43.5%) and
- to put more effort into marketing and advertising (42.7%).

These intentions not only prove how important it is for these companies to adopt a competency-oriented strategy, they also highlight the increased effort they are putting into marketing. Investment in employee training was in sixth place with 35.5%, followed by improvements to the management system with 32.1%.

Figure 2: Objectives for the Next Three Years (multiple answers possible)



Individual objectives are **size-dependent**: The larger the company, the more importance is attached to the objectives listed below:

- employee training
- improvements to the management system
- establishing subsidiary companies
- introducing and expanding information and communication systems
- investing in rationalization and building up foreign branches.

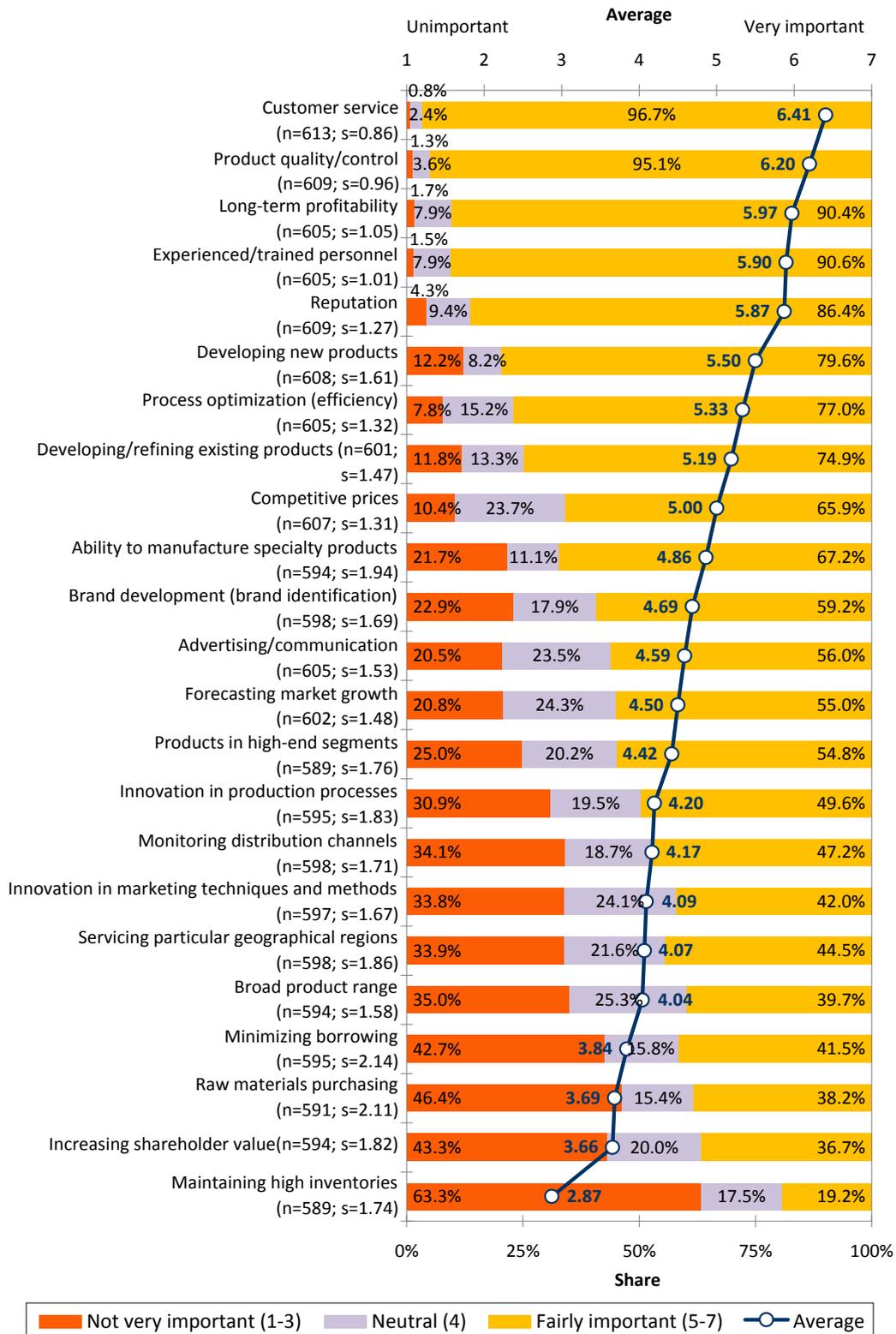
In a less pronounced form, the effect of size is also perceptible in the spatial expansion of operating facilities and the objective of generating economies of scale. The smaller the company, the less it invests – in adding to the skills of its employees, for example, and in management systems and mechanisms. This is not conducive to the adequate preparation and implementation of an internationalization program. Decision-makers also come under greater strain, as they have to make good any gaps with their own skills.

Companies take a variety of measures to achieve their objectives, and our analysis found that these fall into four skill categories: marketing and branding, market performance skills, process expertise, and safety measures. The importance of individual measures is spread across the various skill areas that determine **competition strategy** (see Figure 3).

Customer service (average⁴ 6.4) and product quality (6.2) are extraordinarily important, combined with long-term considerations of profitability (6.0), experienced and well-trained personnel (5.9), and efforts to uphold and enhance the company's reputation (5.9). Interestingly, safety-related measures like reducing debt financing to a minimum (3.8), raw materials purchasing (3.7), increasing the enterprise value (3.7) and maintaining inventories at a high level (2.9) were less important to the SMEs surveyed.

4 The averages are based on a scale from 1 to 7.

Figure 3: The Importance of Elements of Competitive Strategy



3. Internationalization: the Entrepreneurial View

Numerous studies have investigated the relevance of various factors to the internationalization efforts of SMEs – though it is surprising that the same is not yet the case for more fundamental concepts of entrepreneurship research. The connection between the internationalization efforts of an SME and the concepts of opportunity recognition (i.e. identifying new business opportunities) and an international entrepreneurial orientation have yet to be studied in detail. These combinations can be expected to provide insights into the internationalization efforts of small and medium-sized enterprises.

Internationalization management in the entrepreneurial life cycle requires special competencies on the part of the entrepreneur and the team involved in the process, rather than conventional management skills. This is why it is essential at an early stage to identify the skills required by the current situation, and to take steps to acquire any that are lacking. So there is no dispute: The key to successful internationalization is the entrepreneur or the management team. The **international experience** of the entrepreneur or the team is crucial. The effects of international experience were already known, and the present study confirms them – it recommends engaging a management team with international experience to implement the cross-border project. The value of international experience should not be underestimated: It affects not only the pace of internationalization, but also how successful it is. More than half the respondents in the study have worked abroad or have experience in an international corporation. It is interesting to note that, on average, managers of small enterprises have the most extensive international experience: of working abroad (49.0%), of working with an international company (49.8%), and of having been educated abroad (16.7%). The international experience of decision-makers in Born Globals is significantly above the average in terms of both careers and education.

Table 3: What International Experience Did You Possess when the Company Took its First Steps towards Internationalization

	Professional experience abroad/extended stay abroad	Professional experience in an international company	Education abroad
0-9 employees microenterprises	51.2%	54.8%	22.6%
10-49 employees small enterprises	49.0%	49.8%	16.7%
50-249 employees medium-sized enterprises	51.6%	60.0%	27.4%
SME average	50.4%	53.6%	21.0%
Born Globals	58.4%	71.7%	29.2%

International Entrepreneurial Orientation (IEO) can be described as the basic attitude of the company and its managers to vision, innovation, and competitive positioning in international markets. It thus affects the processes, practices and decision-making associated with successful internationalization. In this respect, the global mentality is very similar to the IEO – manifesting itself in a proactive, visionary attitude on the part of management towards the establishment of new relationships in Switzerland and the associated risks. Innovation must undoubtedly be regarded as a central component of the IEO. The more innovative a company, the better its prospects of achieving exporting success.

The entrepreneurial orientation can also be seen as a company's style or strategy-building process, describing its attitudes to innovation, risk taking, proactivity, aggressiveness in competition, and autonomous decision-making. The results make it clear that SMEs:

- prefer their own original, experimental approaches to problem-solving (average⁵ 4.96).
- have brought many new product lines or services to the market in the last five years (4.95),
- try to ensure that the work of individuals and teams is led by a member of senior management (4.87).
- would like to be the first companies to launch new market services and process innovations (4.59);
- typically try to avoid conflicts with competitors, preferring a philosophy of “live and let live” (4.41).

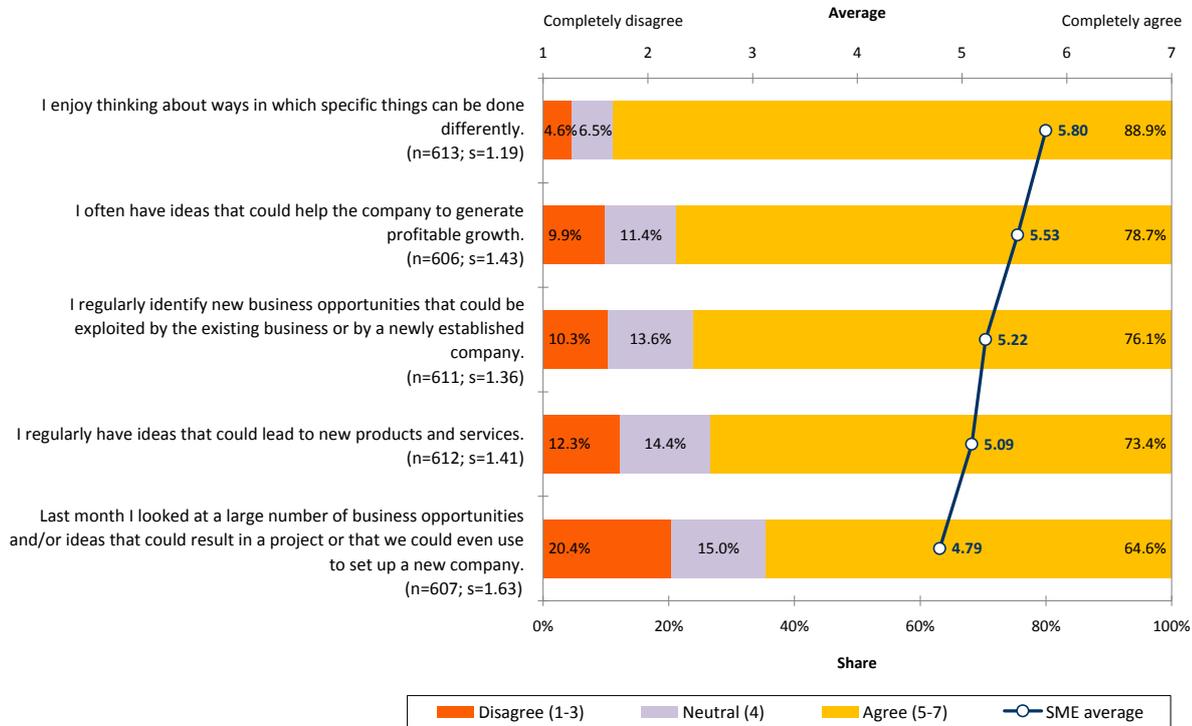
The individual components of the entrepreneurial orientation can be broken down into five groups. Process/method innovation posted the highest average score at 4.5, followed by risk tolerance at 4.3 and an inclination towards radical innovation combined with proactivity (4.2). Autonomy came fourth at 4.1, followed by competitive aggression (3.9) – seen as less significant. Company size is relevant to risk tolerance and the proactive, radical inclination towards innovation: Medium-sized enterprises weight both these dimensions more heavily. The results for competitive aggression are especially pronounced, in that micro and small enterprises behave with significantly less aggression in the market.

The identification and selection of business opportunities are thought to be among the entrepreneur's most important skills. Identifying international business opportunities is a matter of perceiving new exporting potential and ways of significantly increasing the current number of products and services exported. The strongly innovative attitudes of decision-makers emerged from the survey on the identification of business opportunities. All dimensions of the identification of business opportunities are at a higher level than those of the international entrepreneurial orientation.

The results on the ability to take international business opportunities show that entrepreneurs enjoy finding new ways of doing so (average 5.8), and that there is no shortage of ideas for making companies larger and more profitable (5.5). Frequency of identifying business opportunities is slightly less pronounced, at 5.2.

⁵ The averages are based on a scale from 1 to 7.

Figure 4: Identification of Business Opportunities



It is extremely important to any company to be able to identify business opportunities, but the size of the company had no discernible effects. This underpins the perception that opportunity recognition is central to entrepreneurial behavior. The companies exhibit an above-average ability to think about new business opportunities and find unusual ways of exploiting them (see Figure 4). The entrepreneurs or management teams had conducted projects and/or established new enterprises in the recent past. This high proportion of ideas for creating new products and services had a primarily international orientation, leading many of the companies to pursue radically different strategies for entering new markets. Various alternatives were tried or implemented, and networks were activated in the quest for business opportunities and their exploitation.

Companies invest continuously in maintaining their knowledge, and companies in science-related sectors typically take advantage of their membership of external social networks. And indeed, these may be a more efficient way of bringing specialist knowledge up to date than updating internal networks. Decision-makers discuss the development of international business with an average of some 19 persons, spending 6.7 hours on discussing it with existing personal contacts. It is worth mentioning that Born Globals constitute a case of their own:

- They are significantly more risk-tolerant
- They have discussed the development of international business with a significantly higher number of people (31) in the last 12 months
- They invest significantly more time per week (10.2 hours) in discussions of international business with existing personal contacts.

The information this generates is of real value to the entrepreneur. It affects resources and business opportunities. And resources must indeed be invested in accessing information – by consulting experts, for example. Furthermore, companies confirm that organizations with limited resources develop unique competencies, tailored to the special needs of the company, by utilizing external resources through their social networks. In this connection it is notable that most entrepreneurs regard informal networks as more important in international business than the formal networks involving public service providers, public/private organizations and private export-promotion agencies (see chapter 5).

These results permit us to conclude that a connection exists between the social networks of entrepreneurs in various organizations and cooperation between those organizations. Entrepreneurs have recourse to inter-organizational (principally inter-company) cooperation to update their knowledge and gain access to resources. This cooperation between organizations functions mainly through informal social integration rather than formal agreements such as joint ventures or strategic alliances.⁶ In contrast to major corporations, the implication for small and medium-sized enterprises is that social integration gives the entrepreneur more opportunities for inter-organizational cooperation and leads to tangible results, such as agreements on the joint utilization of resources. These are informal agreements, based on trust between the protagonists of a group of like-minded persons. International social networks like this enable companies to transform their technical knowledge into market performance that facilitates and drives their internationalization.

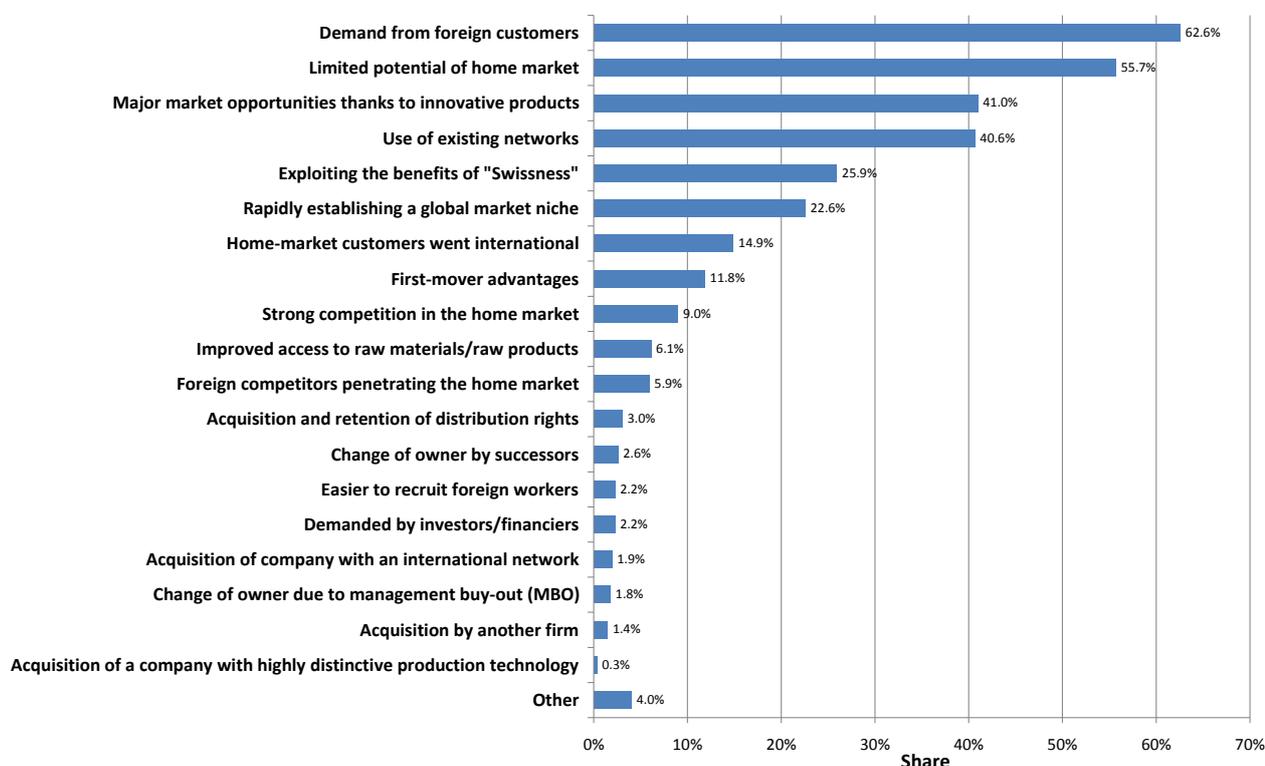
An improved ability to identify international opportunities increases the degree of internationalization, measured (for example) by the proportion of overall sales revenue generated from exports. But the market entry strategy adopted also plays a moderating role as advance preparation, or as an indicator of how SMEs can prepare themselves for local conditions in international markets. The companies adopt a wide variety of market entry strategies: indirect exporting, licensing, sales outlets and production operations in the form of subsidiary companies. The “trial and error” approach is clearly discernible. Consisting of looking for business opportunities and developing them, it is evidently a reaction on the part of the entrepreneur to a situation with potential for uncertainty that he believes will enable him to achieve his personal objectives.

⁶ Constant e-mail correspondence, for example, or regular meetings with business partners and/or experts who function as something like sparring partners, suggest the existence of informal networks.

4. The Reasons and Preconditions for Internationalization

The importance of managing internationalization, particularly its planning and implementation, must not be underestimated – especially for SMEs, because it is a key entrepreneurial event that may well determine the direction of growth. Particular attention should be paid to the planning of internationalization, the reasons for pursuing it, and the proposed method of entering the foreign market. The **reasons for internationalization** cannot be reduced a priori to pull effects from foreign markets or push effects from the domestic market.

Figure 5: Reasons for Internationalization (multiple answers possible)



Instead, it must be seen as being due to a variety of causes. Foremost among these are demand from foreign customers (62.6%), the belief that the domestic market has only limited potential (55.7%), good market prospects for innovative products (41.0%), and the utilization of existing networks (40.6%).

Direct exporting (average⁷ 5.7) is the most frequent and most successful **distribution channel** for Swiss SMEs, and it is also the form of market entry that is subsequently most often retained. In the present cases the advantages of direct exporting apparently outweigh its well-known disadvantages (see Figure 6).

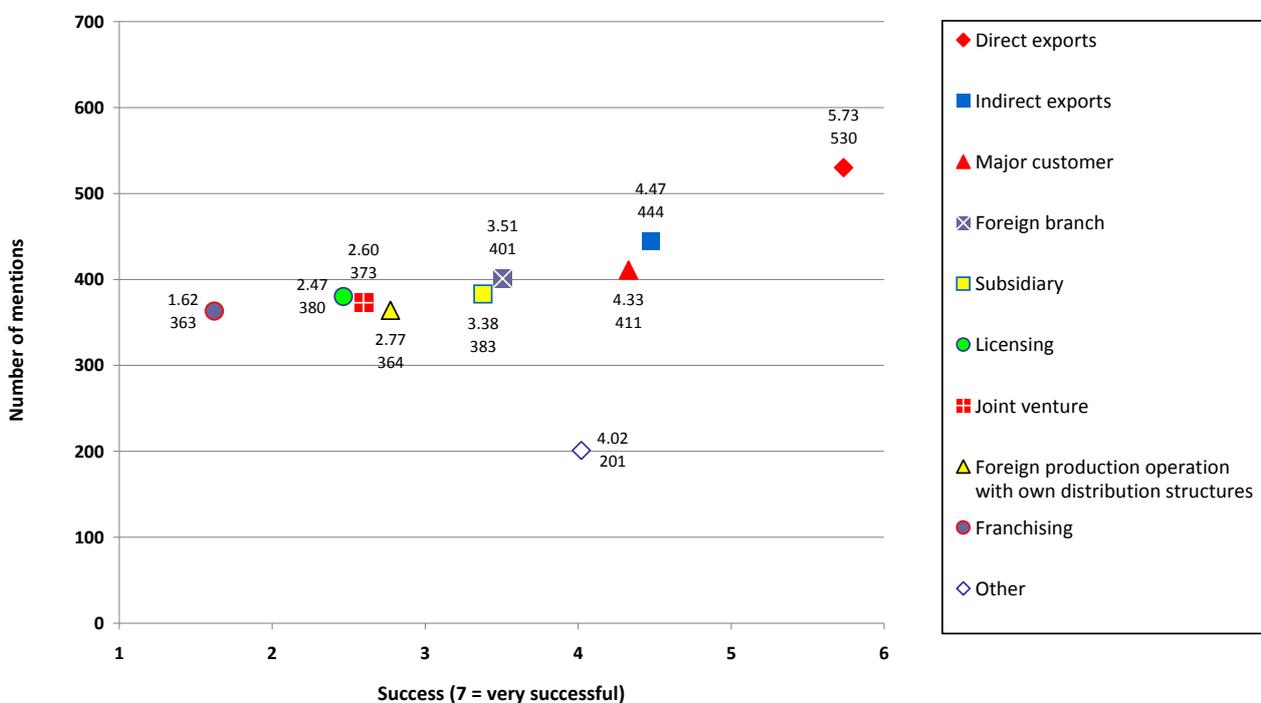
⁷ The averages are based on a scale from 1 to 7.

The immediacy of the business relationship is probably a decisive plus point. Around half of the companies surveyed, after all, describe their product range as complex. In parallel to this, the intensive interaction it involves would not be possible working through trading organizations or intermediaries. Other factors likely to be very important to SMEs include its low use of resources (in comparison with other forms of internationalization), its value as an aid to familiarization with the country, the market and the business partner, and its insignificant impact on profit margins. The disadvantages most often cited are ignorance of the host country and poor local acceptance, but the companies surveyed thought these were outweighed by the advantages. Indirect exporting through marketing agencies and intermediaries was the second-most-frequently cited distribution channel, followed by market entry through major purchasers.

Foreign direct investment is a less frequent form of internationalization than exporting because of its higher resource requirement and the greater impact of cultural, linguistic and/or legal differences. The SMEs surveyed confirm that foreign branches and subsidiary companies are only moderately successful.

The franchising system – less successful again – is little used in practice, and in 32% of the cases where it was used, it was later abandoned. This is hardly surprising, as franchising – a global entrepreneurial concept involving procurement, sales, organization and management – cannot meet all the requirements of the companies surveyed. Franchising’s main areas of application are those in which a high degree of standardization is beneficial. Standardization is the polar opposite of the necessarily differentiated approach to complex product ranges.

Figure 6: Distribution Channels in the Internationalization Process



5. Implementing Internationalization – Obstacles and Support

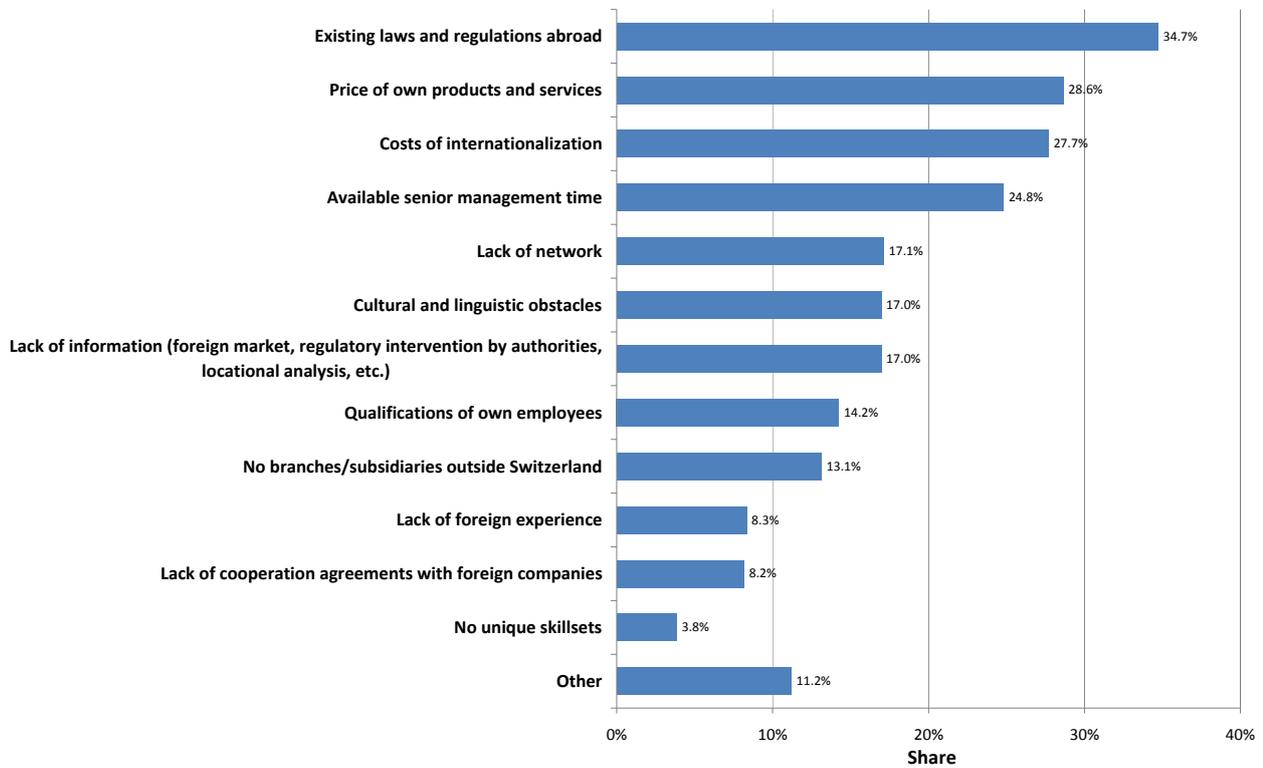
On average, SMEs become active in foreign markets in one form or another 8.6 years after incorporation, and after a further three years they have a presence on 1.3 continents. They have then gradually extended their international activities. In 2009, SMEs were active in 11 countries on 2.5 continents with an average export ratio of 53.6%. Microenterprises are significantly more aggressive, as the existence of the Born Globals suggests. After three years these are active on three continents. Their export ratio in 2009 was 75.7%, dealing with over 19 countries through one or more distribution channels (see Table 4).

Table 4: Comparison of the Internationalization Process over Time

	Number of years preceding internationalization	Number of continents after three years	Number of continents today	Number of years in the internationalization process	Number of countries in 2009	Percentage of 2009 sales revenues generated in foreign markets
0-9 employees microenterprises	4.0	1.5	2.3	15.2	8.7	52.2%
10-49 employees small enterprises	9.3	1.2	2.7	22.0	10.5	52.4%
50-249 employees medium-sized enterprises	19.6	0.8	3.0	35.7	20.7	60.5%
SME average	8.6	1.3	2.5	21.1	11.3	53.6%
Born Globals	0.4	3.1	3.7	18.1	19.4	75.7%

Born Globals reach particularly high export ratios in the first few years after internationalization. Other SMEs find these hard to achieve even after several years. It must be noted, however, that Born Globals do not subsequently succeed in increasing their export ratios by more than an average proportion. Some SMEs seem to wake up after a long period of inactivity in the international markets, putting a great deal of effort into making up lost ground and establishing dense international networks. These may be companies with considerable experience of the domestic market and the markets of neighboring countries which for a variety of reasons decide to go global.

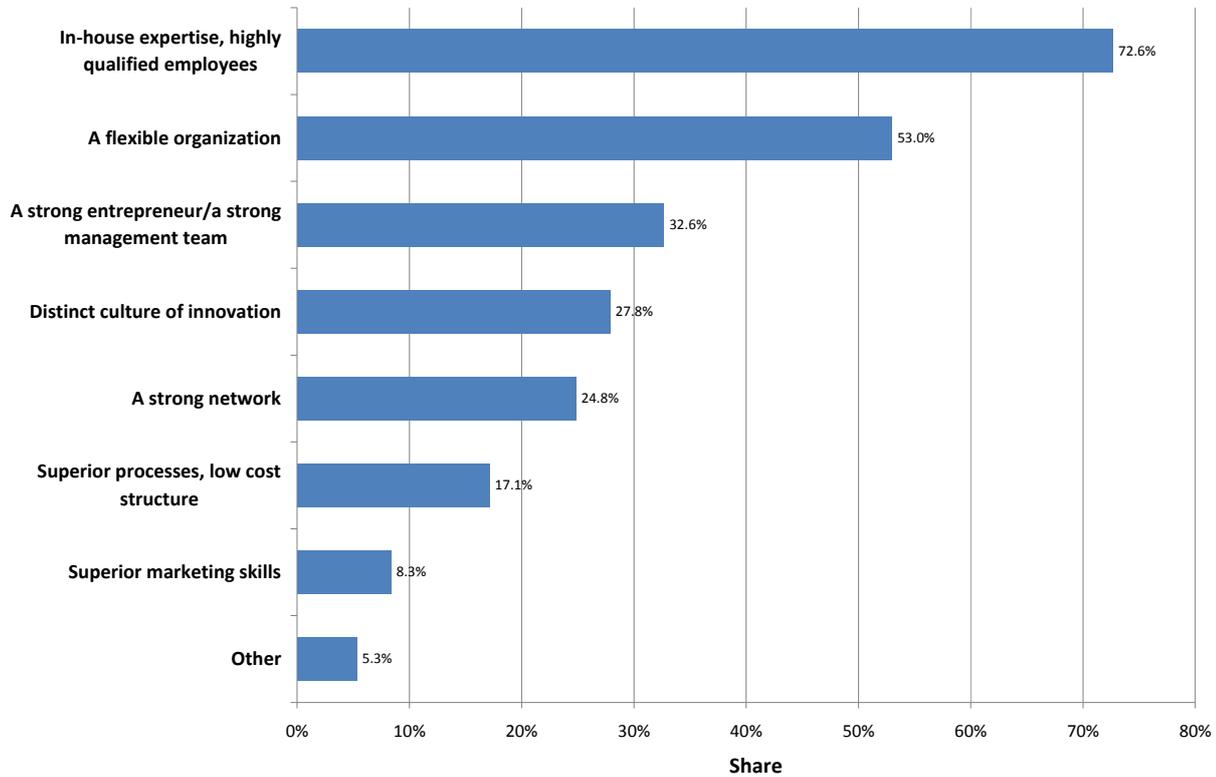
Figure 7: Obstacles to the Internationalization Process (multiple answers possible)



The influence of possible **obstacles to the internationalization process** shows that existing laws and regulations abroad (34.7%) are mentioned first, followed by the price of market performance (28.6%), the costs of internationalization (27.7%), and the availability of senior management time (24.8%) (see Figure 7). If time resources are limited, this may result in companies failing to prepare an internationalization project properly or in failing to seize an international opportunity. Three other factors – the lack of a network (17.1%), cultural and linguistic obstacles (17.0%), and the lack of information (17.05%) – are all at about the same level.

Remarkably, Born Globals have a less acute perception of obstacles, principally regarding the prices of market services (20.2%), the lack of information (12.8%), the absence of subsidiary companies (13.1%), and the lack of experience abroad (3.7%). But the pace and breadth of their internationalization efforts means that more senior management time is needed. The costs of internationalization, however, are seen as only slightly more of an obstacle.

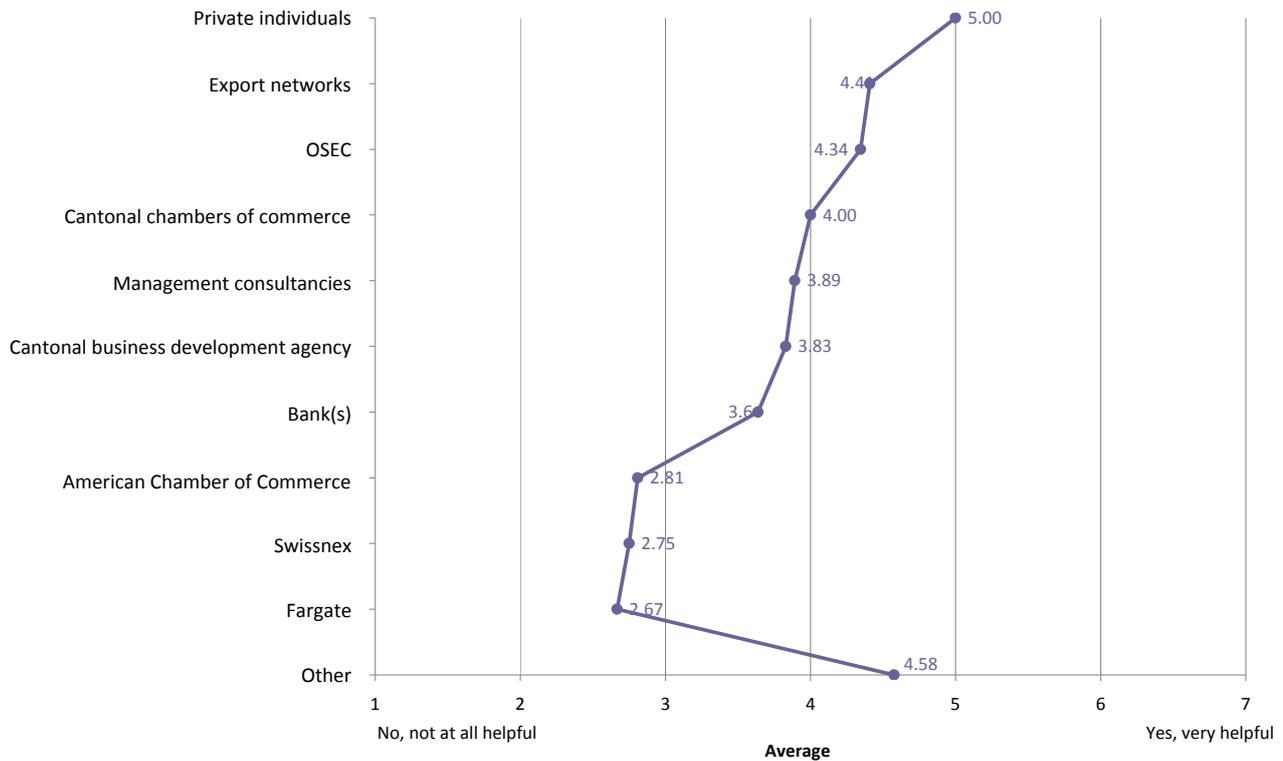
Figure 8: Company Strengths with a Major Impact on Success Abroad (multiple answers possible)



Companies' own expertise – their human capital, in other words – and a flexible organizational structure are the **company-specific strengths** that contribute most to the success of a foreign commitment (see Figure 8). Only just over a third of the SMEs surveyed thought strong management and a pronounced innovation culture were important to successful internationalization.

Unlike SMEs as a whole, the distinct competencies of the Born Globals lie in a strong management team (43.8%), a functioning network (40.2%), and superior processes with a low cost structure (28.6%). Born Globals are very probably more aware of their strengths, or they take more care of their own corporate fitness to keep themselves globally competitive.

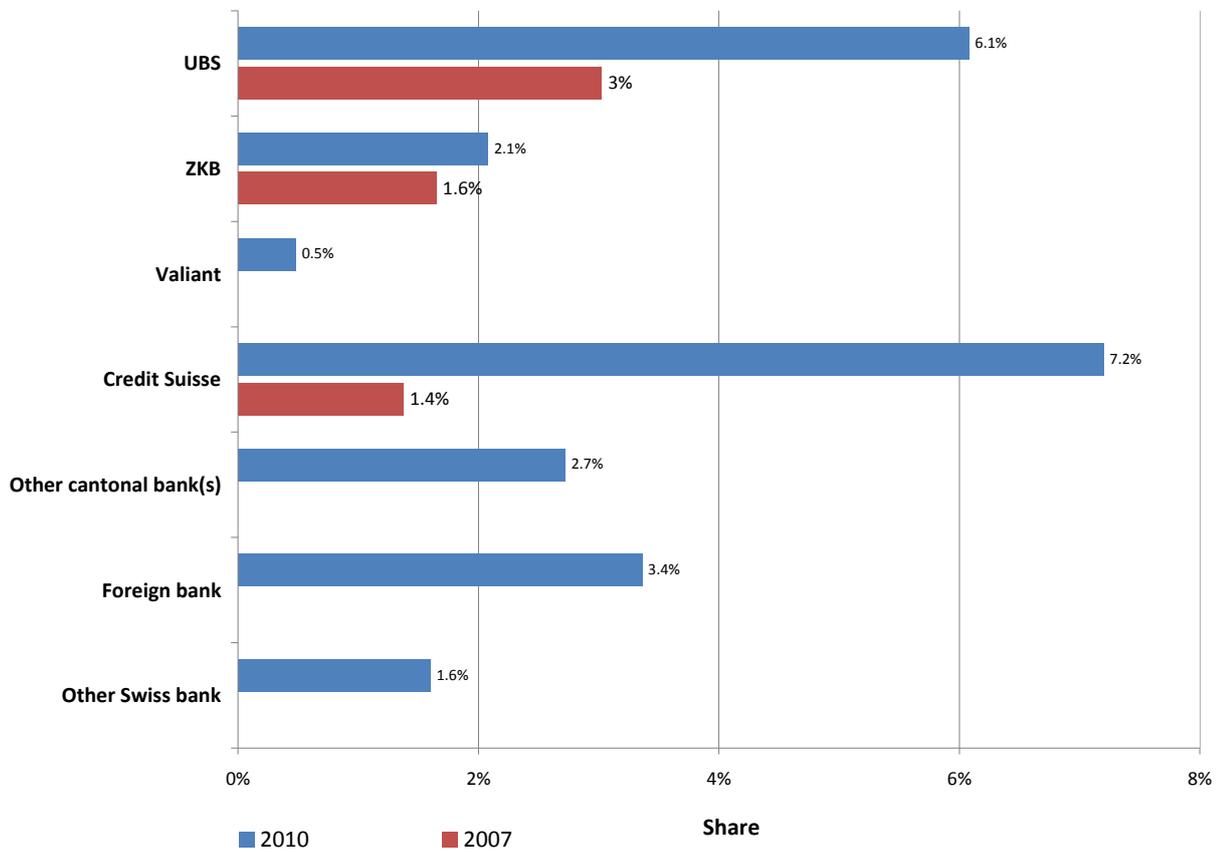
Figure 9: Organizations and Services Consulted in Connection with Internationalization and Found to Be Helpful



In spite of their strength, these companies depend on **external support** tailored to their needs. Swiss SMEs say they get most help with the internationalization process from private individuals, which confirms the importance of informal networks. Other organizations and individuals were mentioned next, closely followed by exporting networks and OSEC, the Business Network Switzerland, which helps companies in Switzerland and Liechtenstein to establish and expand their activities abroad. Cantonal chambers of commerce and investment promotion agencies appear to be only moderately helpful, and the same goes for management consultancies and banks. Finally, the support available from the American Chamber of Commerce, Swissnex and Fargate was regarded as less useful still (see Figure 9). Born Globals have similar views of the support structure. They differ significantly only in the number of other organizations and individuals named (average⁸ 3.5).

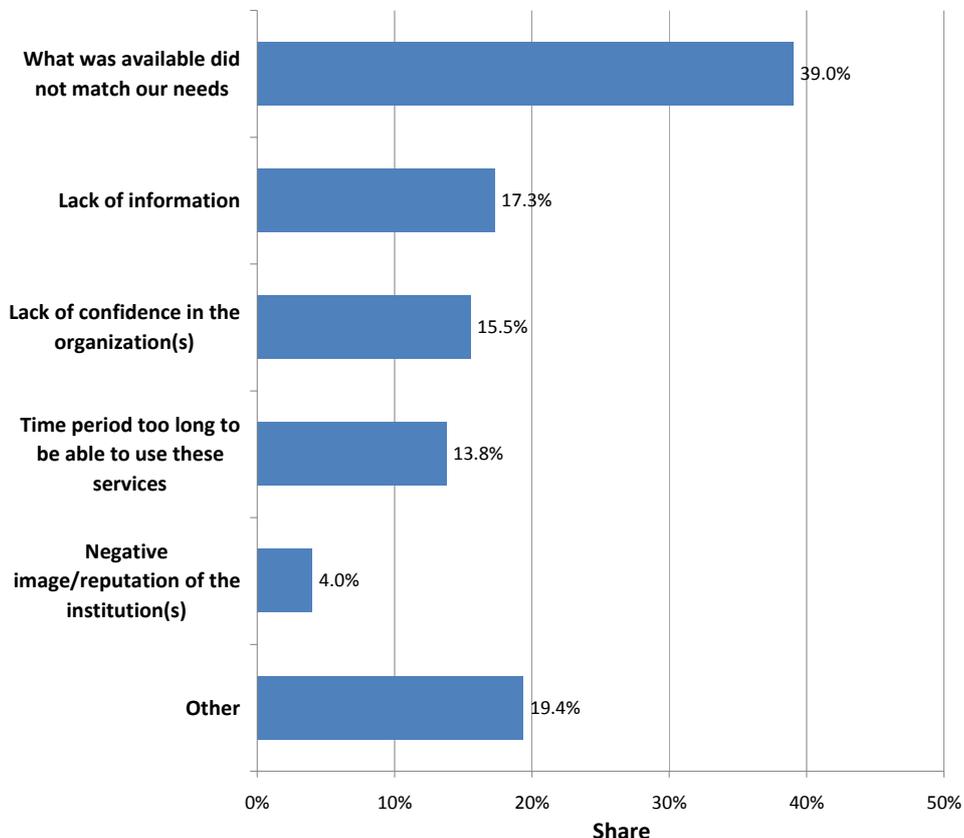
⁸ The averages are based on a scale from 1 to 7.

Figure 10: Bank(s) Involved (multiple answers possible)



In answer to the question about which **banks** are involved in the internationalization process, Credit Suisse and UBS are in the lead with around 7% and 6% respectively. This seems unsurprising. Both of the big banks are active in the international arena, and SMEs may therefore have considered one or other of them as the partner for their expansion plans. A few companies (3.4%) rely on the support of foreign financial institutions. As for the cantonal banks, Zürcher Kantonalbank alone helped 2.1% of the SMEs surveyed with their plans, while all the others put together assisted 2.7% of them. With 1.6% and 0.5% respectively, other domestic banks and Valiant are less important providers of support for the international efforts of Swiss SMEs (see Figure 10). A comparison of the results for SMEs and Born Globals identifies no striking differences.

Figure 11: Reasons for the Non-Use of Services and Offers of Assistance (multiple answers possible)



When SMEs were asked about their **non-use of services and offers of assistance** from third parties, their most frequent response was that what was on offer did not meet their needs (39.0%). The open responses indicated that it was mostly too general, that information on niche markets and products was not available, or that information was aimed more at large corporations than SMEs. Further reasons given were a lack of information (17.3%), lack of confidence in the organizations concerned (15.5%), and excessive delays before the services could be delivered (13.8%). Less importance is attached to an internationalization agency's poor image or negative reputation (Figure 11).

6. Success Factors in Internationalization

The consequences of internationalization for a company must be interpreted in a very nuanced way. An empirical review of the success factors makes it clear that the principal determinant is the entrepreneur or the management team. Achieving success abroad evidently depends mainly on the international experience of the company's senior managers, their network, and the ability to recognize opportunities and to launch innovations. These three factors are based on strategic risk management. If the company's management is strong and decisive, it can have an enormous impact on the pace and success of internationalization.

International Experience

Entrepreneurs who had worked abroad or gained professional experience in international companies prior to internationalization were able to give their companies an international orientation extraordinarily quickly. Having been educated abroad has a similar effect. Such experience evidently enables managers to build up an international network in advance, and to give the company the best possible preparation for the international market environment (competitive intensity, culture, etc.). Experience has a positive effect on the success of internationalization as well as its pace. Consequently, the companies with the highest export ratios are generally headed by people who were educated abroad or have worked abroad. Ultimately, there is no doubt that a company planning to move into international markets should appoint senior managers and CEOs with international experience rather than their inexperienced colleagues.

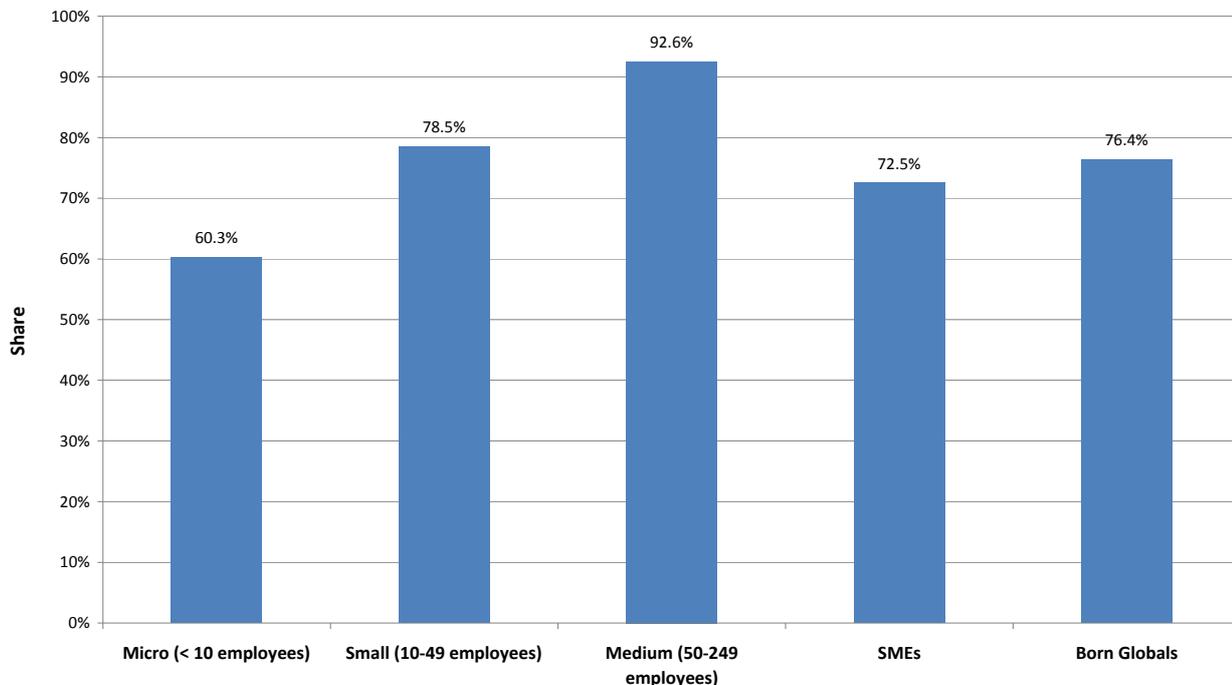
Networks

A positive connection emerged between the utilization of networks and the success of internationalization. Companies with an active network, for example, have higher export ratios even at the very beginning of the internationalization process. In the longer term, even companies without strong networks can increase their export ratios – though not by as much as those which have them. This is presumably because these companies are involved in value chains, increasing their ability to sell their products in international markets.

Risk Management

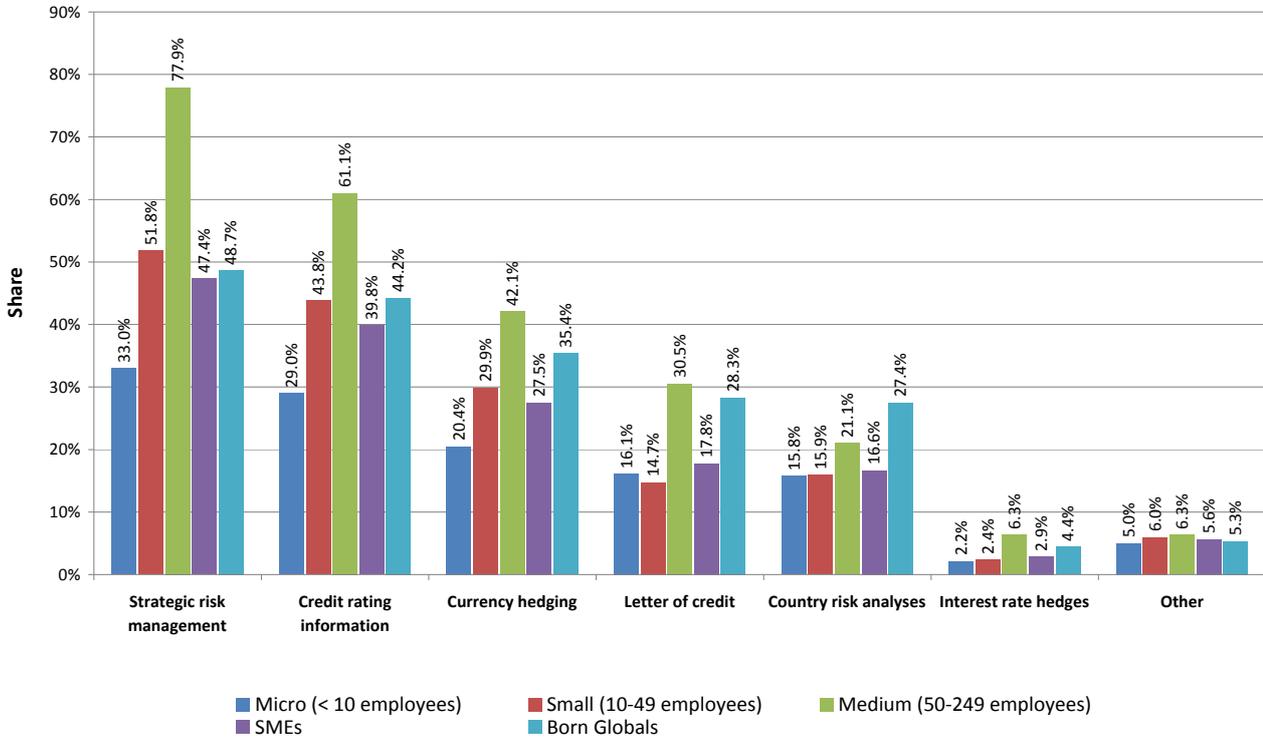
It goes without saying that the decision to go international involves certain risks as well as opportunities. An analysis of the active, cautious risk management of the SMEs surveyed highlights a particular trend with regard to company size. Whereas just 60.3% of microenterprises have their own risk management system, this percentage is significantly higher for small and medium-sized enterprises, at 78.5 and 92.6% respectively. So over 70% of SMEs, on average, operate an active, cautious risk management system – rising to over three quarters of Born Globals (see Figure 12).

Figure 12: Risk Management



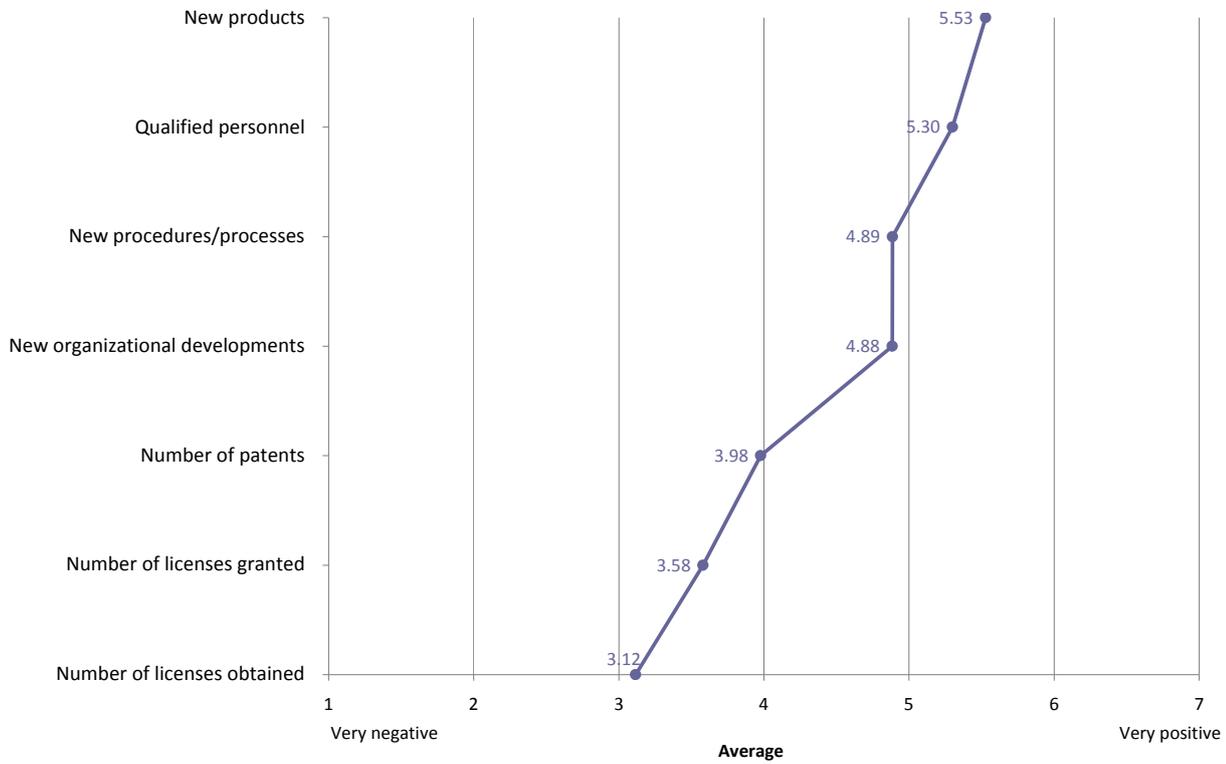
The survey then looked at the **form of risk management**. It sought to establish, for example, which risks the SMEs manage. It is clear that the various risks are prioritized similarly in the three company size groups (micro, small and medium-sized) and in the Born Globals, if at different levels. Nearly all risks are managed least frequently in microenterprises (except for letters of credit). The low figures are most probably due to their limited financial and personnel resources, or perhaps the time involved in active risk management makes it impossible for microenterprises. It is medium-sized enterprises that concern themselves most intensively with risks (except country risks).

Figure 13: Form of Risk Management (multiple answers possible)



Strategic risk management is conducted most actively. This particularly includes the formulation of a sophisticated risk policy to handle threats to major success factors. Risk reduction by obtaining information about the financial standing of any business partners was in second place, followed by currency hedges. Medium-sized enterprises and Born Globals especially favor letters of credit: directly enforceable promises by an importer’s bank to make payment to the exporter. Possibilities cited less often include country risk analyses, interest rate hedges and other unspecified measures.

Figure 14: Degree of Internationalization and Innovative Strength

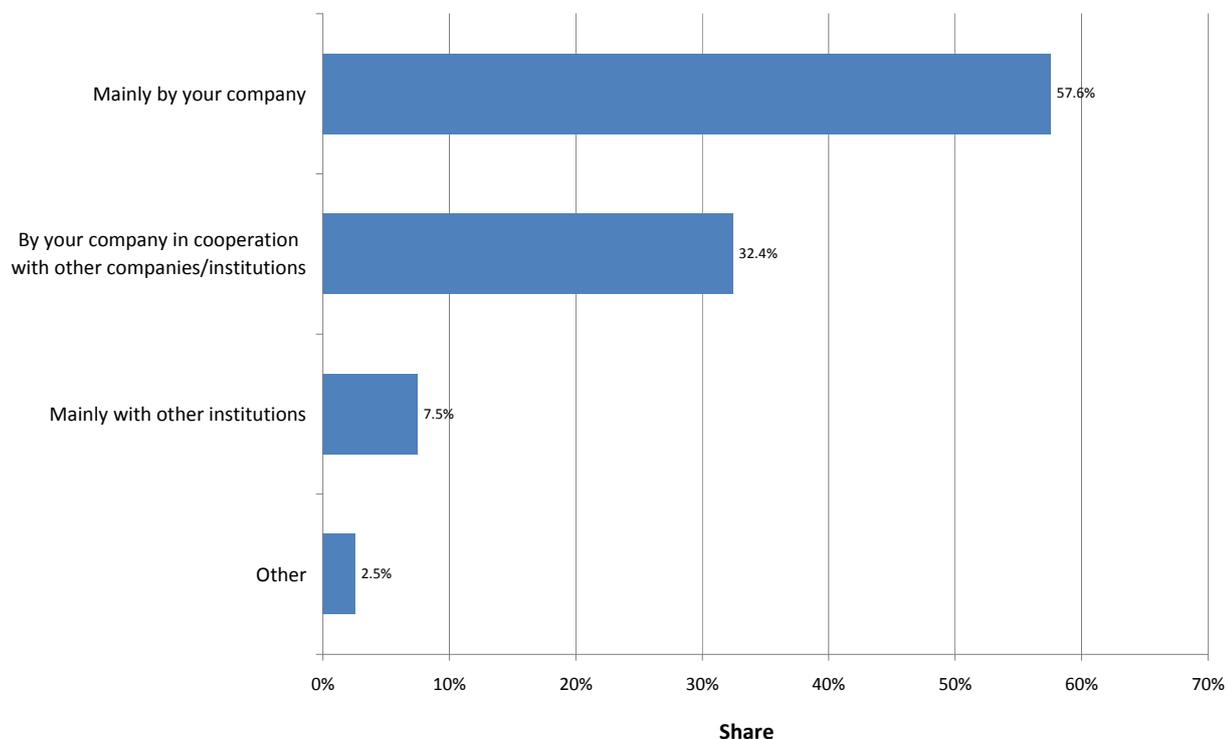


Innovative Strength

As well as certain risks, the internationalization process also offers various opportunities. Internationalizing can have a positive effect on an SME’s **innovative strength** (see Figure 14), and particularly on its development of new products (average⁹ 5.5) and on the acquisition by its employees of additional qualifications (5.3). Internationalization can also stimulate innovative approaches in the manufacturing process and in process management (4.9). Positive effects in terms of organizational innovations were also noted. Effects on the number of patents were more or less neutral (4.0), and the same was true of the number of licenses issued and acquired (3.6 and 3.1 respectively).

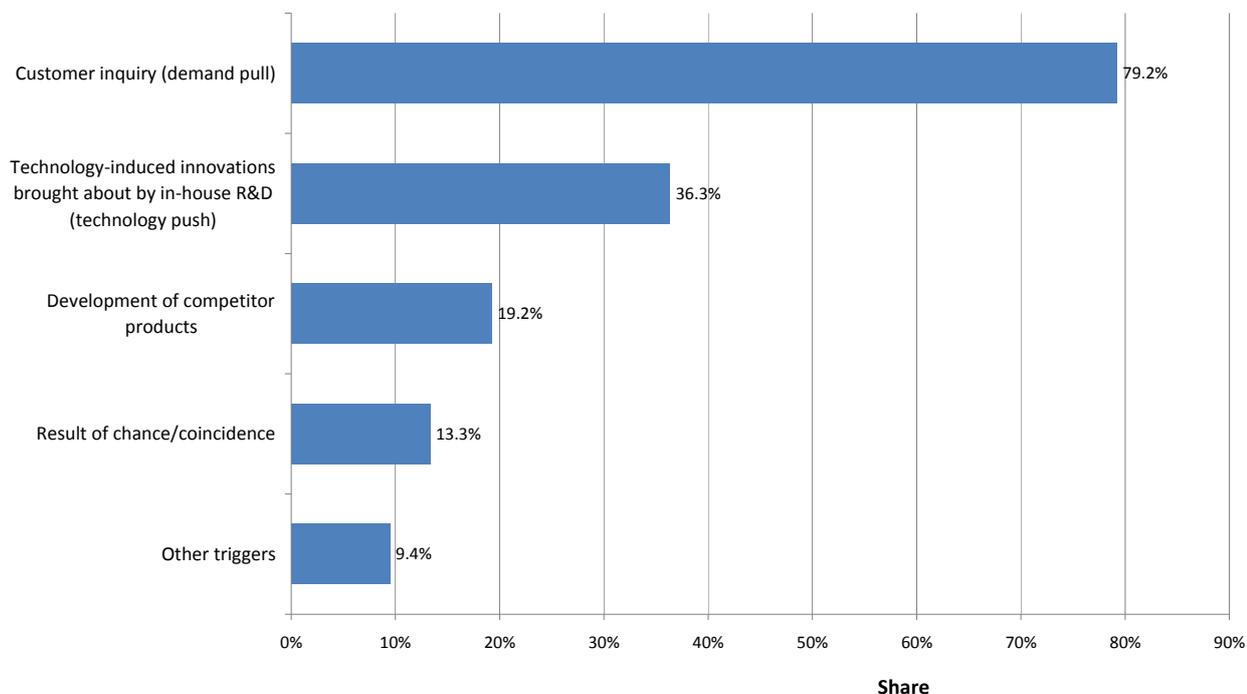
⁹ The averages are based on a scale from 1 to 7.

Figure 15: How Were the New Products Developed?



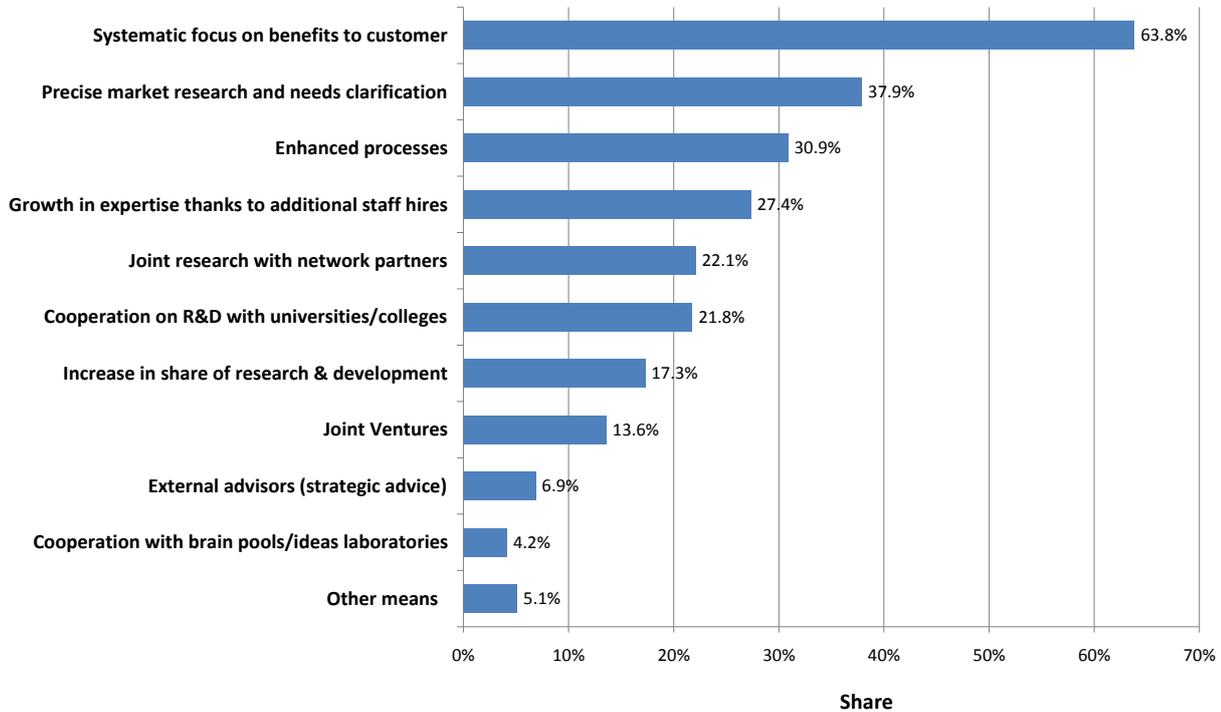
It is important to note that most **new developments in the product range** come from the companies themselves (57.6%). This statement does not contradict the aforementioned effect of internationalization on product innovation. It may well be commencing international activity that triggers product innovations – because of changing needs or new technologies, perhaps – but they are still developed within the company. About one third of companies stated that new products were mostly created in collaboration with other companies or institutions. One company in ten even went so far as to say that its product development was exclusively conducted by third parties (7.5%) or took place in a different form (2.5%) (see Figure 15).

Figure 16: Triggers for the Development of Innovative Products/Processes (multiple answers possible)



It is abundantly clear that in most cases the **motivation for the development of innovative products and processes** was based on the requirements of the market. 80% of SMEs mention that innovative ideas are triggered by what the customers want. The second stimulus mentioned was technology-induced innovations based on in-house research and development (36.3%). Some companies, however, thought they were more or less forced by competing products to come up with innovative solutions of their own (19.2%). Less frequently it was random chance (13.3%) or factors not specified in the survey (9.4%) that led to the development of new products and processes (see Figure 16). It is entirely conceivable that innovations stemmed from a combination of two or more of these factors rather than from only one of them.

Figure 17: Triggers for the Development of Future Innovative Products/Processes (multiple answers possible)



With regard to **future-oriented product and process development**, Swiss SMEs once again focus on their customers. 63.8% intend to make customer benefits the determining factor for coming innovations. In this context market research will be conducted to establish exactly what it is that their customers need (37.9%). On an internal company view, improved processes (30.9%) and increasing expertise as a result of additional staff hires (27.4%) will help to provide innovative, marketable solutions. About 22% of SMEs are convinced that both joint research with network partners and collaboration with universities and colleges on research and development are likely to be successful. Fewer companies (17.3%) expect higher expenditure on in-house research and development to produce results. Only 13.6% see joint ventures with at least one other company as a route to marketable innovations. Hardly any SMEs believe they can meet the challenges facing them with external advisors or in collaboration with think tanks (see Figure 17). Once again it should be stressed that the possibilities listed are not to be understood as mutually exclusive.

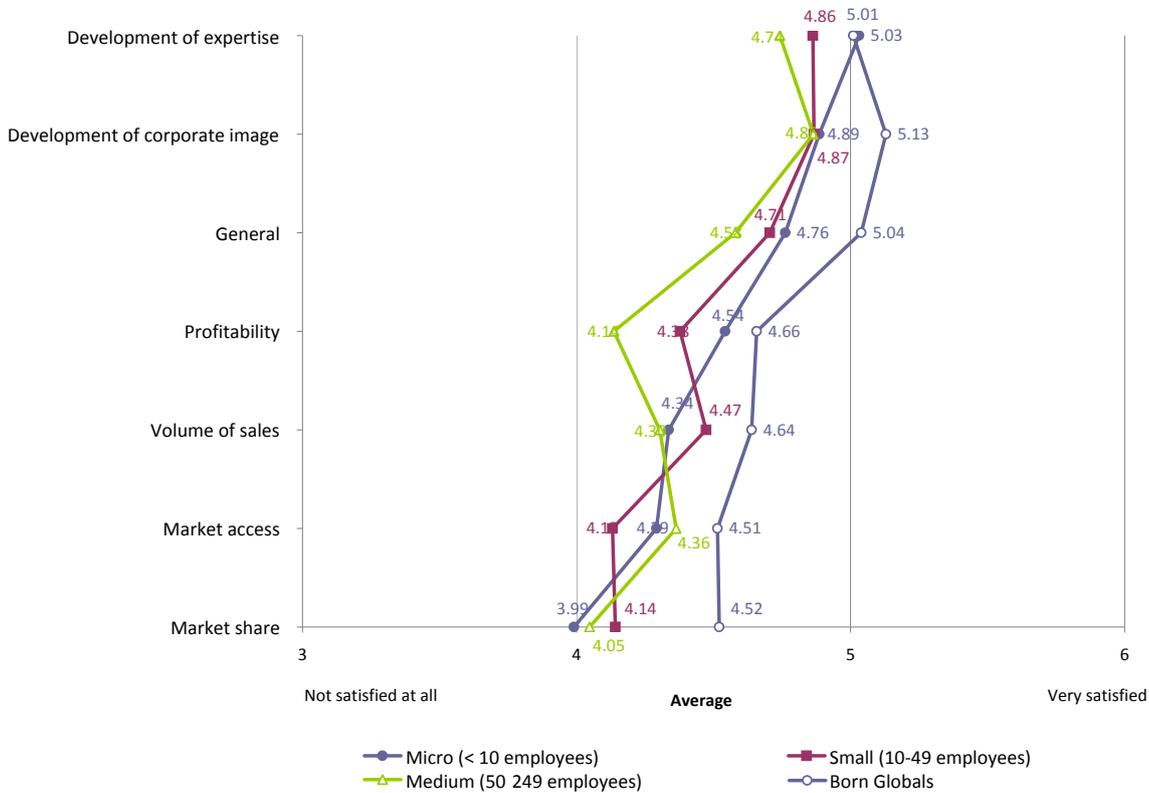
7. Conclusion

Decision-makers naturally inquire into the success of international transactions and performance measurement. Internationalization performance is a complex construct that appears to be affected by the degree of internationalization, sharply improving in the initial phase as the degree increases. The small Swiss domestic market, the strong international orientation of Swiss SMEs, and of course free access to the European market intensify this effect. Small and medium-sized enterprises can substantially improve their performance by focusing on a restricted number of market entry strategies. But companies have only themselves to blame if they simultaneously deal with more countries, adopt additional market entry strategies, and/or fail to learn from experience.

International performance appears to be directly linked with the objectives of the entrepreneur or the individual who took the decision to go international. A performance review can take quite different forms depending on whether it focuses on tangible or intangible objectives, and on the way performance is measured. It makes sense to differentiate between subjective and objective performance in order to obtain an approximate picture of international performance – dependent as it is on a variety of factors. This is all the truer in that internationalization can be seen as an opportunity to hone one's own abilities to identify business opportunities. Similarly, it should improve the innovative capability of key employees.

Subjective performance was measured by asking companies to assess their **satisfaction** with their internationalization activity. One striking aspect of the results is that Born Globals are basically the most satisfied, under nearly all headings. They seem to be especially pleased with the development of their expertise and company image. They are only moderately satisfied with their profitability, sales volumes, market access and market shares. Microenterprises are more satisfied than small and medium-sized enterprises under five headings (see Figure 18). SMEs of all sizes appear to be least satisfied with market access and their market shares. But ultimately, on average, there is no factor with which companies are entirely dissatisfied.

Figure 18: Satisfaction with Internationalization Activity



When companies deal with markets that are geographically and/or culturally remote, learning curve effects do not apply, and they experience a disproportionate rise in coordination and transaction costs. After an initial successful phase as the degree of internationalization increases, performance then falls away. This effect has been documented for Born Globals, which grew vigorously in the first three years and began to show the first signs of stagnation after five years. Subsequently learning curve effects may improve performance again. These are linked to innovative activity impacting on organizational structures and/or processes as well as achieving success in the market.

If we focus instead on the **“hard”, objective indicators** – sales revenues, the percentage of sales revenues generated in foreign markets, EBITDA in % and the number of countries – our subjective performance findings are borne out. Born Globals achieve a higher EBITDA (12.56%) than the average of all SMEs. Their export ratio is higher, too (76.3%), and they are active in more countries than the average SME.

Table 5: Internationalization: Hard Indicators

	Microenterprises	Small enterprises	Medium-sized enterprises	SME average	Born Globals
Sales revenues (in CHF), 2009	11,321,105	9,752,171	35,060,462	14,491,828	29,923,925
Sales revenues (in CHF)/employee, 2009	2,729,981	460,451	322,091	537,571	1,348,194
Percentage of sales revenue generated in foreign markets, 2009	52.2	52.4	60.5	53.6	76.3
EBITDA as % of sales revenues, 2009	10.5	10.9	10.4	10.7	12.6
Number of countries in which you were active in 2007 (excluding Switzerland)	7.5	9.1	19.5	10.0	17.9
Number of countries in which you were active in 2008 (excluding Switzerland)	8.1	9.6	20.3	10.6	18.5
Number of countries in which you were/are active in 2009 (excluding Switzerland)	8.7	10.5	20.7	11.3	19.4

As a growth driver, internationalization opens up new horizons in the truest sense of the word for Swiss SMEs and the Swiss economy in general. But this only applies if the framework conditions are harmonized at all levels and if the strategy adopted is rigorously pursued – taking full account of organizational and cultural factors.

Because internationalization is so complex, it is driven very strongly by the experience of the various players. So it would make sense for learning curve effects from internationalization to be shared among companies, internationalization agencies and academics. Such an exchange of knowledge and experience might be initiated and promoted by a variety of groups, and cross-sector workshops held to round off the learning process. The experience gained from business transactions could be concentrated in a knowledge management tool, with additional information from specialists fed into the knowledge pool generated by it. This would enable key performance factors to be worked out, either shaping the internationalization process or supporting it – and ultimately enabling companies to achieve lasting success.

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