



# Swiss International Entrepreneurship Survey 2016

Results of the study on the  
internationalization of Swiss SMEs

**Publication details**

**Author**

Prof. Dr Rico J. Baldegger, School of Management Fribourg (HEG-FR)

**Publisher**

PostFinance Ltd and Bisnode D&B Switzerland Ltd

Date: October 2016

Baldegger, R. J., Wild, P., Morel, B. (2016): Swiss International  
Entrepreneurship Survey 2016: Results of the study on the inter-  
nationalization of Swiss SMEs

[postfinance.ch/aussenhandel](http://postfinance.ch/aussenhandel)

ISBN 978-3-906201-95-5



9 783906 201955 >

# Introduction from our partner

Dear Readers

Everyone is responsible for their own happiness and success in life. The Roman consul Appius Claudius Caecus knew this 300 years before Christ, as shown in the poem where he wrote "fabrum esse suae quemque fortunae", roughly translated as "Every man is the maker of his own fortune".

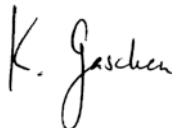
This oft-cited adage encapsulates the fundamental findings of the fourth study on the internationalization of Swiss SMEs, as it is up to us as decision-makers and entrepreneurs to recognize and make the most of opportunities. With knowledge and experience we can face up to difficult economic conditions. We develop innovative solutions, increase efficiency and step up productivity before market pressure hampers our progress.

Digitization also presents us with new opportunities. Data is becoming a helpful resource. It helps to tap customer potential, to improve Working Capital Management and to make sure we are ready for the payment transactions of tomorrow. This links us, the partners of this study, with you as entrepreneurs. We, PostFinance Ltd, as the number one in Swiss payment transactions, and Bisnode D&B Switzerland Ltd, as the most important provider of Swiss and international economic information, help our customers to recognize and tap potential. After all, everyone needs the right tools in order to become the maker of his own fortune.

We will be happy to help you formulate the blueprint for your future and hope that you can draw lots of valuable lessons from this study to apply to your daily working life.



**Ralf Stüber**  
Head of Marketing – Business Customers  
PostFinance Ltd



**Katja Gaschen**  
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, October 2016



Foreign trade is vitally important for Switzerland.

# Contents

<b>Foreword</b>	<b>6</b>
<b>Executive summary</b>	<b>7</b>
<b>1. Background, aims and scope of the survey</b>	<b>8</b>
<b>2. Internationalization of Swiss SMEs in a global context</b>	<b>12</b>
<b>3. Entrepreneurial view of internationalization</b>	<b>18</b>
<b>4. Reasons for and challenges facing internationalization</b>	<b>26</b>
<b>5. Implementing internationalization – obstacles and support</b>	<b>30</b>
<b>6. Factors for successful internationalization</b>	<b>36</b>
<b>7. Internationalization findings 2006–2016</b>	<b>40</b>
<b>8. Conclusion</b>	<b>47</b>
<b>List of figures</b>	<b>51</b>
<b>List of tables</b>	<b>52</b>
<b>Literature</b>	<b>53</b>

# 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 landscape and its internationalization make it difficult to measure success or to identify the factors of success. We need to take a differentiated 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 SMEs 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, and could provide useful insights into which operating framework should be used in the future to build on the success in foreign markets.

The following report is based on a comprehensive survey on the topic of internationalization of Swiss SMEs. After the first surveys in 2007, 2010 and 2013, this research sheds light for the fourth 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 support for companies in their internationalization. The entrepreneur and their management team is the focus here, because internationalization can only be implemented effectively and efficiently with a top management team.

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



**Prof. Dr Rico J. Baldegger**  
Director  
School of Management Fribourg (HEG-FR)

# Executive summary

The following survey examines 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 in autumn 2016.

The entrepreneur – who has a global vision and acknowledges that the required skills of a management team differ at every stage of a company's life cycle – is at the center of the survey. This is why it is essential 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 strongly recommended that an internationally experienced leadership team be set up before planning to move across the border. The importance of international experience should not be underestimated, as it not only influences the speed of internationalization, but also its success.

The survey clearly demonstrates the relevance of adequate preparation for the internationalization process as well as a strategy which is based on the company's own expertise. By looking at examples of other companies which have succeeded in positioning themselves innovatively in the international value chain, decision-makers can learn how to achieve and secure a competitive advantage in foreign markets. The results suggest that entrepreneurs and SME managers invest less in material assets than in sectors which may generate a competitive advantage immediately. In addition to research and development, this includes the creativity of its employees and their ability to focus on developing solutions. The practical examples show the many modes of internationalization available for SMEs and clearly demonstrate to managers that successful internationalization does not necessarily result in the export of certain market services, but rather that internationalization can be achieved through a specific position in the global value chain.

Comparisons over the past nine years reveal on the one hand the more intensive involvement of SMEs with international and global markets, while on the other hand the professionalism and entrepreneurial behaviour of SME decision-makers has been widely documented, which all contributes significantly to the stability of the Swiss economy and to exports.

# 1. Background, aims and scope of the survey

## Economic context

The economic climate in Switzerland has deteriorated slightly since the publication of the last Swiss Entrepreneurship Survey (SIES) three years ago. Although the value of the general economic indicator of the Swiss Economic Institute at ETH Zurich (KOF) remained largely stable over the three year comparison period (KOF, 2016b), the KOF employment indicator fell over the same period to a negative value (KOF, 2016a). The number of foreign companies setting up in Switzerland has also fallen year on year since 2013 (VDK, 2016).

The minimum euro exchange rate which the Swiss National Bank introduced in 2011 and then revalued at the start of 2015 consequently led to uncertainty both in the export industry and in tourism. Switzerland's foreign trade suffered a real downturn during this period: While the value of goods exported in 2013 was CHF 332 billion, this fell in 2015 to a value of only CHF 279 billion, representing a decrease of approx. 16% (SFSO, 2016a). In the tourism sector, the minimum euro exchange rate of previous years initially promoted Switzerland as an attractive travel destination, until it was revalued in 2015. In 2015, foreign travellers in Switzerland also spent 3.4% less compared to the previous year (SFSO, 2016B). These developments were also reflected in the rates of change in Swiss GDP: The latest estimates pointed to a decline in GDP compared to the previous quarters – both in the first and the third quarters of 2016 (SECO, 2016).

Given these unfavourable developments, it is all the more remarkable that Switzerland was able to secure its top position in the field of innovation. The Swiss Confederation continues to hold the top position in the Global Competitiveness Ranking of the World Economic Forum (WEF, 2016). In addition, Switzerland successfully secured its top position in the current Global Innovation Index, which is published jointly by Cornell University, INSEAD and the UN (Dutta, Lanvin & Wunsch-Vincent, 2015).

On a positive note, the value of goods exported in the first quarter of 2016 grew in most sectors, with companies producing precision instruments, watches and jewellery making a positive mark, along with the machinery, equipment and electronics industries which are heavily dependent on the exchange rate. Together with the increase in new orders received in the first quarter of 2016 in the Swiss machinery, electronics and metal industries, these are signs that the Swiss economy has overcome the test of a strong franc relatively well, although it continues to remain under pressure.



## 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 number 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 past 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.

## Aims

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

- Gaining insights into the attitude of entrepreneurs towards internationalization in order to, amongst other things, recognize international business opportunities and to align their company with them
- Gaining insights into the approaches SMEs adopt in the different global regions
- Eliciting the factors for successful internationalization
- Establishing trends in the internationalization of Swiss SMEs
- Preparing and formulating recommendations for decision-makers in SMEs, internationalization advisors and consultants.

### 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 2016. The survey was aimed at company **decision-makers**. The results are based on the answers of company founders and CEOs (49.7%), CEOs (15.0%), successors and CEOs (24.8%), senior management (7.3%) and others (3.2%) 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, **609** questionnaires (online or on paper) were evaluated from **Swiss SMEs** all over the country. The average age of the respondents was 31.3 years. Companies were categorized according to their size (see Table 1): 320 of them, i.e. 52.5%, were micro-companies. They have on average four employees. The 207 small businesses represent 34.0% of the SMEs polled and have on average 22 employees, while the 82 medium-sized businesses, i.e. 13.5%, employ on average 106 people.

	Total number of companies (2015)	Number of companies as %	Average number of employees (2015)	Average age of the company (2015)
0–9 employees (micro-companies)	320	52.5%	3.6	21.4
10–49 employees (small companies)	207	34%	22.3	37.7
50–249 employees (medium-sized companies)	82	13.5%	106.1	52.6
Total	609	100%	23.7	31.3

**Table 1: Structure of the sample according to company size**

The sector breakdown is shown in Figure 1. The manufacturing industry is divided up as follows: 30.1% belong to the strongly export-oriented group of mechanical engineering, electrical and metal industries, 11.2% belong to the chemicals, medical technology, pharmaceuticals and cosmetics industries, and 12.5% include other industries such as food, watches, etc. A further 20.4% comprise SMEs from the banking, insurance, real estate and IT group, 15.4% from trade, 4.4% from transport and communications, 2.9% from construction and 2.2% from public administration, health care and social services.

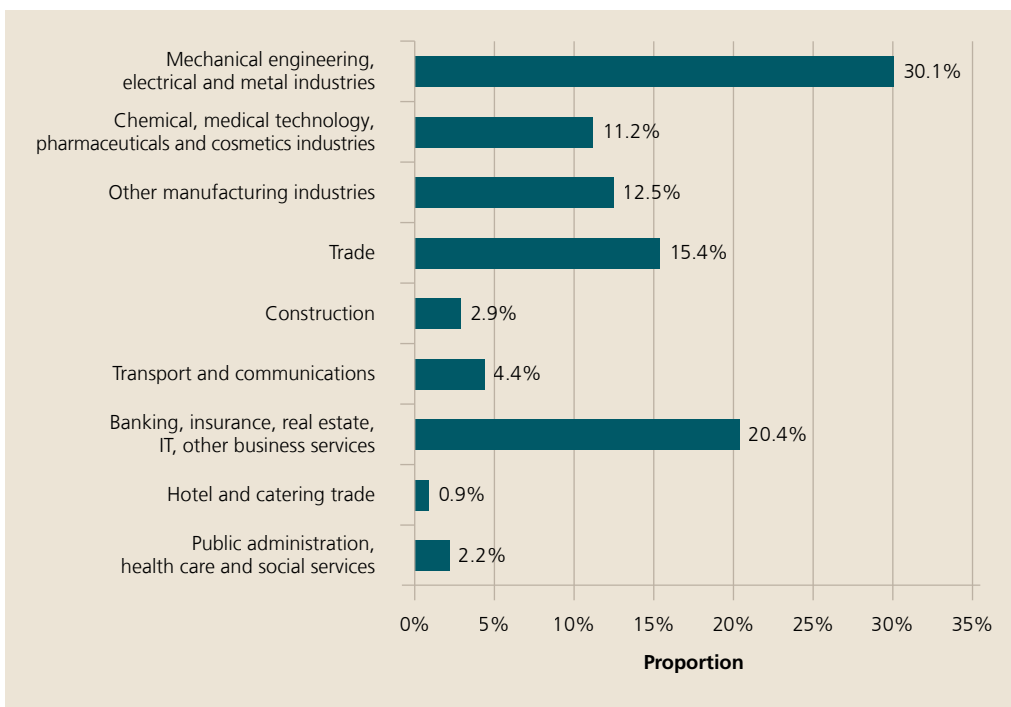


Figure 1: Company sectors

## 2. Internationalization of Swiss SMEs in a global context

Following the description of the survey participants, the study will now focus on the internationalization 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 adopt a differentiated approach to internationalization. A main part of this is analysing how SMEs enter foreign markets. It is also important to differentiate to what extent a company with projects pursues a B2B approach or supplies the end consumer directly by means of B2C.

### Strategies for SMEs to enter foreign countries (speed, focus, intensity)

Two fundamentally different modes of internationalization can be distinguished (see Figure 2). Gradual internationalization on the one hand (79% of SMEs), where companies initially begin to sell products in the domestic market, then evaluate new markets and finally enter these foreign markets only gradually. With this method you can continually gather valuable experience for the next market. This gradual internationalization is based partly on a pronounced learning curve, while at the same time minimizing the management risk for the company. In this way, the markets in neighbouring countries are important traditional entry markets, for example where a company from Western Switzerland first exports to Francophone regions. In contrast, the approach of born globals (9.4% of SMEs) is worth mentioning. These strive towards global activity practically from the date they are established, and the entrepreneur and their team actively pursue a global vision, acting aggressively on several continents.



Figure 2: Modes of internationalization

Both modes of operation illustrate three essential elements: the speed and the intensity (percentage share of export turnover) of internationalization as well as the number of sales markets. An analysis of the speed and intensity of exports is depicted in Figure 3. On average, SMEs actively involved in exporting achieved 54.5% of their turnover in 2015 from exports, with the proportion of export only marginally increasing with the size of the operation, as the results for small businesses (53%) and medium-sized businesses (63.4%) show. Even micro-companies show an export percentage of 53.2%. However in the past three years a gentle increase in export intensity has been observed among the companies surveyed.

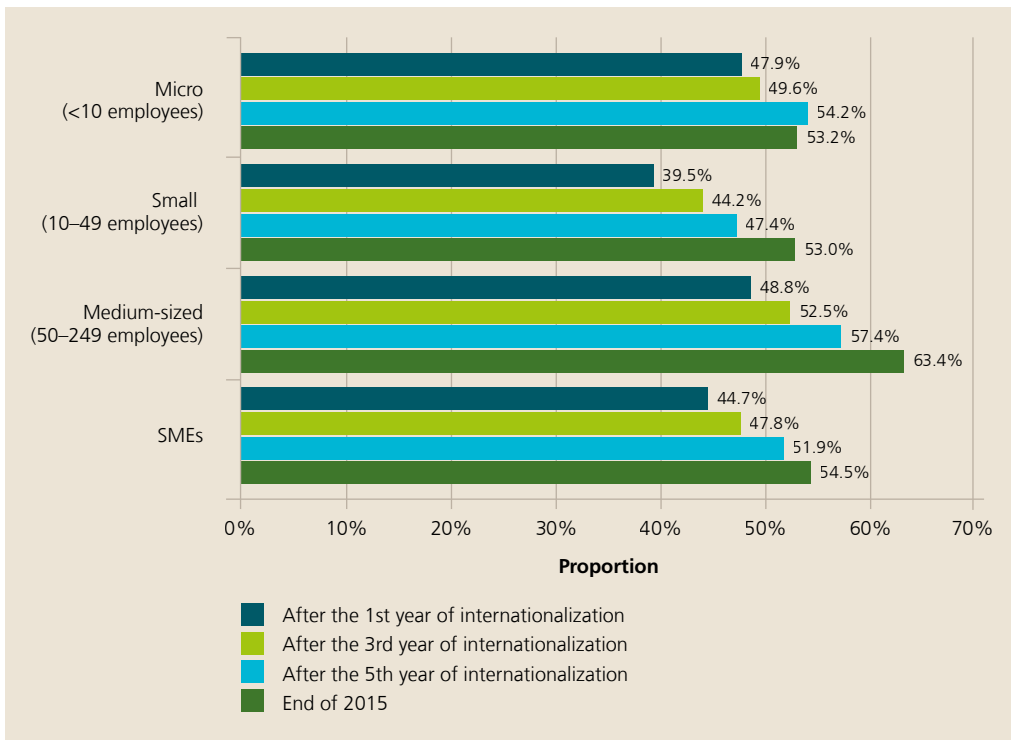


Figure 3: Export intensity of SMEs: average proportion of exports as a percentage of net sales

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 4.1 foreign markets, which are limited to 1.5 continents. After three years this figure climbs to 6.5 and after five years to 9.3 foreign markets on just two continents. In 2015, the geographical expansion of Swiss SMEs already reached an average of 14 foreign markets across 2.7 continents.

Born globals are not only conceptual but can also be labelled as practical and empirical due to a particularly fast internationalization speed and range. After just one year they operate in 8.8 foreign markets, after three years in 13.5 and after five years in 19.1 foreign markets. These foreign markets are distributed over three or four continents, not just on two as for the majority of SMEs that do not begin to do business internationally until several years after they were founded. In 2015, born globals also had the highest internationalization quota by targeting 19.1 additional markets on more than three continents to achieve their goals. Born globals achieve an average foreign sales rate of 83.4% in these markets.

	Micro-companies	Small companies	Medium-sized companies	Average SME	Born globals
Foreign sales as a share of total sales	53.2%	53.0%	63.4%	54.5%	83.4%
Foreign markets after the first year of internationalization	4.6	3.1	5.7	4.1	8.8
Number of continents after one year of internationalization	1.7	1.4	1.4	1.5	2.1
Foreign markets after three years of internationalization	6.8	5.4	8.8	6.5	13.5
Number of continents after three years of internationalization	2.1	1.6	1.8	1.9	2.9
Foreign markets after five years of internationalization	9.5	7.8	13.4	9.3	19.1
Number of continents after five years of internationalization	2.3	2.1	2.3	2.2	3.4
Foreign markets 2015	10.4	15.3	21.4	14.0	29.0
Continents 2015	2.5	2.7	3.1	2.7	3.8

**Table 2: Key figures of internationalization**

### Internationalization in regions via global cities

Expansion into a foreign market most often occurs first in a neighbouring country before probing geographically 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 that 81.0% of the companies are active in Western Europe, 35.5% in North America, 30.7% in Eastern Europe, 27.4% in North East Asia, 22.8% in the Near and Middle East, and 19.5% in both Russia/Central Asia and South East Asia. Around one in six SMEs are also active in South America, Japan, Australia and South Asia.

World regions	SMEs	Micro-companies (n = 320)	Small companies (n = 207)	Medium-sized companies (n = 82)
Western Europe	81.0%	75.6%	84.5%	92.7%
North America	35.5%	27.8%	39.6%	54.9%
Eastern Europe (excl. Russia)	30.7%	25.6%	31.4%	48.8%
North East Asia	27.4%	17.2%	32.9%	53.7%
Near and Middle East	22.8%	18.4%	25.6%	32.9%
Russia and Central Asia	19.5%	15.9%	18.8%	35.4%
South East Asia (ASEAN)	19.5%	13.4%	22.7%	35.4%
South America	16.7%	12.5%	19.8%	25.6%
Japan	16.1%	11.9%	16.9%	30.5%
Australia/New Zealand/Oceania	15.4%	13.1%	16.4%	22.0%
South Asia (incl. India, Sri Lanka, Nepal)	15.1%	12.8%	12.6%	30.5%
Central America (incl. the Caribbean)	9.5%	7.5%	10.6%	14.6%
North, East, West and Central Africa	9.5%	8.1%	8.7%	17.1%
Southern Africa	9.0%	6.6%	10.6%	14.6%

**Table 3: SME international activity per world region (as per end of 2015)**

Micro and small enterprises have the same sequence of target markets, while medium-sized enterprises are represented more strongly in the East Asian countries and much more frequently in Japan. The micro and small enterprises, on the other hand, are more active in the Near and Middle East and more frequently in Australia and New Zealand.

The effects of globalization are manifold, and due to the balance of economic and political power, multinational companies have been concentrating more on global cities in recent years. New York, London and Tokyo have become actual command centers of the world economy, although it should be noted that half of the top ten centers are today located in Asia. The density of decision-makers and experts from all possible areas is so high there that global companies can hardly afford not to be present in these cities. Global cities also have countless specialized service companies in IT, finance, law, marketing, communication, etc. They are typically important trading centers and have a significant influence on their hinterland.

The potential of an SME to expand internationally is strongly influenced by its specific network, for example its ability to recognize new business opportunities through this network. However, the question arises as to how the company can implement this strategy with the limited resources available compared to multinational companies. While internationalizing SMEs do not necessarily settle in global cities for cost reasons for example, they do rely on the services found in urban centers. A global city can act as an intermediary for an SME, particularly in target markets where there are significant cultural differences compared to the domestic market. The network of an internationalizing company would therefore have to spread across global cities.

The overview of direct and indirect representations of the SMEs surveyed gives an initial idea of the importance of global cities for SMEs. A calculation of the frequency of a (direct or indirect) representation in a city relative to the number of Swiss SMEs that are active in the corresponding world region provides the following findings, as depicted in Table 4.

A presence in Japan is influenced to a higher than average degree by Tokyo, and one in Central America by Mexico City. When entering a culturally different type of market – such as Japan, Central America or South East Asia – the success of an SME is usually determined in a megacity like Tokyo (70.4%), Mexico City (51.7%) or Singapore (48.7%). This can be confirmed for Russia and North East Asia.



World region	Number of SMEs in the world region	Global city	Rank	Percentage share of SMEs in city/ world region
Japan	98	Tokyo	(1)	70.41%
Central America (incl. the Caribbean)	58	Mexico City	(2)	51.72%
South East Asia (ASEAN)	119	Singapore	(3)	48.74%
		Kuala Lumpur	(12)	24.37%
Russia and Central Asia	119	Moscow	(4)	43.70%
North East Asia (incl. China, South Korea, Taiwan; excl. Japan)	167	Hong Kong	(5)	41.32%
		Shanghai	(9)	37.13%
		Beijing	(10)	31.14%
Near and Middle East	139	Dubai	(6)	40.29%
South Asia (incl. India, Sri Lanka, Nepal)	92	Mumbai	(7)	40.22%
South America	102	Sao Paulo	(8)	40.20%
Australia/New Zealand/Oceania	94	Sydney	(11)	30.85%
North America	216	New York	(13)	21.30%
		Toronto	(14)	16.20%
		Chicago	(15)	15.74%
		Los Angeles	(16)	14.35%
Western Europe	493	Frankfurt	(17)	13.79%
		London	(18)	12.98%
		Paris	(19)	12.37%
		Milan	(20)	11.97%
		Amsterdam	(21)	10.14%
		Brussels	(22)	9.33%
		Madrid	(23)	8.92%

Table 4: World region and presence of Swiss SMEs in global cities<sup>1</sup>

<sup>1</sup> The presence of an SME was measured by the direct representation (branch, point of purchase, etc.) or indirect representation (intermediary, partner, etc.) of the company in the relevant global city.

### 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 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. If this potential is recognized and understood correctly, then internationalization processes can be mastered effectively at the right time.

A company has to rise to the challenge because internationalization as a new process requires new and different competencies. The skills acquired up until now may well have been sufficient for 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 their management team have a key role here, as it is they who must see to providing the 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, contrary to the widespread cliché of being purely a “workbench for the world”, into a prime location for research and development. China 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 5). Almost half of the professional experience was also gained in international companies. 21.2 % 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 (45.9%) and in the form of experience in an international company (42.5%). However, the percentage of internationally educated workers is higher in bigger companies. What is not surprising is that, at the time of their first internationalization, born globals have considerably more international experience over all three indicators than the average SME. At the time of taking their first steps towards internationalization, only 8.8% had no international experience, as opposed to an SME average of 24.1%.

	Professional experience abroad/ extended stay abroad	Professional experience in an international company	Education abroad	None
0–9 employees (micro-companies)	45.6%	39.4%	20.6%	23.8%
10–49 employees (small companies)	45.9%	42.5%	23.7%	25.1%
50–249 employees (medium-sized companies)	51.2%	46.3%	17.1%	23.2%
Average SME	46.5%	41.4%	21.2%	24.1%
Born globals	59.6%	61.4%	31.6%	8.8%

**Table 5: International experience at the time the first steps are taken toward internationalization (multiple responses possible)**

The previously mentioned **international entrepreneurial orientation (IEO)** 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 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. When studying these aspects empirically, the following statements then apply to Swiss SMEs (see also Figure 4):

- Tendency towards innovation, with an average value (AV) of 4.38, and proactivity (AV 4.34), are the highest values.
- Aggression towards competitors complements the orientation towards innovation, with an average value of 4.21.
- Risk behaviour (AV 4.07) has the lowest average score.

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.

The **size of the company** seems to play a role: the larger the company, the greater the tendency towards innovation, the greater the willingness to take risks, the more proactive their behaviour and the more aggressive they are against the competition. Micro-companies have a significantly lower entrepreneurial orientation, especially when compared with medium-sized enterprises.

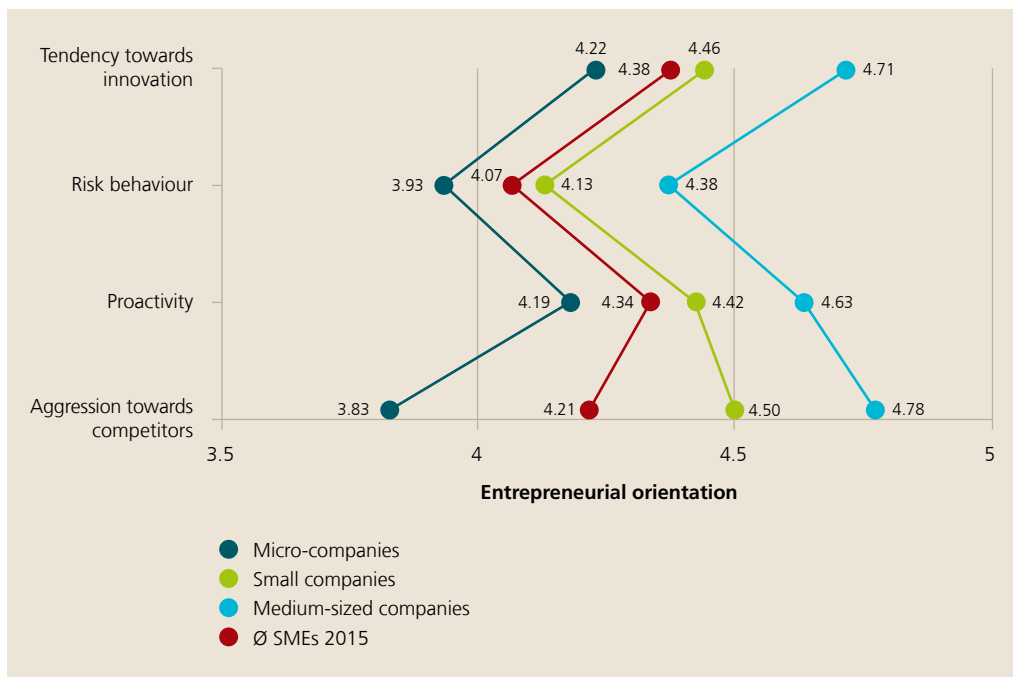


Figure 4: Entrepreneurial orientation according to company size<sup>2</sup>

<sup>2</sup> The average values are based on a scale of 1 to 7: value 1 = weak and value 7 = strong entrepreneurial orientation.

If we consider the influence of different **industries**, it is easy to see that companies from the chemical, medical technology, pharmaceuticals and cosmetics industries are consistently more entrepreneurial and thus differ from the more commercial companies. The data shows in particular the significant difference in the tendency towards innovation between trading companies (AV 4.16) and companies from the chemical, medical, pharmaceutical and cosmetics industries (AV 4.68). It should also be noted that trading companies are not characterized by pronounced risk behaviour (AV 3.78) and proactivity (AV 4.18) (see Figure 5).

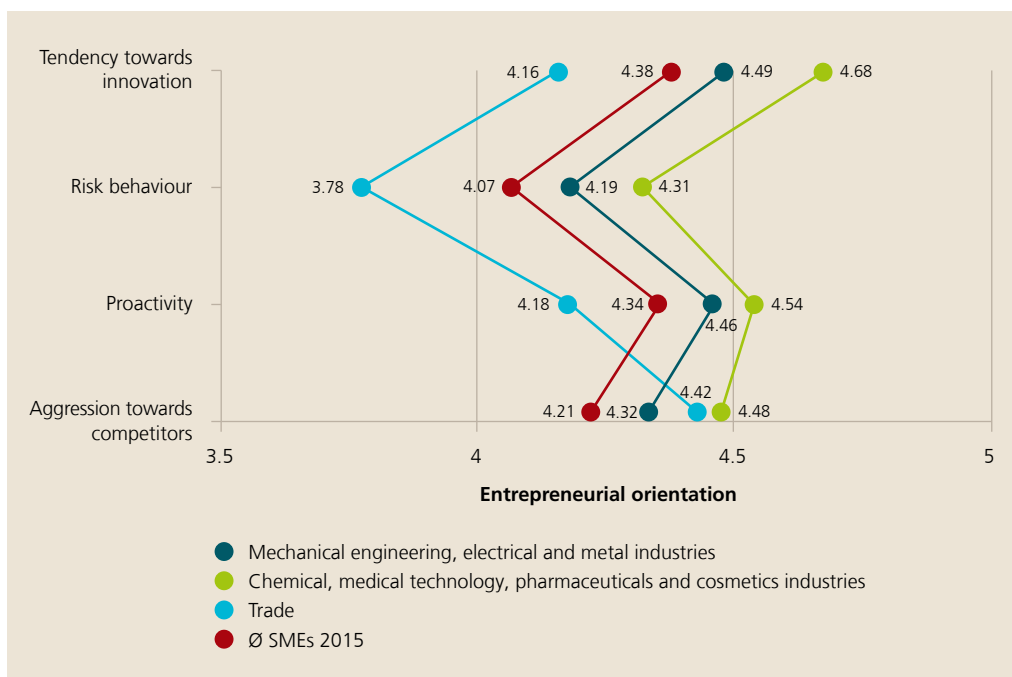


Figure 5: Entrepreneurial orientation according to industry<sup>3</sup>

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** is very highly developed in Swiss SMEs. The overwhelming majority of decision-makers love approaching things in innovative ways (AV 6.03). 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 (AV 5.23). There are enough ideas not only for new products and services (AV 5.19), but also for the growth of the company in general (AV 5.23).

<sup>3</sup> The average values are based on a scale of 1 to 7: value 1 = weak and value 7 = strong entrepreneurial orientation.

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 (AV 4.77). 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.

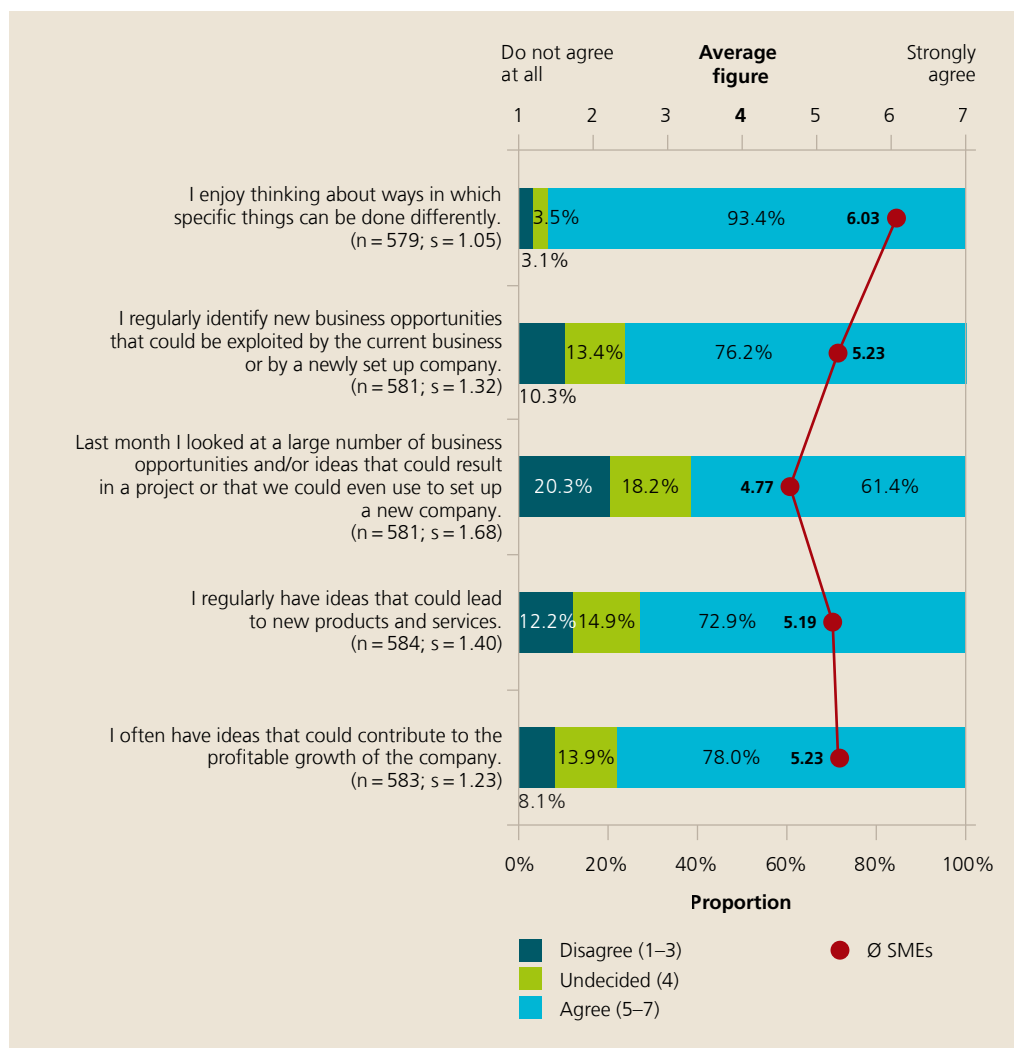


Figure 6: Recognition of business opportunities

An analysis of the ability to recognize business opportunities suggests that industry<sup>4</sup> and size has no significant effect. Although the results suggest an effect with regard to company size, this must be put into perspective (Figure 7). It should be emphasized that a significant difference between micro-companies (AV 5.1) and medium-sized enterprises (AV 5.5) only exists with regard to the ideas that contribute to profitable business growth.

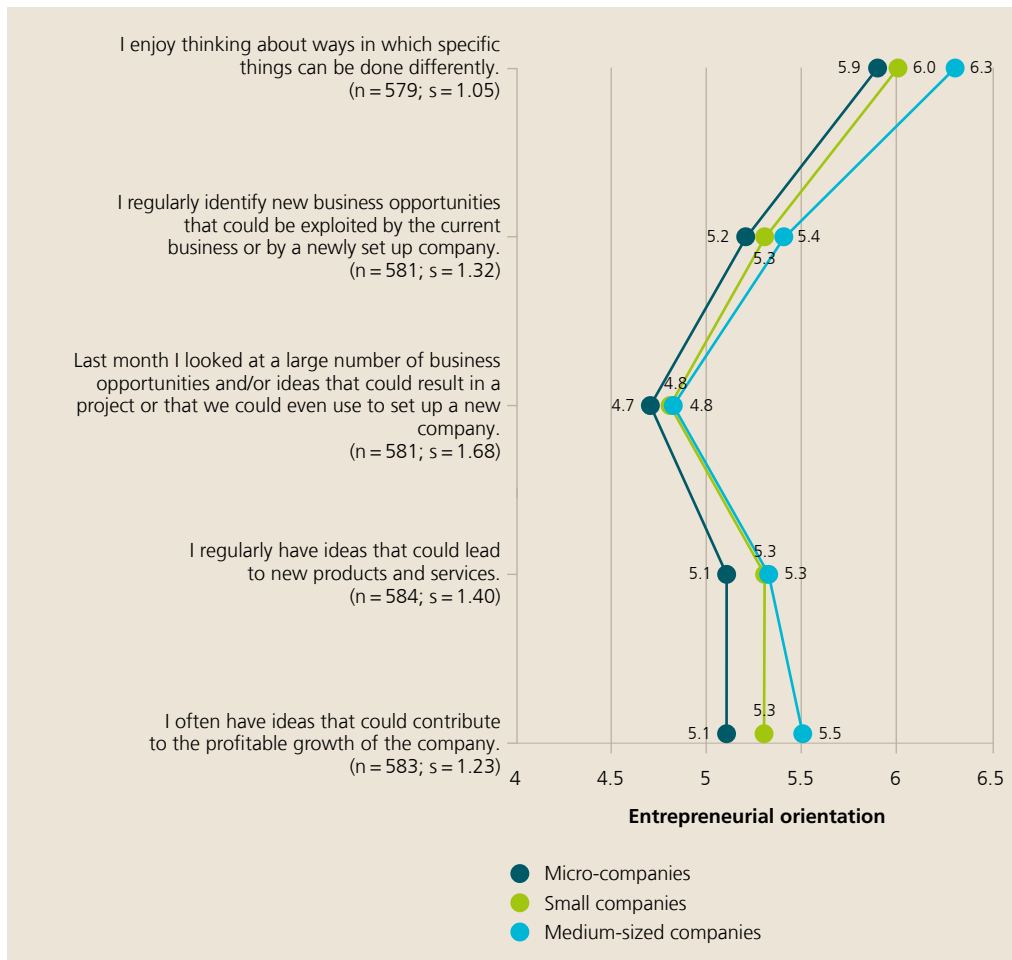


Figure 7: Recognition of business opportunities according to company size<sup>5</sup>

<sup>4</sup> Only the construction industry behaves very differently to most of the other sectors, i.e. entrepreneurs search for, find and evaluate new business opportunities less actively in this industry.

<sup>5</sup> The average values are based on a scale of 1 to 7: value 1 = weak and value 7 = clear recognition of entrepreneurial business opportunities.

These findings support the view that opportunity recognition is central to entrepreneurial behaviour. The companies are characterized by an above-average capacity to think about and to implement new business opportunities in an unusual way. The entrepreneurs or management teams had implemented projects and/or established new companies in the recent past. This high proportion of ideas with which new products and services were created was primarily internationally oriented and resulted in the majority of companies increasing the variability of market-entry strategies in new markets. Different variants have been tried or realized, with networks being activated in the search for and implementation of business opportunities. This is reflected in the results of the market-entry strategies of SMEs, which are far more differentiated in 2016 than in previous years.

Being able to recognize business opportunities, to evaluate and then to use them, are core skills of an international or global entrepreneur. The founders, CEOs, successors and senior management who were surveyed have held their current position on average for 14 years and show their competence in international business. The results demonstrate a significant **link between international experience and opportunity recognition**. The greater the accumulated international experience gained from practice and training, the more pronounced is the ability to recognize and actively tackle international opportunities.

The decision-makers are continuously investing in maintaining their knowledge and benefit from their integration into international external social **networks** – typically where science-oriented industries are concerned. This generated information represents a significant value for the entrepreneur and has an effect on the resources and business opportunities. In fact, resources must be provided to allow access to information (with specific advice, for example). Moreover, it can be confirmed that organizations with limited resources develop unique skills, specifically tailored to their company. For example, they are able to target and integrate external resources through their social networks. In this context, it is noteworthy that the majority of entrepreneurs consider the **informal networks** in international business to be more important than the formal networks of public service providers, public-private organizations and private export promoters (see Chapter 5).

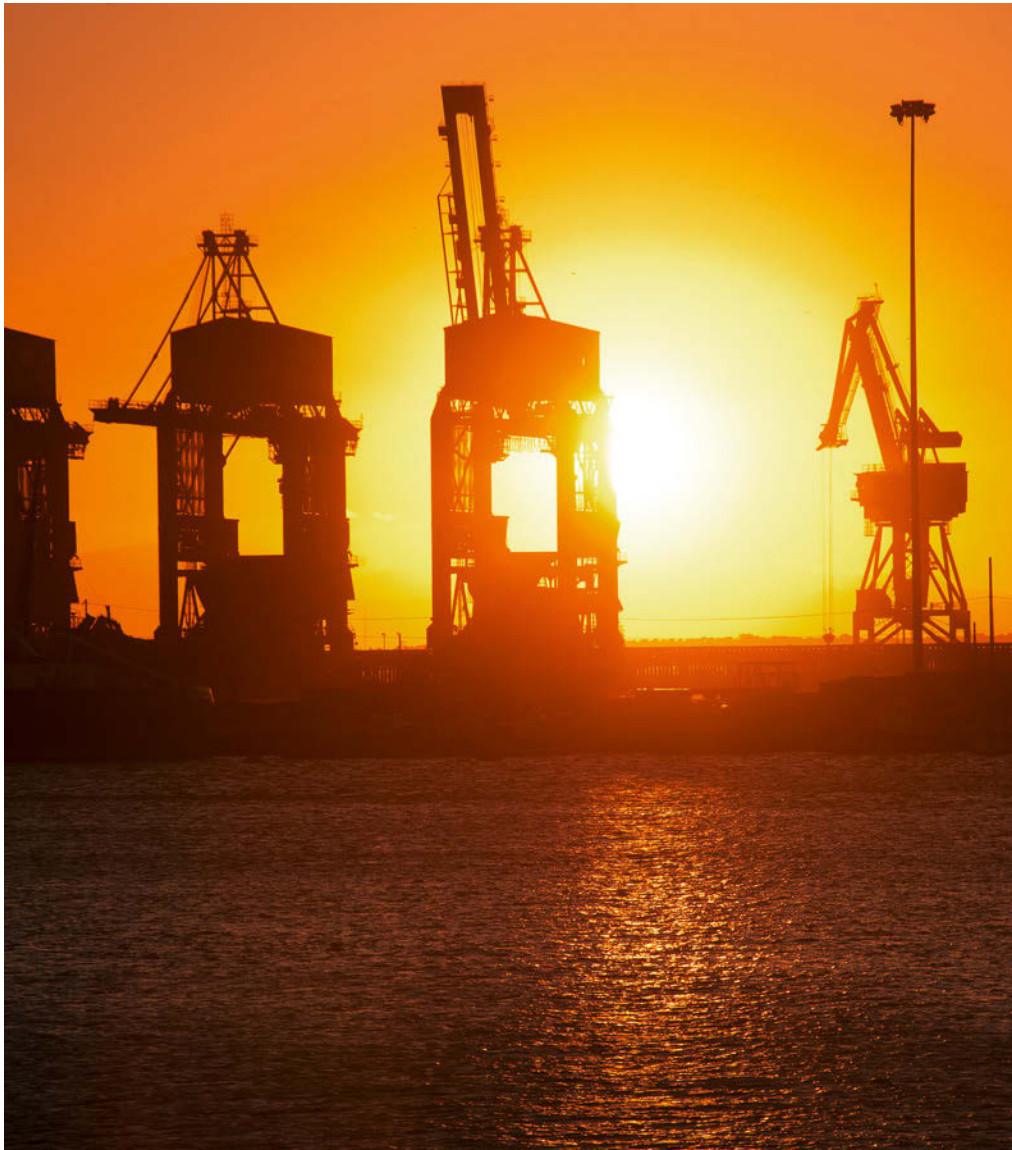
It can be concluded from these results that a relationship exists between the social networks of entrepreneurs in different organizations and cross-organizational cooperation. Entrepreneurs rely on this inter-organizational (mainly inter-company) cooperation to update their knowledge and to gain access to resources. Functionally, this cooperation between organizations takes place primarily through informal social integration instead of formal agreements such as joint ventures or strategic alliances.

Social, national and global integration opens up more opportunities to decision-makers for inter-organizational cooperation, leading to tangible results such as an agreement on the sharing of resources. Such agreements are made informally and are based on the trust between the protagonists of a group of like-minded people. Such international social networks allow companies to convert their expertise into market services that enable and drive forward their internationalization.



An increased ability to recognize international opportunities increases the degree of internationalization, as measured by export turnover for example. To prepare for the local conditions in international markets, the type of market-entry strategy also fulfils a moderating role as an initial preparation or measurement indicator for SMEs. Companies employ a variety of market-entry strategies into the different markets: indirect export, licensing, sales points and production facilities in the form of subsidiaries.

A **trial-and-error approach** is clearly visible and is characterized by the search for business opportunities and their development. For entrepreneurs, this approach is obviously a response to a situation with potential for uncertainty, which they believe will help them to achieve their personal goals.



**The recognition of business opportunities is a precondition for profitable business growth.**

## 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 time frame for planning internationalization, the motives and the form which the entry into the foreign market will take, need to be critically examined. SMEs also see themselves facing the challenge that they can use comparatively few resources in their business. Also, they do not typically have the distinct international networks that the major corporations enjoy. It is therefore all the more important that they use people and resources as efficiently as possible in order to develop their foreign business operations. Against this background, the question regarding the reasons and conditions for internationalization becomes very important.



**Internationalization is a key event for the company.**

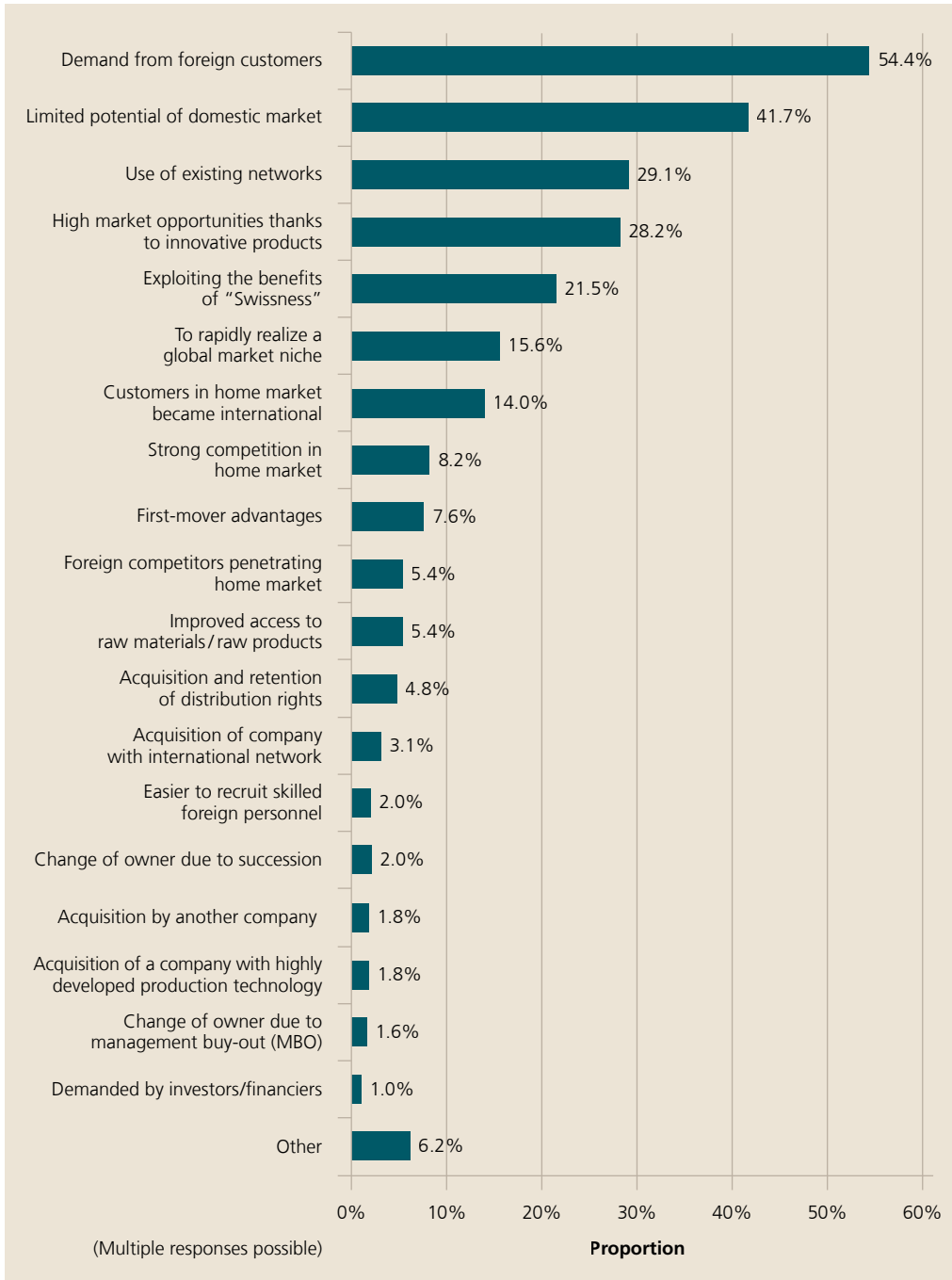


Figure 8: Reasons for internationalization

We cannot simply reduce the reasons for internationalization to a pull effect of the foreign market or a push effect of the domestic market. As the results show (see Figure 8), this survey clearly demonstrates that “Demand from foreign customers” (54.4%) is an important and, over the years, enduring reason why SMEs devote themselves to the foreign market. A clear pull effect can be seen here, which plays an important role for Swiss companies. Companies that have previously behaved in a mostly passive way towards potential internationalization receive enquiries from abroad and begin to accept orders. “Limited potential of domestic market” is ranked in second place with 41.7%. We can assume here that the companies surveyed have certainly dealt with the limited size of the Swiss market and have actively pursued internationalization (push effect).

“Use of existing networks” is in third place with 29.1%. These may be networks which have originated from the entrepreneur’s personal environment and now offer the possibility of internationalization. “High market opportunities thanks to innovative products” was ranked fourth with 28.2%. Entrepreneurs see the opportunity to actively sell a product or service abroad because it is extremely innovative and possibly not yet available locally abroad. “Exploiting the benefits of Swissness” is ranked in fifth place with 21.5%. SMEs see Switzerland’s image abroad as a key factor for international expansion. They expect a competitive advantage over the competition through the Swissness label.

When considering how to go about implementing expansion plans, the following can be established (see Figure 9): Direct export (AV 5.19)<sup>6</sup> is the most common and most successful sales channel for Swiss SMEs. It is also the form of market entry which companies are least likely to abandon at a later point in 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 surveyed.

Indirect export via agencies and sales market promoters was the second most popular response, but with a lower success value (AV 4.69) than in previous studies. 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 export. Market entry through wholesalers (AV 4.88), subsidiaries (AV 4.95) and foreign branches (AV 4.73) lie together in third place.

<sup>6</sup> The average values are based on a scale of 1 to 7.

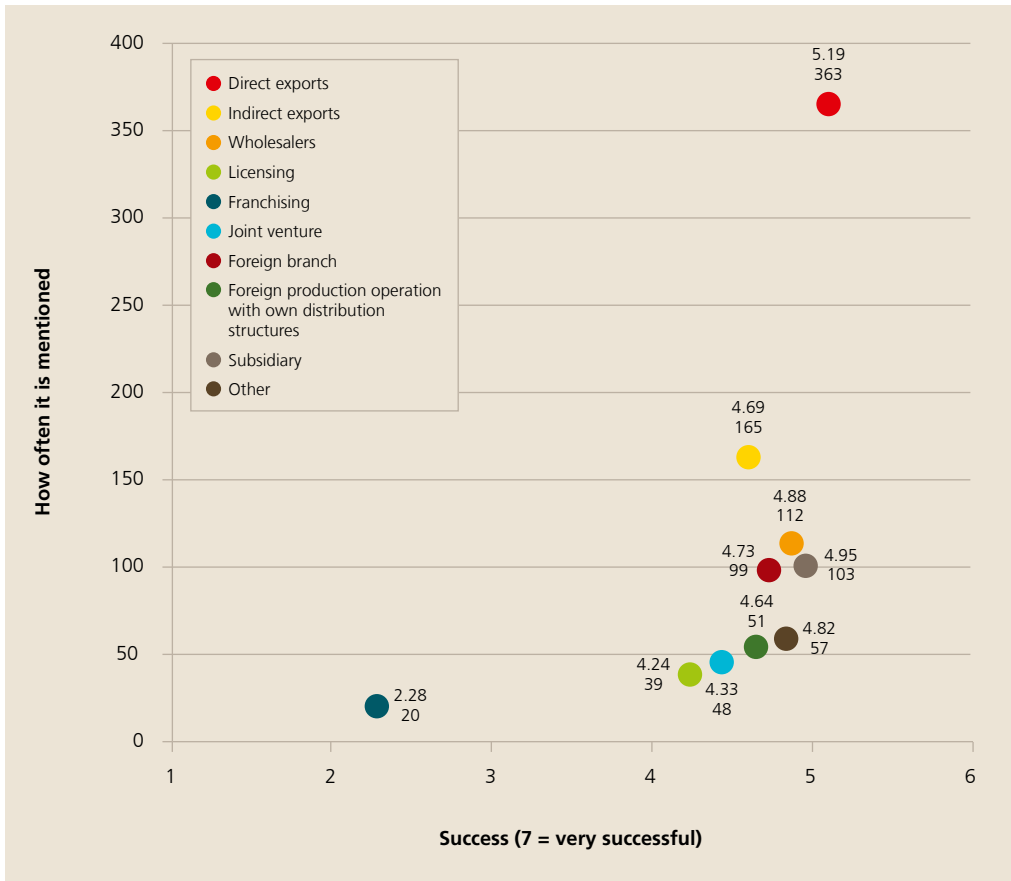


Figure 9: Frequency and success of sales channels in the internationalization process

The next group comprises licenses, joint ventures and foreign production operations with their own sales structures. In practice, the less successful franchising system (AV 2.28) is only used very rarely. As franchising is an overall business 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 encountered in purchasing, logistics, production, marketing and sales as well as those arising from 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 side, but rather seek to proactively understand it and devise solutions for it. The more pronounced the internationalization, the more the decision-makers have to devote themselves to it.

Smaller and medium-sized companies are often faced with very different internationalization challenges compared with major corporations. While major corporations usually specify a target and allocate a corresponding budget, the management of an SME must often think about the resources available and consider what they can achieve with those resources. This becomes clear in the answers to the question of how internationalization is implemented.



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

When asked what strengths they use to capture foreign markets, more than 60% of SMEs mentioned their own know-how and the high qualifications of their employees. More than a third of SMEs (37.9%) also mentioned their organizational flexibility as a strength. In third place with 28.4% was a strong network, in fourth place with 24.3% a strong culture of innovation, and in fifth place with 23.6% a strong entrepreneur or management team. These details make it clear that Swiss SMEs understand very well that they must play to their relative strengths compared to major corporations. Know-how and employee qualifications are not therefore linked to the size of a company. Organizational flexibility also tends to be found more often in SMEs than in major corporations. Features such as network, culture of innovation and strong leadership should also clearly be seen as independent of company size. This is where Swiss SMEs are particularly good at playing to their strengths.

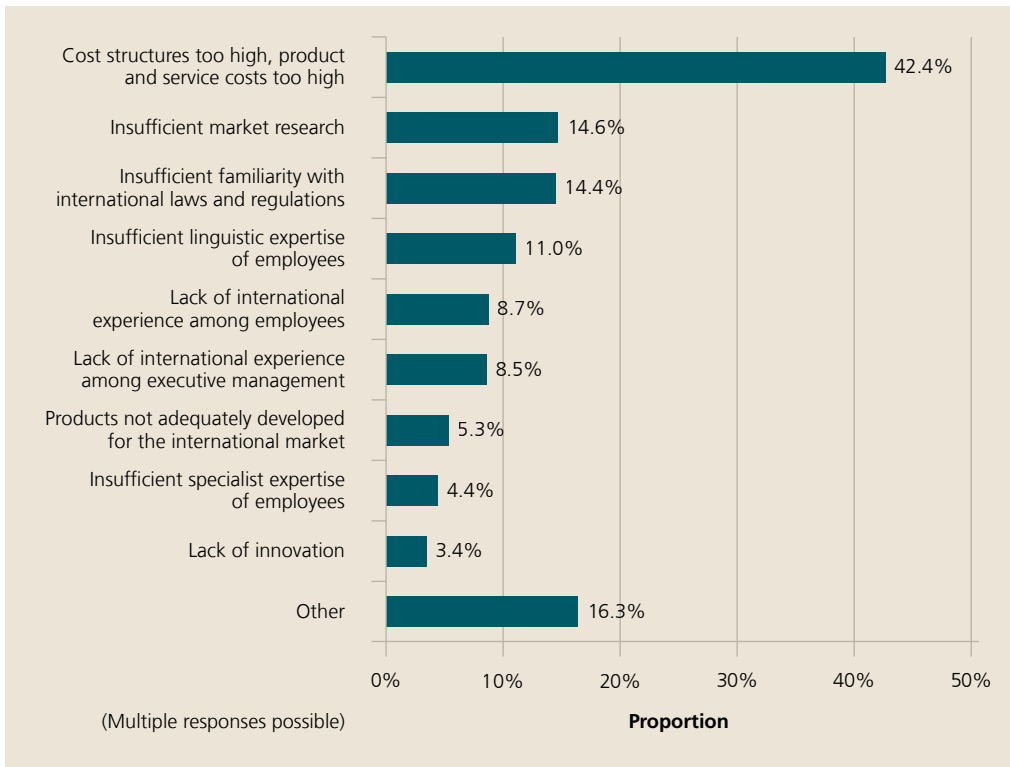


Figure 11: Key weaknesses of a company with regard to internationalization

Conversely, answers to the question of weaknesses also reflect the characteristics of SMEs: 42.4% mention cost structures or product and service costs as being too high. This comes as no surprise, as major corporations can benefit comparatively strongly from economies of scale and from a better bargaining position over suppliers in this respect. Insufficient market research is named as the second most common weakness with 14.6%, closely followed by insufficient knowledge of international laws with 14.4%. Both these points also reflect to some extent the relatively scarce resources that are available to SMEs.

They are usually just not able to cope with such complex issues without the support of service providers such as management consultants or law firms. Somewhat surprisingly for Switzerland, insufficient language knowledge of its employees still comes in fourth place with 11.0%. This could possibly be due to the increasing importance of Asian countries as an export destination, as the languages of these countries have not yet been mastered sufficiently. Lack of international experience for employees ranked in fifth place, which also indicates a structural problem for SMEs. These may lose out to major corporations in the “war for talent”, as the latter can employ staff with international profiles more easily.

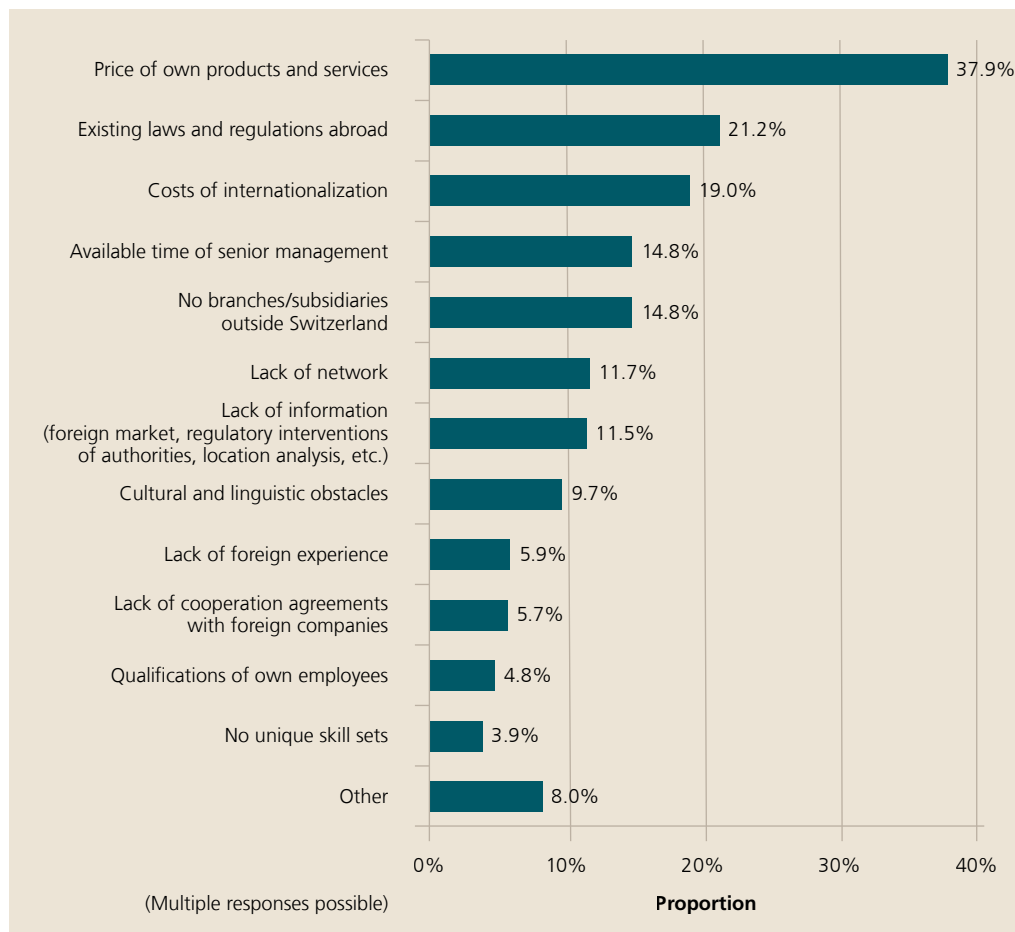


Figure 12: Obstacles in the internationalization process



On the question of relevant obstacles in the internationalization process, the answers correlate strongly with the weaknesses mentioned above. The price of their own products and services is top of the list with 37.9%. This answer was to be expected after the SMEs had previously stated cost structures or product and service costs as being too high. Existing laws and regulations with 21.2% were the second most frequently mentioned obstacles in the internationalization process. As previously insufficient knowledge of international laws was cited as a major weakness in the internationalization process, this result is also not surprising. The costs of internationalization is the next factor, lying in third place among the biggest obstacles (19.0%). This corresponds with the previous statement that cost structures are too high. Both of the points mentioned next come in at fourth place among the most important obstacles (14.8%): a lack of available time for senior management and no branches/subsidiaries outside Switzerland. These obstacles can certainly be considered as specific to SMEs. SMEs usually have no staff departments to which senior management could delegate internationalization issues. Senior management is much more involved in the day-to-day running of the business, so they cannot devote sufficient time to strategic internationalization issues. In contrast to major corporations, SMEs do not usually have any foreign branches that could support their business abroad.

Despite their strengths, SMEs 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 confirms the importance of informal networks, which are even more important for micro-companies. The significance of the support can be described as follows: the smaller the company, the more important the support from private individuals.

The support provided by banks, Switzerland Global Enterprise, cantonal chambers of commerce and consulting companies follow together in second place, but no difference according to company size can be determined. Even less useful support for international business was offered by cantonal business development agencies, Fargate and Swissnex, according to the information provided by the SMEs surveyed (see Figure 13).

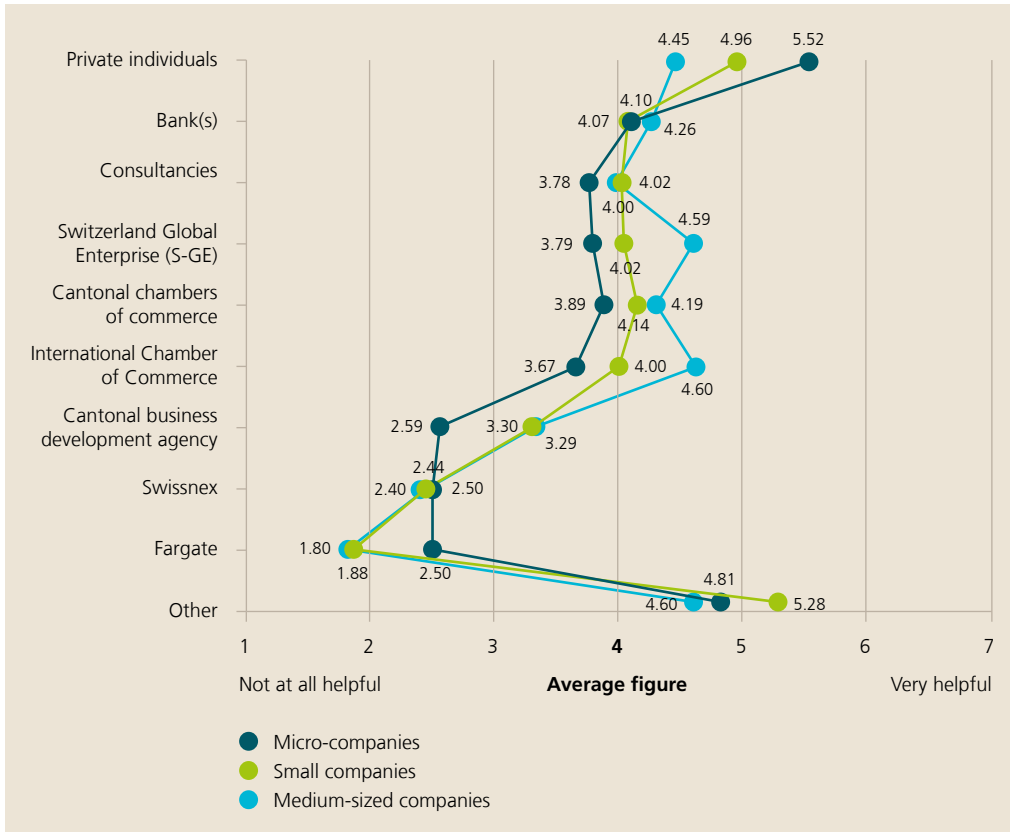


Figure 13: Organizations and services for internationalization support

Given the fact that SMEs continue to be faced with numerous obstacles in the internationalization process, the SMEs were also asked what prevents them from obtaining services or support from external providers.

The majority of SMEs here (12.0%) stated that the offering of service providers did not meet the needs of the company. This clearly remained below the expectations of the SMEs seeking help. Lack of information was named as the second most common obstacle (8.6%). The scope of information that can be obtained from third parties is evidently insufficient. This means that issues in the internationalization process cannot be addressed satisfactorily by external service providers. Another factor of discontent was the cost-benefit ratio, ranked in third place with 7.7%. This is not right, according to the responding SMEs. It comes as no surprise however, as SMEs often have a tight budget and, unlike major corporations, are unable to spend large budgets on external service providers. Interestingly, the amount of time it takes to claim services (which is too long) comes in fourth spot with 5.2%. This suggests that the internationalization of SMEs proceeds quickly and that time requirements that are placed on support organizations are not met.

SMEs need external services to carry out international business from Switzerland and from abroad. **Obtaining information** is essentially characterized by information events held in Switzerland regarding countries and foreign markets (18.6% of SMEs). Information events abroad are visited less frequently (9.5%), and intermediary activities in Switzerland and abroad are in equal demand with around 9% of SMEs.

**Marketing and sales services** are characterized primarily by exhibitions and fairs abroad. 46.5% of SMEs exploit this type of promotional opportunity, followed by exhibitions/fairs which in Switzerland are aimed at potential foreign customers (14.3%). Marketing consulting and customer acquisition services play a lesser role.

**Legal and consultancy services** are growing in demand in global markets – both in Switzerland and abroad (Figure 14). Fiscal and legal advice are prevalent, whether in Switzerland (19.2%) or in international business activities in the field (15.3%).

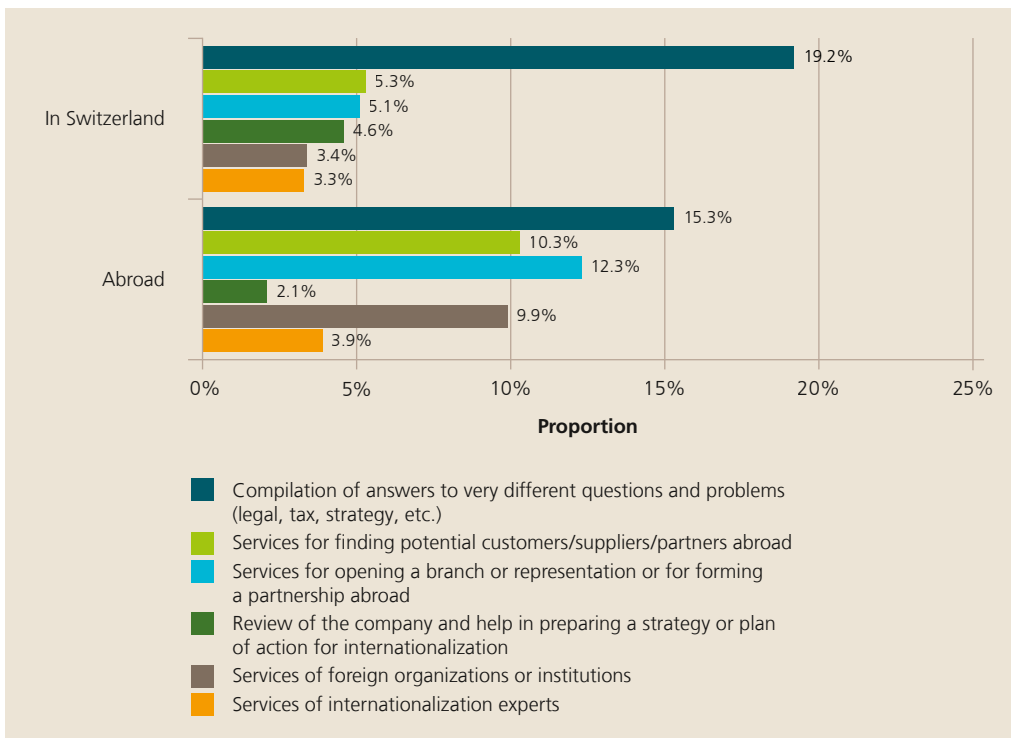


Figure 14: External legal and consulting services used for international business over the past three years

## 6. Factors for successful internationalization

### Interplay between innovation and internationalization

The internationalization process does not only entail certain risks, but also offers various opportunities. The international opening of an SME can have a positive impact on the **innovative strength of the company** (see Figure 15), particularly with regard to the development of new products (AV 5.87), better qualified employees (AV 5.67) and the number of patents (AV 5.66). Internationalization can also bring about innovative solutions in the manufacturing process or in process management (AV 5.60). Positive effects were also noted for innovations in marketing (AV 5.52), in the business model (AV 5.44) and concerning organizational innovations (AV 5.45).

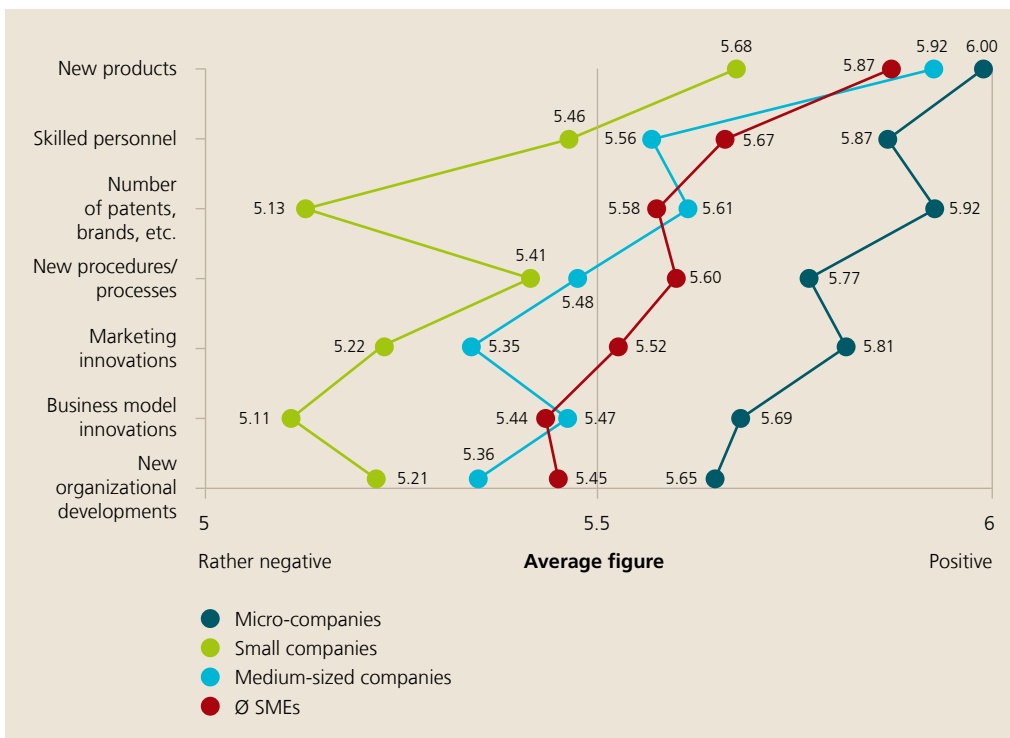


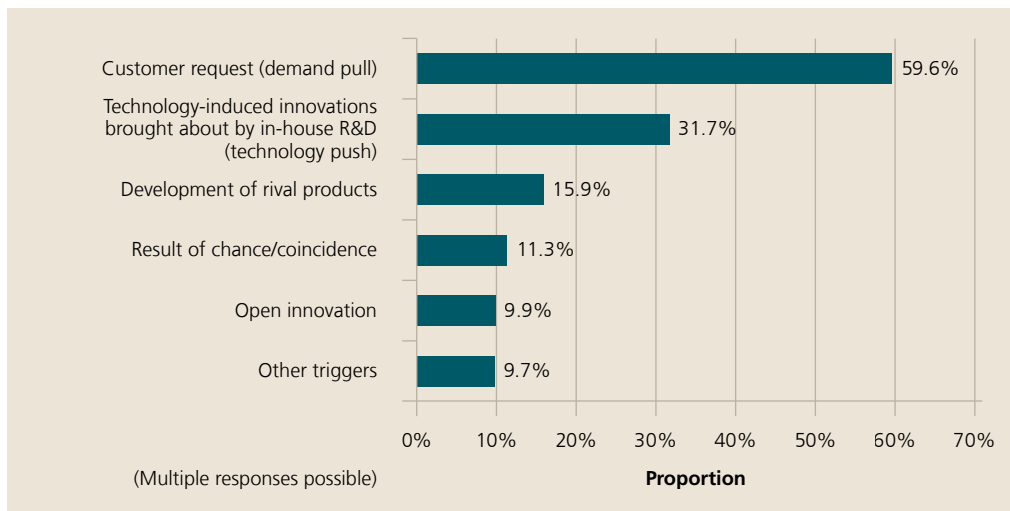
Figure 15: The effect of internationalization on innovative strength (according to company size)

The results concerning the number of patents/brands and innovations in marketing and in the business model were an interesting point. In these areas, the impact of internationalization in micro-companies is significantly stronger than in small enterprises. This may be due to the starting point of micro-companies in international business – and perhaps the learning effects in micro-companies are more pronounced, and there is a backlog.

The impact of internationalization on innovative strength cannot be clearly defined according to industry sector. No clear trends can be recognized. Internationalization is essential for innovative strength across all industries, and differentiates only minimally.

### Adequate business strategy between the market and own competencies

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. 59.6% of SMEs mention that customer requirements were a reason to find innovative solutions. The second trigger was technology induced innovations based on their own research and development (31.7%). Some companies felt they were more or less obliged to develop innovative solutions as a result of competitors' products (15.9%). Coincidence (11.3%), open innovation (9.9%) or investigating non-specific triggers (9.7%) lead less often to the development of new products or processes (see Figure 16). It is quite possible that innovations are not only based on one of the triggers mentioned, but rather on a combination of two or more triggers.



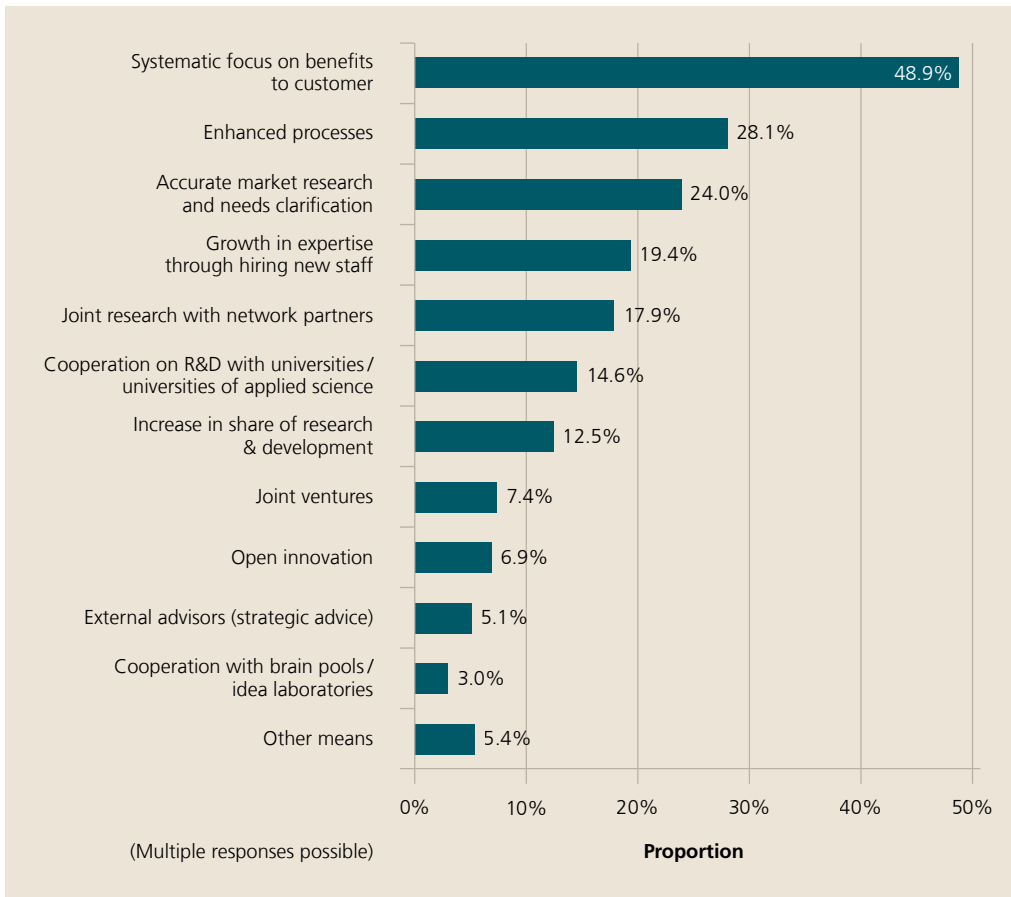
**Figure 16: Triggers for the development of innovative products and processes**

The SMEs surveyed attest that their development is due to their success position in the market and their own success potential. The companies focus on their skills without neglecting the market orientation. The results are confirmed by the fact that in the past three years, 43.8% of SMEs in Switzerland have been working systematically on manufacturing new products, 27.4% have invested in product design, and a quarter of SMEs have increasingly carried out related activities in the form of cooperation in the field of product design and development. The activities carried out in Switzerland are complemented by similar efforts undertaken abroad.

Such structured corporate development places high demands on the entrepreneurial management team and employees – a situation which makes implementation more difficult.

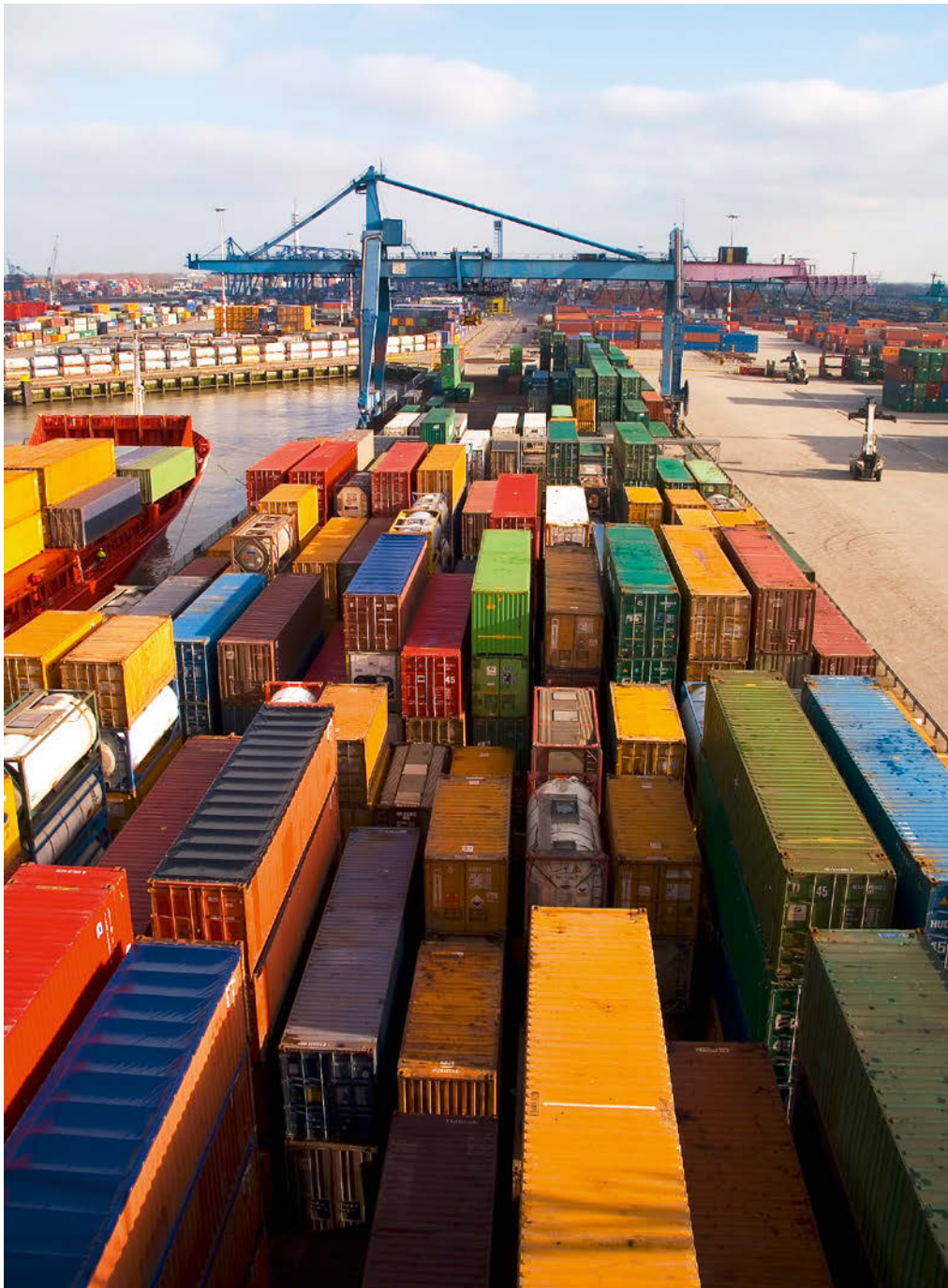
**Future business strategies**

The customer is once again the central focus for Swiss SMEs when considering **future product and process developments**. As a consequence, 48.9% want to focus future innovations on usefulness for the customer. In this context, the needs must also be defined using accurate market research (24.0%). From an entrepreneurial point of view, improved processes (28.1%) and an increase of know-how thanks to the hiring of new staff (19.4%) can help provide innovative and marketable solutions. Around 17.9% of SMEs are confident that collective research with network partners and collaboration with universities and colleges of higher education in research and development (14.6%) would bring about success. Somewhat fewer companies (12.5%) spend large amounts on internal research and development (see Figure 17).



**Figure 17: Triggers for the development of future innovative products and processes**

A further insight rounds off the general principles influencing the internationalization of Swiss SMEs: Decision-makers admit that the number of employees involved in international projects will increase only negligibly over the next three years. Micro-companies are the only ones not anticipating significant growth. We can expect slight growth in companies of all sizes.



Slight growth is expected for the next three years.

## 7. Internationalization findings 2006–2016

This study has been carried out at three-year intervals since 2006, with a different focus each time. After four studies, it is now fitting to analyze and act on the changes observed over this period.

However, it must be noted here that continuous analysis is only possible because: Firstly, the surveys are only snapshots taken every three years, and may be influenced very strongly by events and moods in the immediate past. Secondly, the population of the SMEs surveyed has inevitably changed. Although the study was initially planned as an SME panel, the voluntary nature of the study cannot guarantee that the original population of SMEs will always be on the panel.

The so-called survivorship bias makes a coherent time-based analysis in SME research fundamentally more difficult (Brown, Goetzmann, Ibbotson & Ross, 1992). It is assumed that a significant proportion of SMEs surveyed previously, and especially the start-ups, do not survive over periods of several years. This means that the analysis results necessarily only include the responses of those companies that have survived beyond this time horizon.

Two points, however, support the use of data in a long-term study. Firstly, the export intensity of the SMEs questioned over the survey period has remained relatively constant, which can be seen as an indication that the population of the SMEs surveyed are comparable (see Figure 18).

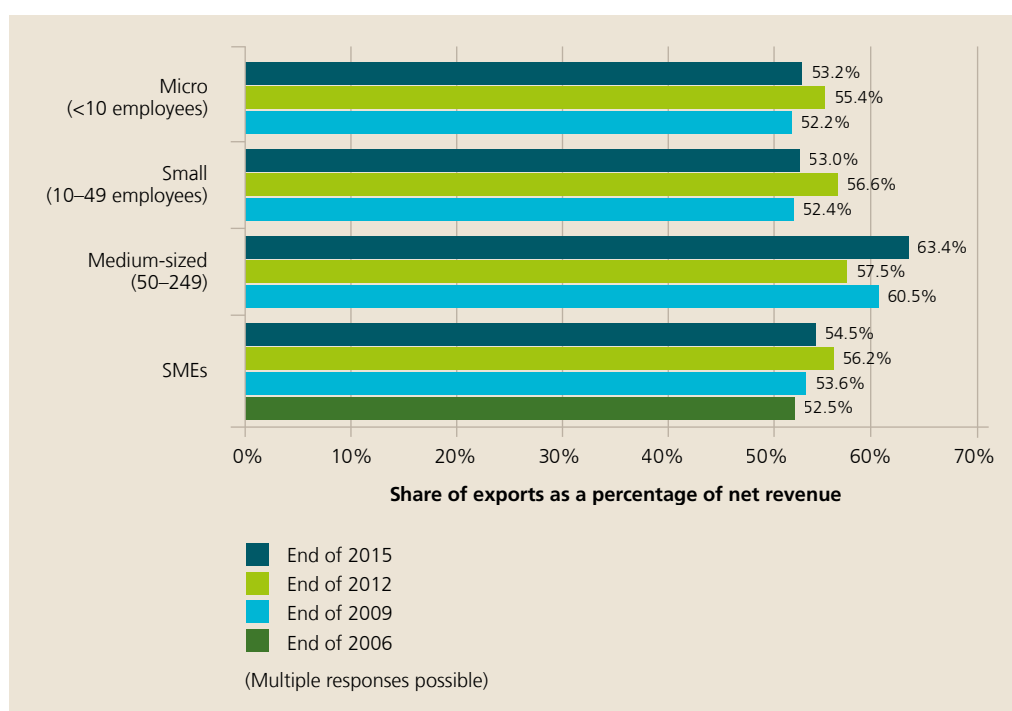


Figure 18: Export intensity of SMEs: 2006–2015



Secondly, there is no comparable long-term study of this kind in Switzerland. Higher quality results are therefore not available. Despite all the technical weaknesses, a selective analysis of individual variables over the said time period will therefore be provided in the following sections.

### Reasons for internationalization

Among the reasons for internationalization, "Demand from foreign customers" has been in uncontested first place over the years. In 2007, 64% of SMEs cited this as the main reason, in 2010, 62.6%, in 2013, 71.8%, and in 2016, 54.4%. "Limited potential of domestic market" has also been consistently in second place as one of the main reasons for internationalization (2007: 58%; 2010: 55.7%; 2013: 56.7%; 2016: 41.7%). However, there has been a change in third place. While third place was held initially by "High market opportunities thanks to innovative products" in the years 2007 and 2010 with 47% and 41% respectively, this changed for the first time in 2013 when "Use of existing networks" was cited as the third most common reason for internationalization, with 49.8%. "High market opportunities thanks to innovative products" slipped to fourth place with 37.8%.

In 2016, "Use of existing networks" was again in third place as one of the most frequently mentioned reasons, with 29.1%, while "High market opportunities" was placed just behind with 28.2%. Previously, "Use of existing networks" ranked fourth among the most frequently cited reasons for internationalization, with 32% (2007) and 41% (2010) respectively. Despite these changes, however, it must be noted that throughout the observation period, "Demand from foreign customers" and "Limited potential of domestic market" are the two most important reasons for the internationalization of Swiss SMEs. While there is a significant pull effect from abroad in the first case, the second most important reason relates to Switzerland's rather limited geography, population and economic size.

More generally, it is interesting to observe that the demand from foreign customers became less relevant as a reason for internationalization over time. The effect of demand from abroad thus plays a less important role than in the past. This could be due to the strength of the Swiss franc, which has been more noticeable especially since the beginning of 2015. "Limited potential of domestic market" was also mentioned less often as a reason for internationalization. Perhaps this reflects a refocusing of Swiss SMEs on the domestic market, possibly accompanied by fewer sales opportunities in international markets due to unfavourable exchange rates for export.

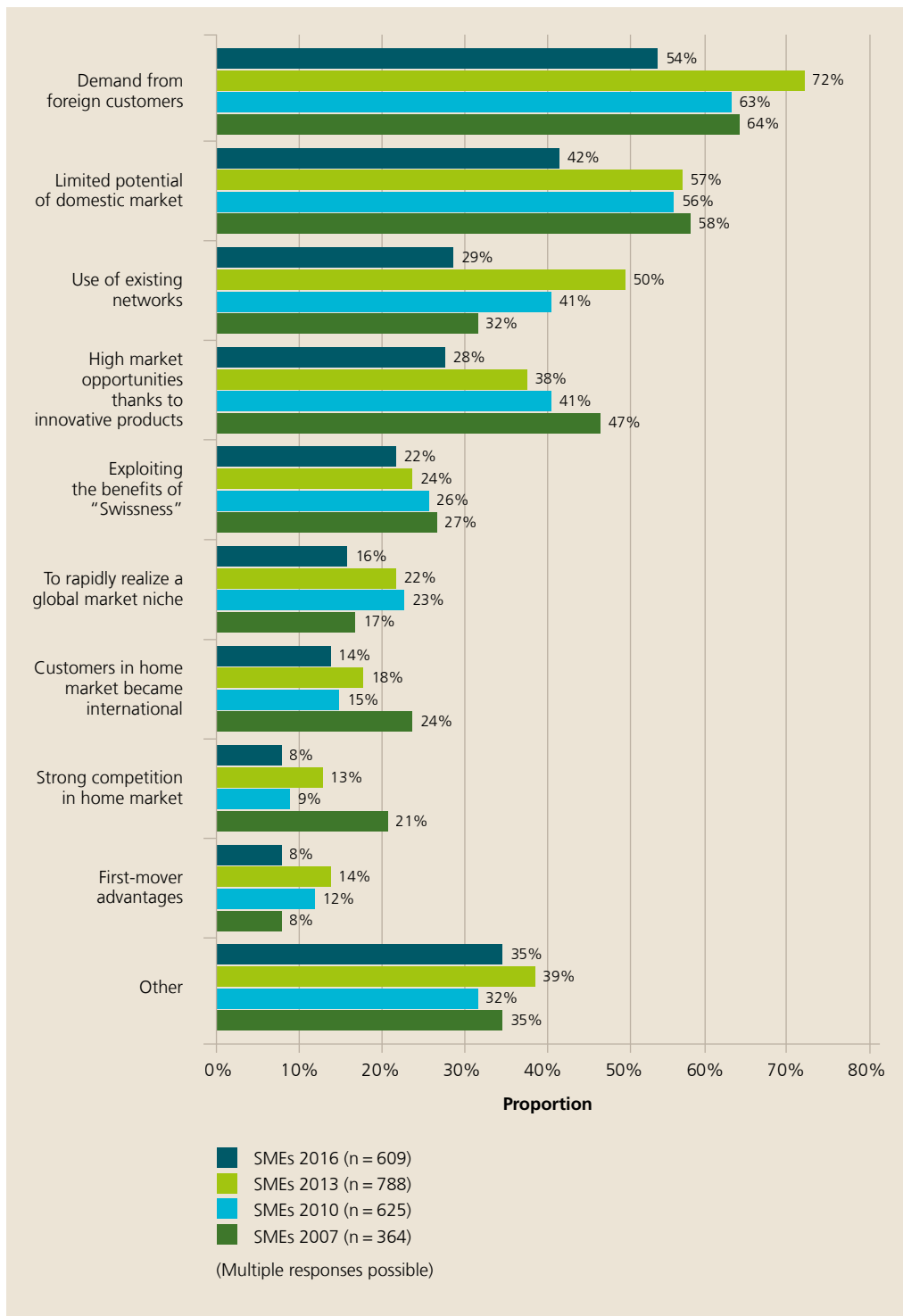


Figure 19: Reasons for internationalization: 2007–2016

### Obstacles in the internationalization process

When we consider the obstacles in the internationalization process, three of them appear in the top three places throughout the observation period – albeit in a different order.

In 2007, “Existing laws and regulations abroad” was ranked in first place with 45%, followed by “Price of own products and services” with 34%, and “Cost of internationalization” with 33%. The order of these major obstacles remained the same in 2010, with only the weighting changing slightly. “Existing laws and regulations abroad” was now 34.7%, “Price of own products and services” was 28.6% and “Cost of internationalization” was 27.7%. In 2013, “Price of own products and services” replaced “Existing laws and regulations abroad” as the most common obstacle with 41%, pushing the latter into second place with 34.5%. These positions remained unchanged in 2016 with a value of 37.9% for “Price of own products and services”, and 21.2% for “Existing laws and regulations abroad”.

“Cost of internationalization” remained the third greatest obstacle across all studies (2007: 33%; 2010: 27.7%; 2013: 24.6%; 2016: 19%).

This trend in the most frequently mentioned obstacles in the internationalization process may possibly reflect the revaluation of the Swiss franc, which has made it difficult for Swiss SMEs to sell their products abroad. Nevertheless, “Existing laws and regulations abroad” should not be underestimated as an obstacle, since it is a constant hurdle for Swiss SMEs in spite of all the improvements. Both the private sector and politics certainly still need to play a role in order to conclude relevant agreements with foreign export destinations, facilitate exports and create contact points for SMEs seeking advice. The costs of internationalization are probably due to the relatively small size of Swiss SMEs, which often have to manage such undertakings without major reserves.

It is particularly noticeable in a time-based analysis that certain obstacles have become much smaller from the perspective of Swiss SMEs. The previously mentioned obstacle of “Existing laws and regulations abroad”, for example, fell from 45% in 2007 to 21% in 2016. The reason for this could be a more professional approach by SMEs towards legal issues. SMEs are now possibly obtaining earlier and more targeted legal advice. Similarly, the significance of “Cost of internationalization” has also declined for Swiss SMEs. This could possibly be explained by the reduction in IT, communication and transport costs which has occurred over the past nine years. This may also include the increased use of the Internet as a sales channel.

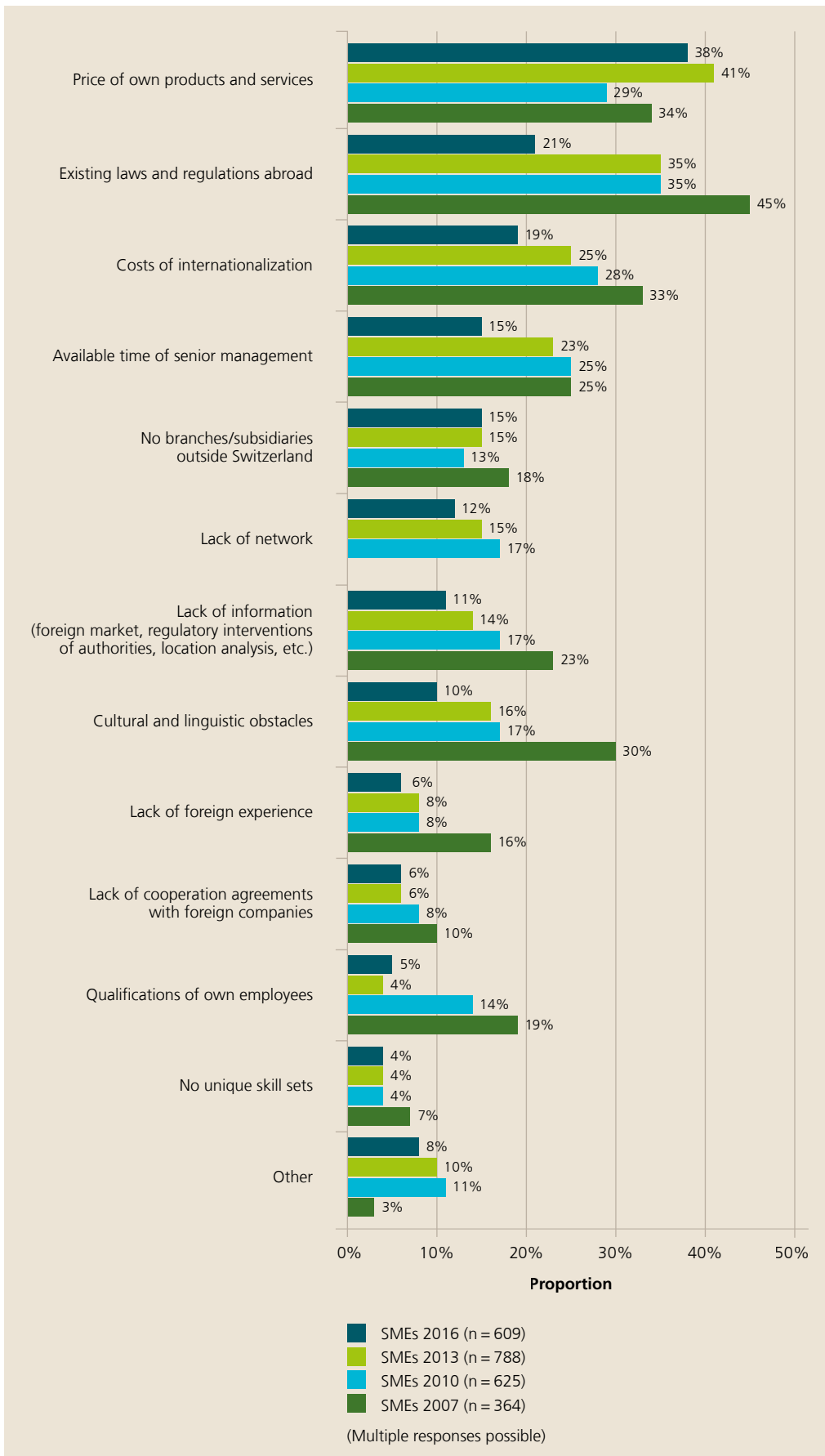


Figure 20: Obstacles to internationalization: 2007–2016

## Sales channels

Assessing the prospects of success of different sales channels has also undergone a significant change over the past few years. Although the “Direct export” sales channel remains the preferred sales channel of Swiss SMEs, as in all previous studies, major shifts have occurred.

Sales channels	2007	2010	2013	2016
Direct exports	4.2	5.7	5.6	5.2
Indirect exports	n.a.	4.5	4.2	4.7
Wholesalers	3.6	4.3	3.9	4.9
Foreign branch	3.5	3.5	3.5	4.7
Subsidiary	3.5	3.4	3.2	5.0
Licensing	2.7	2.5	2.3	4.2
Joint Ventures	2.9	2.6	2.5	4.3
Foreign production operation with own sales structures	3.1	2.8	2.5	4.6
Franchising	1.8	1.6	1.7	2.3
Other	n.a.	4.0	3.9	4.8
Number of SMEs	386	625	788	609
Average value	3.2	3.4	3.3	4.4

**Table 6: Success of sales channels in the internationalization process: 2007–2016**

For example, the popularity of the “Wholesaler” sales channel increased from a value of 3.6 in 2007 to 4.9 in 2016. The prospects for success of the “Foreign branches” sales channel also rose significantly: While all previous studies measured a value of 3.5, this now currently stands at 4.7. The popularity of “Subsidiaries” as a sales channel has also increased considerably with Swiss SMEs. While this had a value of 3.2 in 2013, it rose to 5.0 in 2016. A further strong increase can be seen in the assessment of the “Foreign production operation with own sales structures” sales channel. The success rating here rose from 2.5 in 2013 to 4.6 in 2016. The significant increase in assessment values for “Foreign branches”, “Subsidiaries” and “Foreign production operation with own sales structures” suggests that Swiss SMEs are promoting their internationalization activities much more professionally than in previous years.

Swiss entrepreneurs are apparently increasingly willing and able to deal with sales channels which require much closer ties to an import partner or require a significant financial commitment, as in the case of subsidiaries and foreign production operations with own sales structures. The increase in values for licensing and joint ventures are further indication of the increased professionalism of the internationalization process. The success value for licensing rose from 2.3 in 2013 to 4.2 in 2016, and for joint ventures from 2.5 in 2013 to 4.3 in 2016. In order to succeed, SMEs need substantial legal expertise in order to use these sales channels. The results confirm that SMEs obtain this expertise from appropriate specialist lawyers in Switzerland and abroad (see Chapter 5).

### Triggers for innovation

Turning to the question of what triggers innovation in Swiss SMEs, we see a very stable picture over time. "Customer requirements (demand pull)" is ranked as the most popular trigger throughout the observation period, followed by "Technology induced innovations brought about by in-house R&D (technology push)". "Development of competing products" is found in third place over all the years.

Only the weighting of these three leading triggers changed over time. Customer requirements were at 88% in 2007, 79.2% in 2010, 85.1% in 2013 and 59.6% in 2016. The values for technology-induced innovation developed as follows: in 2007: 44%, in 2010: 36.3%, in 2013: 42.5%, and in 2016: 31.7%. The development of competing products came in at third place in each year with the following frequencies: 2007: 27%, 2010: 19.2%, 2013: 29.8% and 2016: 15.9%. In addition to the fact that in each survey these three reasons were stated as the most important, no further trend can be inferred due to the fluctuation in values.

### Remark

Comparisons over recent years reveal on the one hand the **more intensive involvement of SMEs** with international and global markets, while on the other hand the decision-makers contribute to the stability of the Swiss economy and to exports with their **professionalism and entrepreneurial behaviour**. The institutions and individuals that provide support to SMEs in international business seem to play a more effective and efficient role when compared over time. Of course, there is always potential for improvement – particularly with regard to specific assistance in the foreign target market.

## 8. Conclusion

International SMEs have overcome the test of a strong franc and globalization relatively well. They have more or less digested the upward pressure, have adapted to the changing currency environment and are assessing their business prospects more confidently again. They document this with professionalism and differentiated strategies for the respective target markets.

Decision-makers primarily want to know how promising international business is and how to measure performance. The complex construct of internationalization performance is clearly moderated by the degree of internationalization, with internationalization performance improving at an increasingly significant rate in the initial phase.

The small volume of the Swiss domestic market, the distinctive international orientation of Swiss SMEs, and last but not least, free access to the European market all combine to improve performance. Small and medium-sized enterprises can increase their performance considerably by concentrating on a limited number of market-entry strategies. This increase in performance can, however, be equally self-limiting if the company is unable to benefit from the experience despite the increase in the number of national target markets and/or the expansion of market-entry strategies.

It is therefore very important to select the correct countries or regions and cities. In this context, companies have a number of questions to answer, including:

- What are the entrepreneurial goals for our international business?
- How and where do we recognize entrepreneurial business opportunities?
- Which market-entry strategies should we employ? For how long?
- Should we focus first on our skills or on the market?
- What specific information should we obtain and when, where and how?
- Should we outsource production abroad?
- Offshoring versus nearshoring in Eastern Europe?
- Which markets should we leave? Which markets do we intend to enter?
- How do we organize our network abroad?

This small selection of questions shows how complex it is to begin international activities. They require a differentiated approach. Moreover, the company must navigate between the priorities of the local Swiss situation and the global markets.

It seems worth mentioning that depending on your perspective, Southern Germany, Rhône-Alpes/Alsace/Franche-Comté, Lombardy/Piedmont and Vorarlberg can also be included in the Swiss domestic market. Companies have to decide whether they are prepared, despite the strong franc and cultural diversity, to deal with this expanded domestic market more intensively. New potential business opportunities with high purchasing power should provide enough incentives.

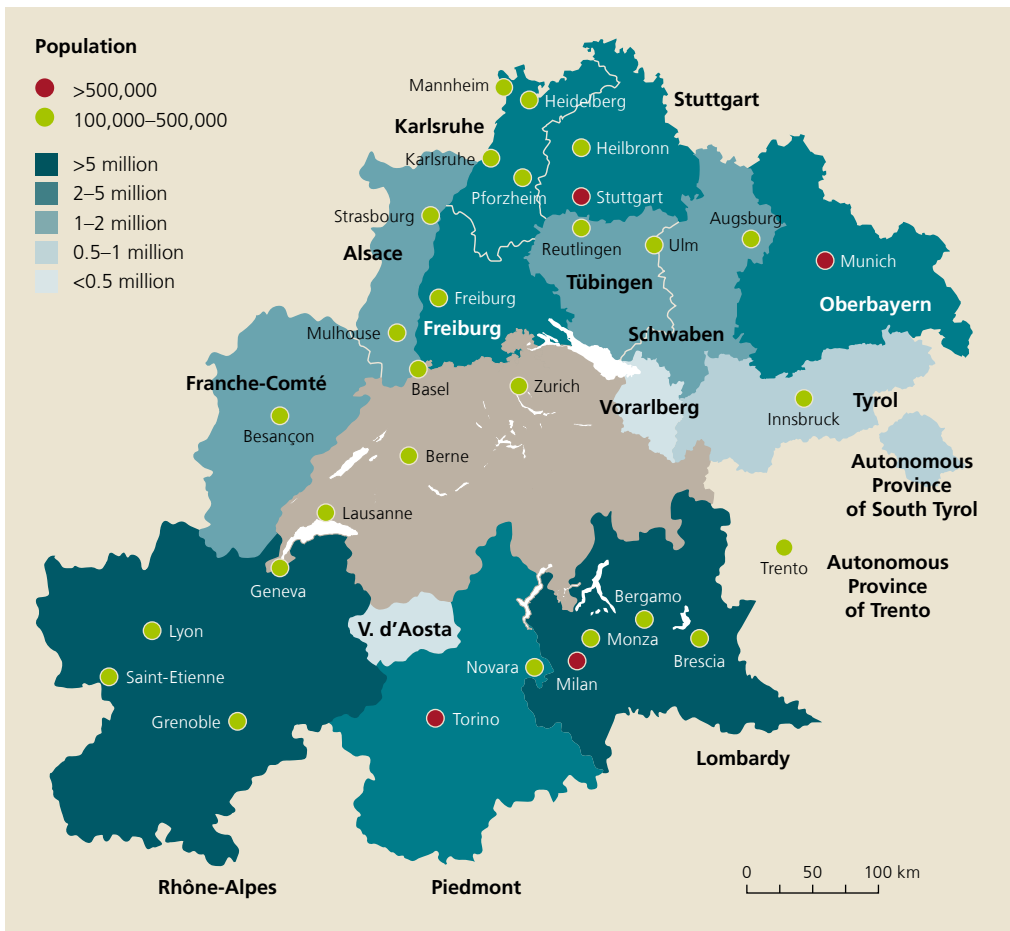


Figure 21: Expanded domestic market



If good fortune cannot be found in nearby Europe, the company can operate via a strategy of global city hubs.

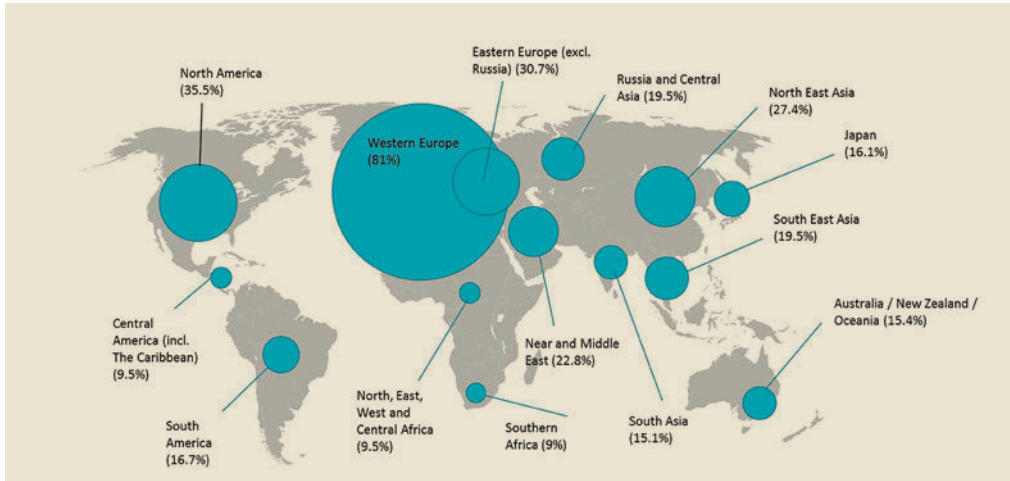


Figure 22: Importance of world regions for Swiss SMEs<sup>7</sup>

It is an indisputable fact that international performance is directly linked to the specific internationalization aims of the entrepreneur or decision-maker. In the analysis and evaluation of performance, one must distinguish especially between tangible and intangible goals. Of course, the type of performance measurement must also be taken into account. All these aspects significantly affect the result. Differentiating between subjective and objective performance is advisable because in this way international performance, which is dependant on a variety of factors, can be measured approximately. This offers even more, as internationalization is considered to be an opportunity to develop one's skills in recognizing new business opportunities. In this respect it helps to improve the innovation capacity of key employees.

If a company operates in markets which are more distant geographically and culturally, the learning effect initially falls off, while the coordination and transaction costs increase disproportionately. After an initial, successful phase, performance then falls as the degree of internationalization increases. Performance may improve again at a later stage. It is vital to make up for the original lack of learning experience in this respect. This process must in turn be accompanied by an innovation activity that generates not only new market services, but also innovative organizational structures and/or process innovations.

<sup>7</sup> The size of the circle corresponds to the importance of the world region for SMEs, as measured by direct and indirect representations.

Internationalization is a complex undertaking, driven heavily by the experience of the various stakeholders. The exchange of knowledge and experience, which only certain groups are able to implement, must therefore be promoted between companies, internationalization supporters and scientists. Cross-sector workshops round off this knowledge exchange strategy which is beneficial for all those involved. Thanks to the integration of findings from business cases in a knowledge management tool, additional information provided by specialists can promote the learning process of these internationally active entrepreneurs. Such key performance factors can also be developed to influence or support the internationalization process and ultimately to ensure successful and sustainable implementation in the company.

On the one hand, new models of regional economic development and export promotion should be implemented. These are suitable for developing a cooperative international approach by Swiss SMEs for global markets, so that all their strengths can be pooled.

On the other hand, location promotion should be brought on board in order to prompt SMEs in the targeted world regions to use Switzerland as a European hub – in cooperation with Swiss SMEs and the relevant domestic institutions.

# List of figures

<b>Figure 1:</b> Company sectors	11
<b>Figure 2:</b> Modes of internationalization	12
<b>Figure 3:</b> Export intensity of SMEs: average proportion of exports as a percentage of net sales	13
<b>Figure 4:</b> Entrepreneurial orientation according to company size	20
<b>Figure 5:</b> Entrepreneurial orientation according to industry	21
<b>Figure 6:</b> Recognition of business opportunities	22
<b>Figure 7:</b> Recognition of business opportunities according to company size	23
<b>Figure 8:</b> Reasons for internationalization	27
<b>Figure 9:</b> Frequency and success of sales channels in the internationalization process	29
<b>Figure 10:</b> Key strengths of a company for internationalization	30
<b>Figure 11:</b> Key weaknesses of a company for internationalization	31
<b>Figure 12:</b> Obstacles in the internationalization process	32
<b>Figure 13:</b> Organizations and services for internationalization support	34
<b>Figure 14:</b> External legal and consulting services used for international business over the past three years	35
<b>Figure 15:</b> The effect of internationalization on innovative strength (according to company size)	36
<b>Figure 16:</b> Triggers for the development of innovative products and processes	37
<b>Figure 17:</b> Triggers for the development of future innovative products and processes	38
<b>Figure 18:</b> Export intensity of SMEs: 2006–2015	40
<b>Figure 19:</b> Reasons for internationalization: 2007–2016	42
<b>Figure 20:</b> Obstacles to internationalization: 2007–2016	44
<b>Figure 21:</b> Expanded domestic market	48
<b>Figure 22:</b> Importance of world regions for Swiss SMEs	49

## List of tables

<b>Table 1:</b> Structure of the sample according to company size	10
<b>Table 2:</b> Key figures of internationalization	14
<b>Table 3:</b> SME international activity per continent (as per end of 2015)	15
<b>Table 4:</b> World region and presence of Swiss SMEs in global cities	17
<b>Table 5:</b> International experience at the time the first steps are taken toward internationalization	19
<b>Table 6:</b> Success of sales channels in the internationalization process: 2007–2016	45

# Literature

BFS (2016a). Data: Data – Foreign trade. Retrieved from <http://www.bfs.admin.ch/bfs/portal/en/index/themen/06/05/blank/data.html>

BFS (2016b). Starker Franken belastet Fremdenverkehrsbilanz. [Available in DE, FR, IT only] Retrieved from [http://www.swisstourfed.ch/index.cfm?parents\\_id=1110&eintrag\\_id=790&no\\_titel=true](http://www.swisstourfed.ch/index.cfm?parents_id=1110&eintrag_id=790&no_titel=true)

Brown, S. J., Goetzmann, W., Ibbotson, R. G., & Ross, S. A. (1992). Survivorship bias in performance studies. *Review of Financial Studies*, 5(4), 553-580.

Credit Suisse (2016). Branchenhandbuch: Nachhallen des Frankenschocks, 2016.

Dutta, S., Lanvin, B., & Wunsch-Vincent, S. (2015). The Global Innovation Index 2015 – Effective Innovation Policies for Development. Retrieved from <https://www.globalinnovationindex.org/gii-2015-report>

KOF (2016a). Retrieved from <http://www.kof.ethz.ch/prognosen-indikatoren/indikatoren/kof-beschaefigungsindikator.html>

KOF (2016b). KOF Konjunkturbarometer. Retrieved from <http://www.kof.ethz.ch/prognosen-indikatoren/indikatoren/kof-konjunkturbarometer.html>

SECO (2016a). GDP quarterly estimates. Retrieved from <https://www.seco.admin.ch/seco/en/home/wirtschaftslage---wirtschaftspolitik/Wirtschaftslage/bip-quartals-schaetzungen-.html>

VDK (2016). Aktuelles. Retrieved from [http://www.vdk.ch/media/archive2/archiv/standort-promotion/01b\\_VDK\\_DatenEvaluationSTIP2015.pdf](http://www.vdk.ch/media/archive2/archiv/standort-promotion/01b_VDK_DatenEvaluationSTIP2015.pdf)

WEF (2016). Competitiveness Rankings. Retrieved from <http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings/>

# Notes

ISBN 978-3-906201-95-5



2016-075 PF