
36 Managing the challenges of globalization: evidence from Swiss small and medium-sized enterprises

Thierry Volery

Introduction

Globalization and the emergence of internationally active small and medium-sized enterprises (SMEs) are key worldwide trends. During the last decade a paradigm shift occurred: it is now widely recognized that SMEs are a critical driver of employment both in industrialized and developing countries. Policy makers realized that SMEs are uniquely positioned to answer the challenges of an ever-faster globalizing economy. At the same time, the development of a theoretical approach to the internationalization of firms has existed from the earliest days of international business research, but in the last 30 years that debate has intensified through the development of a range of theoretical models.

Interestingly, many of the earlier research themes are still relevant, as for example Ahroni (1966), who perceived internationalization as a complex social process and advocated a holistic approach to understanding the process and its impact within the firm and in the marketplace, a view incorporated in some more recent work. What seems to have happened during this period of the evolution of internationalization as a concept is that researchers have employed a range of different approaches, which has had the effect of blurring the issues as much as revealing new knowledge. Methodologies have tended to evolve from a situational perspective to a longitudinal approach, seeking to explain internationalization as a dynamic process and, more recently, there has been more emphasis on collaboration between firms and other organizations in the internationalization process. Beamish (1990) offered a view which is both holistic in nature and has the advantage of catering for various internationalization processes. He suggests that internationalisation is 'a process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries' (Beamish, 1990:77).

From a conceptual point of view, internationalisation is a multidimensional construct (Ramaswamy et al., 1996). The traditional distinction between export and foreign direct investment (FDI), as the two core expressions of an internationalization strategy, has been replaced by a wide range of entry-mode alternatives. Thus, internationalization may range from exports to inter-firm non-equity and equity agreements to FDI, and involves different levels of commitment and risk (Beamish and Lu, 2001).

The majority of studies focusing upon the internationalization activities of SMEs have focused upon the exporting activities of manufacturing firms (Boter and Holmquist, 1996; Holmlund and Kock, 1998; Bagchi-Sen, 1999), particularly those manufacturing technology-based products (McDougall, 1989; McDougall and Oviatt, 1996). More recently, some researchers have focused upon the exporting activities of services firms (O'Farrell et al., 1996; O'Farrell and Wood, 1998). Many previous studies

have also failed to acknowledge that the reasons for internationalising and modes of foreign market entry reported by respondents in small service firms may be markedly different from those reported by respondents in manufacturing firms. Supporting this viewpoint, empirical evidence from surveys of small business service firms casts doubt on the established paradigms (generally drawing upon evidence collected from large firms) which have been developed to explain why and how firms internationalise (O'Farrell et al., 1996).

Because of the bias of previous research towards manufacturing firms, there is the possible risk that the technical assistance provided by policy makers and practitioners is solely geared to the needs of manufacturing firms. Most studies have focused upon new firms (that is, firms less than 10 years old) (McDougall, 1989; McDougall and Oviatt, 1996) or publicly listed companies (Bloodgood et al., 1996). Smallbone and North (1995) for example have asserted that the contribution of older firms to economic performance should not be overlooked. In addition, the majority of studies have focused upon the exporting activities of entrepreneurs and firms located in Scandinavia (Boter and Holmquist, 1996; Ahokangas, 1998; Haahti et al., 1998) and the USA (Bloodgood et al., 1996; McDougall and Oviatt, 1996). The values and norms of entrepreneurs owning and managing exporting and non-exporting firms located outside Scandinavia and the USA are relatively neglected (Kolvereid and Shane, 1993; Westhead, 1995; O'Farrell et al., 1996) and relevant policies, support systems and infrastructure may also differ between countries.

This study provides information about the internal and external environmental stimuli and strategies reported by Swiss SMEs that have survived the initial hurdles to business development. Our study extends research in SME internationalization in two important ways. First, while research on international entrepreneurship is growing, it tends to focus primarily on the age and size of new ventures (Westhead et al., 2001a). SMEs, however, face unique challenges in the process of internationalization, not only because of their age and size, but also because of their resource constraints. Human capital in particular can become a significant source of internal differential advantage for the internationalization of the firm. Secondly, small firm internationalization research has focused on manufacturing firms, whereas research in international entrepreneurship is focused primarily on the high technology sector. In contrast, our study looks at the impact of organizational and personal factors across multiple sectors.

Review of the literature

Julien (1996) asserted that about 85 per cent of small firms are operating to some degree with a strategy that can respond to market globalization (that is, the purchase of goods or services from foreign countries, the sales of goods or services to foreign countries, investments in foreign countries, agreements between enterprises from different countries and so on). To provide a greater understanding of market globalization processes, he presented the following typology of small firm behaviour and their associated internationalization strategies. Julien's typology identifies a number of important themes that explain why some small firms are more likely to become exporters. It also illustrates that small firms can choose a variety of routes to internationalize their activities.

Using a much narrower definition of globalization than Julien, several studies have focused solely on the propensity of firms to export a proportion of their sales abroad.

A two-category classification of small firms has been used to compare exporters and non-exporters. Evidence from studies focusing upon the exporting activities of new and small firms suggests that only a minority of firms sell their goods or services abroad (for a review, see Westhead, 1995). The majority of new and small firms can be classified as 'local' firms because they sell their goods or services only in domestic markets. Nevertheless, there has been a rapid growth in the research literature surrounding the characteristics and contributions of 'exporting' and 'non-exporting' firms (Westhead, 1995; McDougall and Oviatt, 1996; Havnes et al., 1998; Prince and van Dijken, 1998). Most notably, the relationship between firm size and the ability to be an exporter has attracted considerable research attention. Evidence regarding the relationship between export activity and size (measured in terms of sales revenues or employment) is rather mixed. Bonaccorsi (1992) detected a significant positive relationship between large firm size (a useful surrogate measure of a firm's resources) and the ability to be an exporter. This relationship has been supported in numerous studies which have focused on sales revenues' size (Calof, 1993; Westhead, 1995; Bagchi-Sen, 1999) or employment size (Westhead, 1995). Some studies however, have, found that smaller firms are more likely to be exporters (Bilkey and Tesar, 1977) or an insignificant relationship has been detected between firm size and the propensity for a firm to be an exporter, or the intensity of export activity (Cavusgil, 1984).

Evidence suggests that owner-managers of small firms wishing to export face a number of internal and external obstacles (Julien et al., 1997; Bagchi-Sen, 1999). These obstacles include insufficient information on the possibilities and constraints of foreign markets; the narrow attitudes of owner-managers who prefer to concentrate on domestic markets; insufficient resources; and poorly developed strategies to gain a market share in new markets (Bagchi-Sen, 1999). In response, enterprise and development agencies have introduced initiatives to address obstacles to internationalization. For example, enterprise agencies are encouraging firms to consider direct exporting, joint ventures, strategic partnerships, technology alliances and/or direct outward investment leading to production in foreign countries (Scottish Enterprise Network, 1993).

Numerous theories have been presented to explain why some small firms engage in international operations. It is difficult, however, to find any characteristics common to all approaches (Boter and Holmquist, 1996: 472). Havnes, Sletten and Saether (1998: 104) recently observed that research based knowledge about internationalization is fragmented. In addition, they concluded that there is no uniform theory of the exporting behaviour of SMEs. However, it is possible to classify research into three main schools of thought: economics-related Foreign Direct Investment Theory (FDI) theory, stage models with their behavioural emphasis, and the network perspective, which emphasizes relationships between organizations (Coviello and McAuley, 1999).

Foreign direct investment theory to internationalization

The FDI 'school' has the longest history in the development of internationalization theory and evolves from neoclassical and industrial trade theory, incorporating a transaction cost approach and the internalization of activities in expanding abroad. Dunning (1988), for example, considered internationalization to be a pattern of investment in foreign markets explained by rational economic analysis of internationalization, ownership and location advantages. In particular, this means that the firm decides on the level

of internationalization by evaluating the cost of economic transactions. Thus companies planning to internationalize choose the organization form and location for which the overall transaction costs are minimized.

Critics argue that such theories ignore important long-term aspects of international expansion; however, in forming the basis of strategy, the 'school' does not specifically exclude the growth of decision-making expertise over time (Morgan, 1997). Furthermore, Oviatt and McDougall (1994) argued that the FDI theory presents a static model, which is primarily applicable to the development of structure and process in established multinational companies.

Stage models of internationalization

Considerable research has examined the view that a firm's decision to enter export markets follows a gradual sequential process associated with several stages of internationalization. Each stage is characterized by a 'typical' behaviour. As the firm enters a new stage, its international commitment and involvement in international marketing activities increases. Perhaps the most influential of these models is that of Johanson and Vahlne (1977). Colloquially known as the Uppsala model, it suggests that internationalization occurs in an incremental fashion, influenced by increased market knowledge and management commitment. According to this theory, the internationalization process begins with exports, progressing through more sophisticated forms such as licensing and joint ventures to wholly owned marketing and production-oriented subsidiaries. Exporting itself can be perceived by some commentators as having distinct stages, from partial interest through to a high degree of expertise and commitment to exporting, perhaps within a specialist exporting arm of the organization.

It is assumed within the stage model theory that the process of internationalization is a unilinear evolutionary process with incremental stages (Welch and Luostarinen, 1988; Pleitner, 1997). It is also assumed that the process has as a cyclical evolution pattern with a more differentiation character (Haahti et al., 1998). Pleitner (1997) presented a six-stage model of internationalization. Within this perspective, it is assumed that the firm is bound to choose a certain method or mode of operation through which it services customer needs in foreign markets (Ahokangas, 1998). Firms (and entrepreneurs) can choose one or more of the following methods: indirect exporting, direct exporting, licensing, joint ventures or direct investments.

Associated with this 'stages' approach is an important area of theory, that of psychic distance which, although used in earlier research, came into prominence with the work of commentators such as Hallen and Wiedersheim-Paul (1979). It is suggested that firms will internationalize first into markets which are psychically close (that is, they possess similar cultural and other relevant dynamics to the home market) and that factors preventing the flow of information between actual or potential suppliers and customers are minimized. Although this concept has been criticized on a number of counts (for example, see O'Grady and Lane, 1996), it has been used extensively in assessing the choice of market entry for internationalizing organizations.

The network perspective

A more recent approach has been to research the impact of relationships upon the growth strategies of firms. This school of thought draws upon theories of social exchange and

the impact of interorganizational and interpersonal relationships. These range from suppliers and customers to associated firms in the same industry and also government and state bodies. It is the network which is important rather than firm-specific advantages, an externalization rather than an internalization emphasis, and is an inherently systemic approach.

To defend or maintain its position in a particular business network, a firm may be 'pushed' into becoming an exporter. Firms can also be 'pulled' into becoming exporters because other firms in the same business network have established relationships with other businesses in foreign markets. Many knowledge-based business service firms (such as accounting, advertising and insurance businesses), in particular, obtain their competitive advantage not solely because of their internal resources. They achieve some of their competitive advantage by developing mutually supportive interactions with other service firms. Further, they can create a 'capital of trust' (Holmlund and Kock, 1998) through effectively utilizing their institutional and social networks (O'Farrell et al., 1996). Owing to their inability to accumulate all necessary resources, some knowledge-based business services firms may be only able initially to enter export markets in cooperation with service organizations and other businesses (Boter and Holmquist, 1996).

Within the network theory of business internationalization, SMEs can 'go international' in various ways. They may become part of an international value-added chain; they may outsource part of their production process to third countries; they may seize business opportunities by spreading across borders or form international networks to exchange information or strengthen their presence on foreign markets, to name just a few possibilities (Möhring, 2002).

Hypotheses

In this section, hypotheses are developed which focus on issues relating to the organizational and external environmental characteristics of SMEs, to explain why some SMEs are more likely to export their goods and services abroad. In addition, hypotheses are formulated surrounding the link between exporting firms and the human capital. Factors that encourage owner-managers of small firms to export, as well as those factors that determine export activity are reviewed.

Organizational factors

Internationalization involves a degree of risk (Calof, 1994; Masurel, 2001). Smaller firms with more limited internal resources may be unable to make calculated judgements surrounding opportunities in their external environments, specifically the viability of selling goods or services abroad. Several studies have detected a significant positive relationship between large firm size in terms of sales revenue size and the ability of a firm to export goods or services abroad (Calof, 1994; Westhead, 1995; Westhead et al. 2001b). Hence, we suggest hypotheses.

H1a Smaller firms are less likely to be exporters and will report a lower intensity of internationalisation.

The main industrial activity of a firm has been found to be associated with its ability to export its goods or services abroad (Miesenbock, 1988). Studies have generally noted that

services firms are markedly less likely than manufacturing firms to be exporters (Westhead, 1995; Westhead et al., 2001b). Hence:

H1b Manufacturing firms are more likely to be exporters and will report a higher intensity of internationalization.

Stage models of internationalization (Johanson and Vahlne, 1977, 1990) suggested that older firms are likely to be more effective exporters. Several studies have detected that older firms are more likely to export their goods or services (Westhead, 1995; Westhead et al., 2002; Burgel et al., 2001). These results, however, have been questioned by other researchers. For example, Ursic and Czinkota (1984) and Autio et al. (2000) noted that the effect of firm age was at best inconclusive. Therefore:

H1c Older firms are more likely to be exporters and will report a higher intensity of internationalization.

There are many options a small business can choose from to 'go international'. However, stage models of internationalization (Johanson and Vahlne, 1977, 1990) indicated that the firm would usually start with direct export from the home country, and then gradually increase its capital and management involvement in the host country through licensing agreements, strategic alliances and various forms of FDI such as the development of joint ventures or subsidiaries. Pleitner (1997) reported that SMEs can use a variety of internationalization modes, which in turn lead to increasing internationalization activities. Hence:

H1d SMEs using multiple modes of internationalization will report a higher intensity of internationalization.

Human capital factors

The importance of human capital and its relationship to performance and internationalization is established (Westhead et al., 2001b; Manolova et al., 2002), yet the effects of particular aspects or dimensions are less clear. The literature on SME internationalization suggests that three dimensions of human capital distinguish between internationalized and non-internationalized firms: experience and skills, international orientation and demographics. Research shows that high experiential knowledge (that is, experience and skills) of the owner-manager and low perceived environmental uncertainty are important determinants of small firm internationalization (Cavusgil, 1984; Johanson and Vahlne, 1990). Furthermore, the degree of international experience of the top management team is a distinguishing feature between internationalized and non-internationalized firms. Holzmüller and Kasper (1991) found that international business skills have a positive and significant impact on export performance. Therefore:

H2a There is a positive and significant relationship between owner-manager international business skills and SME internationalization.

Foreign-market or 'international orientation' comprises dimensions such as psychic distance to foreign markets, linguistic capability, travel abroad and risk tolerance. For example, the crucial ability of decision makers in exporting to converse in foreign languages

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has been well documented in the literature (Waver and Pak, 1990). The reason underlying its importance is not so much founded upon the function of two parties communicating in one language, on the basis that language can be conceptualized as 'bridge to culture' (Morgan, 1997). Other subjective issues reflecting owner-managers' perception of the attractiveness of exporting are part of the international orientation. The construct is related to Cavusgil's (1984) notion of global orientation. It is argued that the more internationally oriented managers are, the more likely they will be, under comparable conditions, to participate in export activities. Therefore:

H2b There is a positive and significant relationship between the owner-manager's international orientation and SME internationalization.

Finally, evidence linking demographic characteristics to internationalization is inconclusive, despite the prominent position these variables have in international marketing research. Studies examining demographics find that a high level of education, as well as youth, is associated with internationalization (Oviatt and Mc Dougall, 1994). In contrast, other work shows older age of the owner/founder are related to internationalization (Nakos et al., 1998), while still other researchers have found no relationship between age, education and internationalization (Davis and Harveston, 1999). Hence, we propose the following hypothesis:

H2c The demographic characteristics of owner-managers will not differ between internationalized and non-internationalized SMEs.

Method

Data for the study were collected in spring 2003. Since no sampling frame and comprehensive data base exist to identify small business owner-managers, we collected data in an executive education programme for small owner-managers. All 69 respondents were senior executives of SMEs operating in Switzerland. The survey instrument was developed on the basis of an existing questionnaire of INTERSTRATOS (internationalization of strategic orientation of small and medium-sized enterprises), an international European project about internationalization of SMEs conducted from 1991 until 1995 (Haahti et al., 1998).

Internationalization (INT) was primarily measured by the percentage of export in relation to sales. International business skills (INT_SKILLS) were measured using a five-item scale which comprised the respondents' perception of their international work experience, personal networks and relationships abroad, marketing expertise, international business education, and expertise in technology and communication. (Reuber and Fischer, 1997). Each item was measured on a five-point Likert scale. The scale showed a high reliability with a Cronbach alpha of 0.78.

The 'International Orientation of the Entrepreneur' (INT_ORIENTATION) was measured by the extent of travel, time lived and employment abroad (Manolova et al., 2002). The orientation is an aggregation of four items, namely: 'In the past year, I have regularly been travelling in foreign countries; I have at least once lived in a foreign country longer than six months; I have studied in a foreign country; I speak, read and understand a second language'. This scale was a sum of individual item scores, with dichotomous responses (0 = no; 1 = yes).

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The internationalization mode (INT_MODE) was measured by whether or not the firm was engaged in any of the following activity: export, licensing, partnership, equity joint venture, commercial subsidiary, production subsidiary. Each of these last measures was dichotomous. Other organizational characteristics were measured by the age of the firm (AGE_FIRM); the size of the firm (SIZE) expressed in terms of number of employees; the type of industry (INDUSTRY), which could be either manufacturing, consumer goods or services (Westhead, 1995; Westhead et al., 2001a). The owner–manager demographic characteristics were measured by self-reported age (AGE_MANAGER); highest educational level completed (EDUCATION); years in the firm (TENURE). (Bijmolt and Zwart, 1994; Cavusgil, 1984).

Results

Twenty-two firms (36 per cent) were not currently exporting any goods or services, and they were not interested in developing export activities. Six firms (10 per cent) did not export; however, they would like to develop export activities. Fifteen firms (25 per cent) exported occasionally, usually in neighbouring and similar markets. Eighteen firms (30 per cent) regularly exported their goods and services in different markets world-wide.

Swiss SMEs which internationalized reported that a substantial part of their sales (27 per cent on average) and a substantial part of their production (19 per cent) were dependent on markets abroad. Most importantly, data revealed that firms rely heavily on sub-contractors located abroad. More than 31 per cent of the exporting firms indicated that they had an outsourcing agreement with subcontractors abroad. SMEs used a variety of modes to 'go international': 41 firms (63 per cent) used a partnership; 35 firms (52 per cent) used direct export; 15 firms (22 per cent) set up a commercial subsidiary; 11 firms (16 per cent) set up a production subsidiary; six firms (9 per cent) developed a joint

Table 36.1 Mean, standard deviation and F-statistics

	Mean	Std deviation	n	F-stat
INT (% of export in sales)	27.32	14.33	63	—
SIZE (n of employees)	72.33	123.14	69	0.655
INDUSTRY ^a	2.06	0.93	63	6.003**
AGE_FIRM (years)	14.69	10.36	67	4.548
INT_MODE ^b	1.41	1.43	69	3.254**
INT_SKILLS ^b	2.67	1.15	69	2.573*
INT_ORIENTATION ^c	1.72	0.99	69	3.274*
AGE_MANAGER (years)	37.74	8.91	65	1.334
TENURE (years)	7.86	6.25	69	4.312
EDUCATION ^d	3.02	1.01	62	0.567

Notes:

^a Measured on a nominal scale: 1 = manufacturing, 2 = consumer goods, 3 = services.

^b Dichotomous variable: 1 = yes, 0 = no; all positive answers were added to form an index.

^c Measured on a 5-point Likert scale: 1 = totally agree, 5 = totally disagree.

^d The higher value indicates a higher level of education.

* Significant at $p < 0.05$; ** Significant at $p < 0.01$.

venture; and another 6 firms (9 per cent) used a licensing agreement. Several firms combined several modes of internationalization at the same time.

Hypotheses were tested by analysis of variance (ANOVA) and a chi-square test, using the SPSS procedure. Hypotheses H1b, H1d, H2a and H2b were supported.

Data suggest that industry matters when it comes to internationalization: manufacturing firms have a higher export intensity than service providers. In the same vein, while 83 per cent of the experienced firms in exports belong to the manufacturing sector, 68 per cent of the firms that have no interest in export are service providers. However, one needs to be careful, as it is questionable how much the concept of 'exporting' as stated in the question is applicable to service providers.

The internationalization mode also influences the export intensity. Firms which use multiple internationalization strategies display a significantly higher export intensity. This indicates that internationalization is a complex process rather than an event. Consistent with recent research (Westhead, 1995; 2002; McDougall and Oviatt, 1996; Havnes et al., 1998), two central dimensions – economic and owner–manager – each encompassing a series of specific variables, influence the internationalization of SMEs. Therefore, when it comes to globalization, the personality and skills of the owner–manager play a crucial role. Policy makers and small business advisors must remember that they have to consider the 'human factor' as well as other economic dimensions.

We found that demographic factors neither affected the internationalization intensity, nor did they differentiate between internationalized and non-internationalized firms. This finding lends support to Cavusgil's (1984) proposition that demographic factors are not as important differentiators of internationalization as behavioural factors. Given the total lack of support with respect to demographics in this study, we feel confident in stating that, at least in the context of Swiss SMEs, demographic characteristics are not significant discriminators between internationalized and non-internationalized firms.

Conclusion

Clearly, the phenomenon of SME globalization is becoming increasingly more important as more small firms seek growth in foreign markets. Our study focuses on the differences in personal factors, or the human capital of the owner–manager in Swiss SMEs. By unbundling dimensions of human capital, we found that different dimensions of personal factors are significant. Additionally, the findings show that public policy directives, as well as education and training programmes, need to recognize that there are significant differences in SME internationalization that are based upon industry. Knowledge of these differences can be used to guide the development of small firm internationalization initiatives that match industry characteristics.

However, the study suffers from several limitations. The most important limitation is that we provided only a 'snapshot' on the globalization of Swiss SMEs, based on a small sample. Secondly, this study did not consider an important but neglected part of the internationalization process, that of inward internationalization, examples being countertrade and the import of goods and services.

A potentially fruitful line of further enquiry would be the identification of these specific resources and capabilities required by firms and owner-managers to develop and sustain the internationalization process. Future research on human capital effects and their link to internationalization is called for to develop a more complete understanding of this important

aspect of SME decision making. In particular, the link between exporting firms and subsequently enhanced business performance needs to be explored in several industrial, locational and industrial settings. Longitudinal research designs might also provide more illuminating confirmatory evidence.

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