SWISS SMES AND EMERGING MARKETS: THE ENABLING ROLE OF GLOBAL CITIES IN EAST ASIA?

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1. RESEARCH QUESTION AND HYPOTHESIS

2. SWISS SME INTERNATIONALIZATION ?

3. GLOBAL CITIES ?

4. CONTRIBUTION OF SCIENTIFIC THEORIES

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6. FURTHER RESEARCH 2015-16
1. RESEARCH QUESTION & HYPOTHESIS?

QUESTION:
HOW TO PROMOTE FOREIGN/SWISS SMEs TO GROWTH-DRIVEN BUT RISKY EMERGING MARKETS, in particular to EAST ASIA (China and SE Asia)?

HYPOTHESIS:
WHAT FOREIGN/SWISS SME INTERNATIOLIZATION FACILITATING ROLE IS PLAYED BY EAST ASIAN GLOBAL CITIES DUE TO THEIR HIGH CONCENTRATION & QUALITY OF DOMESTIC & FOREIGN MNC SERVICES?
2. Internationalization of Swiss SMEs: What do we know?
Swiss First Ranking Global Competitiveness: Record of 48 000 new start-ups in 2014!

### Global Top 10

<table>
<thead>
<tr>
<th>Country</th>
<th>Global rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>1</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
</tr>
<tr>
<td>United States</td>
<td>3</td>
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<tr>
<td>Finland</td>
<td>4</td>
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<tr>
<td>Germany</td>
<td>5</td>
</tr>
<tr>
<td>Japan</td>
<td>6</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>9</td>
</tr>
<tr>
<td>Sweden</td>
<td>10</td>
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</tbody>
</table>

Note: * 2014-2015 rank out of 144 economies
99.7% of all Swiss firms are SMEs (300’000)

Size (EU-3 categories: 9, 49, 249 employees)

80% are purely family-owned

67.5% of all Swiss jobs provided by SMEs

60% of all jobs depend on exports

but only 28% of all Swiss SMEs are “international” (sell abroad): 93% (Europe), 49% (Asia), 40% (North America), 25% (South America), 21% (Australia), 19% (Africa)
SIES 2013: SME’s internationalization per continent

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Asia</th>
<th>North America</th>
<th>South America</th>
<th>Africa</th>
<th>Australia/Oceania</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–9 employees</td>
<td>92.9%</td>
<td>43.2%</td>
<td>31.4%</td>
<td>18.3%</td>
<td>14.9%</td>
<td>13.1%</td>
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<tr>
<td>(smallest businesses)</td>
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<tr>
<td>10–49 employees</td>
<td>93.5%</td>
<td>54.4%</td>
<td>46.3%</td>
<td>29.9%</td>
<td>25.2%</td>
<td>27.2%</td>
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<tr>
<td>(small businesses)</td>
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<tr>
<td>50–249 employees</td>
<td>94.6%</td>
<td>56.3%</td>
<td>52.7%</td>
<td>34.8%</td>
<td>22.3%</td>
<td>33%</td>
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<tr>
<td>(medium-sized</td>
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<tr>
<td>businesses)</td>
<td></td>
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<tr>
<td>Average SME</td>
<td>93.4%</td>
<td>49.2%</td>
<td>40%</td>
<td>25%</td>
<td>19.8%</td>
<td>21.2%</td>
</tr>
<tr>
<td>Born globals</td>
<td>94.8%</td>
<td>82.4%</td>
<td>66%</td>
<td>45.1%</td>
<td>37.3%</td>
<td>35.3%</td>
</tr>
</tbody>
</table>
• Age: most SMEs set up before 2008 on average
• Ownership status: 48% fully family-based

• Gradual Internationalization of SMEs: 62%
• Matured SMEs > 50 employees are far more internationalized than smaller SMEs

• Export ratio > 25% within first 3 years of internationalization
• Profitability of MEs: expands by 50% between 4th and 6th year after start up of internationalization process
SIES 2013: Internationalization typology

- Born global: 19.4%
- Born international: 10.7%
- Born-again global: 6.1%
- Born-again international: 2.4%
- Gradual internationalization: 61.4%

Countries concerned:
- Global
- Neighbouring countries

Point internationalization occurs in the life cycle:
- Early, immediately
- Late
3. GLOBAL CITIES: WHAT DO WE KNOW?

75 GLOBAL CITIES (GaWC: Global Cities Research Network, UK)
Top 3: New York, London, Tokyo (Hong Kong catching-up!)
Many GCs are Global Ports (OECD, Jan 2015)

1. Contrary to predictions, global production and telematics/internet have led to borderless economic flows but not to declining hub services by global cities.

2. Global cities have continued to prosper even more due to rapid densification and sophistication of their specialized services generated within and outside MNCs` affiliates - at global/ inter-regional /and regional levels.

3. High concentration of foreign MNC surveys both in manufacturing and services in global cities versus absence of foreign SME survey.
4. Contributions from scientific theories?

1. Management theories dealing with SME network economics & internationalisation

2. Urban development theories dealing with global cities and inter-global city networks
4.1. SME INTERNATIONALIZATION THEORY (Management) & SME NETWORK ECONOMICS

Entrepreneurship and small business networks:

- SME use both functional networks (suppliers, clients, transporters, traders, …) & social networks (extended family, formal / informal relationships, …)
- Both Locally & overseas: within global production networks and value chains

Gradual SME internationalization:

Uppsala model 1 + 2 (Johanson & Vahlne, 1977 + 2009)
- SME limited resources to go overseas: command niche and gradual SME internationalization
- SME as outsiders as a liability: SMEs are foreign when entering distant markets
- Insidership as an asset: internationalizing SMEs become part of relevant regional and local business networks creating relationship + trust … able to reduce “distance“ + “risks“

Instant globally-born SMEs:

- Globally-born SME start-ups internationalize rapidly, esp. in services (with the help of ICTs)
- Open innovative SMEs challenge existing modes of production + distribution (destructive competition)
MAJOR CONTRIBUTIONS by historians, geographers and sociologists:

= Major urban centers are central nodes in the global economic system

- High concentration of specialized business development services attracting TNCs and affiliates, and even more since 1990s (new wave of globalization)

- Networks among global cities at regional, inter-regional and global levels
  (ex: HK and Singapore linked to most capital cities in ASEAN-10)

CLASSIFICATION of 75 GLOBAL CITIES (GaWC: Global Cities Research Network, UK)

• Alpha and beta global cities
  – In East Asia: Tokyo facing rising competition from Hong Kong and Singapore

• Gamma “emerging” global cities: Jakarta, Shanghai, Geneva

CROSS FERTILIZATION with ENTREPRENEURSHIP CLIMATE RANKINGS
  (Global Entrepreneurship Monitor + Global Competitiveness reports)
  = High quality and performing entrepreneurial eco-systems
    concentrated in global cities and second tier cities
4. Tokyo as Number ONE global city in East Asia

A 2014 Brief Survey of Swiss SME Internationalization to East Asian markets
(as a possible reference?)

by Philippe Régnier & Stefan Meier
Swiss School of Management-Fribourg
Swiss SME internationalization to Tokyo:

- Tokyo mainly used by Swiss highly specialized SMEs as entry to Japan’s large *domestic* market

- 1/3 Swiss SMEs use Tokyo also as a regional hub to reach similar markets (South Korea, Taiwan) but not emerging ones

Swiss SME access to BDS providers in Tokyo:

- Use tailored services from Japanese/foreign *SME* trading firms

- Use professional and social networks with already established European SMEs in similar sector of business activity
Cross fertilization of 2 sources of knowledge:

1. SME Network Economics
2. Global City Production & Service Networks

Role of Global City BDS providers serving foreign SMEs to access emerging markets
• Swiss SMEs behave like foreign incoming expatriates:
  – European business community in Tokyo acts as facilitator for incoming SME outsiders
  – SME peers (same national community, same sector) are crucial for market entry, initial business development and even the long term

• Swiss SMEs and the valuation of Tokyo as global city:
  – High concentration of international infrastructure in Tokyo
  – Market size and market topology (qualitative vs. quantitative) also relevant to similar economies (Korea, Taiwan, Hong Kong)
  – Density and diversity of European/foreign business community in Tokyo
Network economies and use of BDS services by Swiss SMEs

Public institutions
- General information
  - Market
  - Business context
- Events
(After screening)
- Help for establishing business
  - Offices
  - Specific consulting
  - "Matchmaking"

Foreign SMEs in similar sector
- Strategic advice
- Experience exchange
- Recommendation / Introduction
  - Consulting firms, trading firms
  - Business associations/schools
  - Suppliers
  - Other Key resources

Trading firms
- Import/export

Suppliers

Consulting firms
- HR
- Marketing/advertising
- Accounting, financial procedures
- Representation in the country

Financial institutions

Source: School of Management Fribourg
The functions of Tokyo-based SME friendly business and social networks

Network in Europe
- European private network
- European Business network
- Public organizations
- Firms in similar sector of activity

Network in Japan
- Japanese private network
- Private BDS
- Japanese Business network
- Firms in similar sector of activity
- Business network with other European companies

Subsidiary of European SME

Source: School of Management, Fribourg
1. As foreign outsiders at the beginning of their internationalization process, Swiss SMEs tend to behave like foreign expatriates and look for functional and social networks from their SME peers already present in Tokyo as a global city.

2. Swiss SMEs use global city networks and BDS service providers centered in Tokyo, mainly local / foreign already established SMEs.

3. When able to obtain appropriate BDS in Tokyo, Swiss SME perception of market distance (to Japan and East Asia) tends to decline rapidly, also demonstrating that Tokyo-based BDS are marketing research enablers.

4. Tokyo perceived as very costly by Swiss SMEs, but the quality and specialization of its BDS services reduce SME business risks by providing reliable business information and trustworthy business partnerships.
5. Swiss SME proposed research 2015-16 in Hong Kong, Shanghai and Singapore:

= FOCUS on Swiss BLUE SME internationalization to new markets in emerging Asia

1. China and other emerging economies face huge sustainable development challenges
   (green techs, pollution control, food & health safety, waste management, etc …

2. Potential supply by Swiss blue SMEs using global cities for market search:
   - Zurich + Geneva (2 Swiss global cities) to start market search towards E. Asla
   - HK, Shanghai, Singapore (3 global cities) to deepen market search in E. Asia

3. Swiss SME marketing research + innovation in commercialization processes facilitated by BDS concentrated Hong Kong, Shanghai, Singapore
   (i.e one focus on Swiss SMEs to Vietnam via Singapore & Hong Kong + HCM City)
Blue Factory S & T Park, Fribourg, CH
PROPOSED RESEARCH AGENDA 2015-16:

PHASE 1: INTERNATIONALIZATION MODES OF SWISS BLUE SMES ON GLOBAL AND EMERGING MARKETS (East Asia in particular)

PHASE 2: INTERNATIONALIZATION BEST PRACTICES BY SWISS BLUE SMEs USING GLOBAL CITIES AS MARKETING/BDS RESEARCH HUBS

PHASE 3: APPLIED AND SCIENTIFIC RESEARCH DELIVERABLES
   (i) Business and conference papers + publications
   (ii) Teaching and training materials for academic and professional institutions
   (iii) Swiss/East Asia ICT sustainable development tech platform
   (iv) Electronic business guide book for Swiss blue SMEs, and self-appraisal tools for SME internationalization capacity evaluation
THANK YOU FOR YOUR ATTENTION!