



**Internationalization Behavior of SMEs
in the Global Context:
Entrepreneurial Orientation, Speed
and Performance.**



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FOREWORD

In recent years the internationalization of SMEs - especially in countries with a small domestic market - has increasingly become more focused on a dimension of economic policy and found its way into media coverage. Expansion abroad is also increasingly seen by SMEs as a fundamental strategic option to gain competitive advantage. However, due to the heterogeneity of the SME landscape and its internationalization behavior, it is difficult to measure success or identify the success factors. To enable SME decision-makers to influence their internationalization behavior more specifically and, at the same time, to receive more effective and efficient support from representatives of both public and private internationalization helpers, it is first necessary to take a differentiated look at current circumstances.

On one hand, it is first necessary to define which different types of internationally active SMEs actually exist: there are young, globally active Swiss companies, for example, which offer highly qualified workers an interesting job as important innovation carriers and developers, or medium-sized companies, which are present in international markets and function successfully as established suppliers in more traditional sectors. SMEs should also be considered, as they are successfully expanding their international orientation and opening up new markets, thanks to ongoing innovation. Like the large global businesses, all these small and medium-sized companies belong to the spectrum of internationally active companies.

On the other hand, the attitudes and views of entrepreneurs regarding internationalization are interesting; both can provide insightful indications as to which framework conditions must be created in the future in order to increase success in foreign markets. The question of a successful business model in times of turbulent change and digitization must be answered with proactive entrepreneurial behavior.

This report is based on a comprehensive survey on the internationalization of Swiss SMEs. After initial editions in 2007, 2010, 2013 and 2016, this study provides information for the fifth time on a number of facts on the internationalizing of SMEs in Switzerland, in conjunction with findings on the entrepreneurial visions of small and medium-sized enterprises. On one hand, Switzerland's entrepreneurial potential is quite optimistic; on the other hand, there is clear evidence that improvements are needed at various levels, especially with a view to better supporting companies in their internationalization efforts. The entrepreneur and his/her management team remain in focus because outstanding management alone can effectively and efficiently realize internationalization.

We hope that as many SMEs, managers and internationalization consultants as possible will find ideas, impulses and suggestions to strengthen the global competitiveness of Swiss SMEs on the basis of innovation and entrepreneurial spirit.

Prof. Dr. Rico J. Baldegger

EXECUTIVE SUMMARY

This study examines the status of internationalizing behavior of Swiss SMEs and identifies current trends. Using the Bisnode database, a multilingual questionnaire (German, French, English) was sent to decision-makers of export active SMEs. Thanks to the great interest in the topic, a large number of companies not only decided against anonymity but also expressed interest in the workshops to be held in autumn/winter 2019.

The study focuses on entrepreneurs with their global vision and insight that at each stage of a company's life-cycle, different characteristics of the management team are required. It is, therefore, important to recognize early on which skills are essential for the current situation, to act accordingly and to acquire the missing skills. The entrepreneur or the management team are undisputedly key to its success. The entrepreneur or management must have international experience. This study discusses the well-known influence of entrepreneurial self-confidence and level of competence to employ an internationally experienced management team for the planned move across the border. The importance of international experience should not be underestimated and has a significant influence, not only on the speed of internationalization but also on its success.

The study highlights the importance of adequate preparation of the internationalization process and a strategy based on the companies' own competencies. Using the example of other companies that pursue the path of innovatively positioning themselves in the international value chain, decision-makers see how they can maintain competitive advantage in foreign markets. The results suggest that entrepreneurs and SME managers invest less in tangible assets and more in areas that directly generate competitive advantages. This includes, for example, research and development and employee creativity. The practical examples show the diversity of internationalization modes of SMEs and make it clear for managers that internationalization does not necessarily culminate in the export of market services, but that internationalization can also be achieved with a specific position in the international value chain.

The SMEs surveyed focus their exports on mature markets in Western Europe and North America. These results confirm data from the Federal Customs Administration, insofar as 20% of the value of exports went to Germany; 55% went to the entire EU, and 16% to the USA. In the context of international trade conflicts, however, the more the economy in neighboring countries cooled down in the second quarter of 2019, the more concentration on mature markets is becoming a growing danger (FCA, 2019).

1 BACKGROUND, OBJECTIVES AND SCOPE OF THE STUDY

“At the moment, too many companies are being sold abroad or too heavily relocated, so a sellout of Switzerland is taking place.”

Founder/CEO, Microbusiness

1.1 Economic environment

Economic development weakened in the first half of 2019, and fears of a recession are palpable, especially in Europe. The leading indicator for economic development, the Purchasing Managers' Index (PMI) is stagnating. Swissmem, the Swiss Engineering Federation, sees clouds on the horizon, despite the year's first two positive quarters (see Swissmem, 2019).

The strength of the Swiss franc, the uncertainties surrounding Brexit, the trade dispute between the USA and China, and the deteriorating economic situation in Germany, where around a quarter of Swiss exports go, are just some of the other risk factors that companies have to deal with. Of course, this mixture directly affects export-oriented SMEs.

For the second half of the year, the Swissmem umbrella association expects a further slowdown in business development. However, as the industry is very heterogeneous, not all companies will be affected to the same extent. If the Swiss franc continues to appreciate and the German economy does not recover, a new wave of restructuring is expected. Those SMEs that have neglected innovations of all kinds in recent years are likely to suffer particularly.

“Joint international strategies of SMEs are not enough of an issue in Switzerland.”

CEO/Successor, MedTech-SME

1.2 The Trend of Internationalization

With regard to internationalization, it is striking that just a few years ago the main focus was on large global companies. In the meantime, attention is increasingly focused on internationally active SMEs. Although a considerable number of companies still operate in a local, regional or national sales markets in the quite heterogeneous SME cosmos, the proportion of dynamic and innovative micro and small enterprises, all of whom share an international orientation or are planning to set up an international business, is growing.

The internationalization behavior of SMEs has been discussed more frequently in various countries in recent years in order to describe internationalization or to identify the reasons for and obstacles to this process. Particularly in countries with a small domestic market, numerous empirical studies have been suggested that deal with the initial forces of rapid internationalization. Further insights are of great benefit for SME management, investors, researchers and public funding institutions, all of whom are interested in a better understanding of the key factors of successful internationalization.

“For us as Swiss companies, international business opportunities are severely restricted by corruption.”

CEO, SMEs, Electronics

1.3 Objectives

The aim of this study is to examine in detail the internationalization behavior of Swiss small and medium-sized enterprises already operating abroad in order to gain insights into the internationalization process and the factors of successful internationalization. The study focuses on the competitiveness of international SMEs and is oriented towards the following sub goals:

- New insights into the extent to which internationalization influences the innovative capacity of SMEs.
- The role of the entrepreneur with his/her self-confidence and competencies in how international business opportunities are recognized and their company aligned.
- Identification of the importance of top management and its strategic stance in international business.
- Documentation of the effects of digitization on international SMEs.
- Insights into how SMEs operate in different global regions.
- Determining the goals and success of internationalization behavior.
- Recording trends in the internationalization behavior of Swiss SMEs.
- Formulating recommendations for decision-makers in SMEs, internationalization helpers and consultants.

*“Our products are manufactured in Switzerland and have a high added value.”
 Founder, Small-Enterprise, Metal Industry*

1.4 Scope of the Study and Description of Participants

Between March and April 2019, a quantitative, cross-industry survey was conducted among internationally active Swiss SMEs. The survey was aimed at company decision-makers. Accordingly, the results are based on answers from founders/CEOs in a trade union (26.1%), CEOs (29.7%), successors/CEOs (22.0%), senior management (9.2%) and other persons (13.0%) involved in strategic decisions. The interviewees have been with the company for 18.9 years and in their current position on average for 14.4 years. The decision-makers (92% male and 8% female) are on average 41 (exactly 40.7) years old.

A total of 369 questionnaires (online or written) completed by Swiss SMEs from all regions of the country were evaluated. The SMEs are distributed across different size classes (see Table 1). 14.2% are micro-enterprises, employing five people on average. The small companies represent 45.2% of the SMEs surveyed and have an average of 25.6 employees, while medium-sized companies (40.6%) employ an average of 105 people. The average age of the companies surveyed is 45.4 years, with a correlation between size and age.

	Number of companies in %	Average number of employees (2018)	Average age of the company (2018) in years	Average net revenue (2018) in Mio.CHF	Export revenue in % (2018)	R&D expenditure as % of net sales (2018)
1 – 9 employees (Micro enterprise)	14.2	4.9	32.1	25.05	50.96	3.9
10 – 49 employees (Small enterprise)	45.2	25.6	41.4	29.00	38.43	4.5
50 – 249 employees (Medium enterprise)	40.6	104.9	54.7	58.14	47.00	5.1
Total	100 %	55.4	45.4	40.74	43.45	4.7

Table 1 : Structural data of the SMEs surveyed

The average turnover of all SMEs surveyed amounted to CHF 40.74 million. On average, slightly less than half, i.e. 43.45%, is generated in foreign markets. At 51%, micro enterprises generate on average a slightly higher proportion of their sales abroad than small and medium-sized enterprises. Expenditure on research and development for micro enterprises amounts to 3.9% of net sales, i.e. about one million per year (TCHF 977), while medium-sized enterprises, for example, invested almost 3 million (exactly 2.96 million) per year in research and product development with an average of 5.1% of their net sales.

*“Today we are within our niche market and technology leader, and about 5 times bigger than the second competitor.”
 Successor/CEO, Medium-size enterprise, Trade*

1.5 Sector Dynamics

The breakdown by sector is illustrated in the Table below. The manufacturing industry is divided as follows: 28.9% belong to the strongly export-oriented category of mechanical engineering, electrical engineering and metal industry, 7.2% belong to the group of chemicals, medical technology, pharmaceuticals and cosmetics, and 12.8% include other industries such as food, watches, etc. Moreover, 16.7% of SMEs belong to the banking, insurance, real estate and IT classes, 15.6% to commerce and 5.6% to transport and logistics, 8.3% to construction, 1.7% to public administration and 1.7% to health and social services.

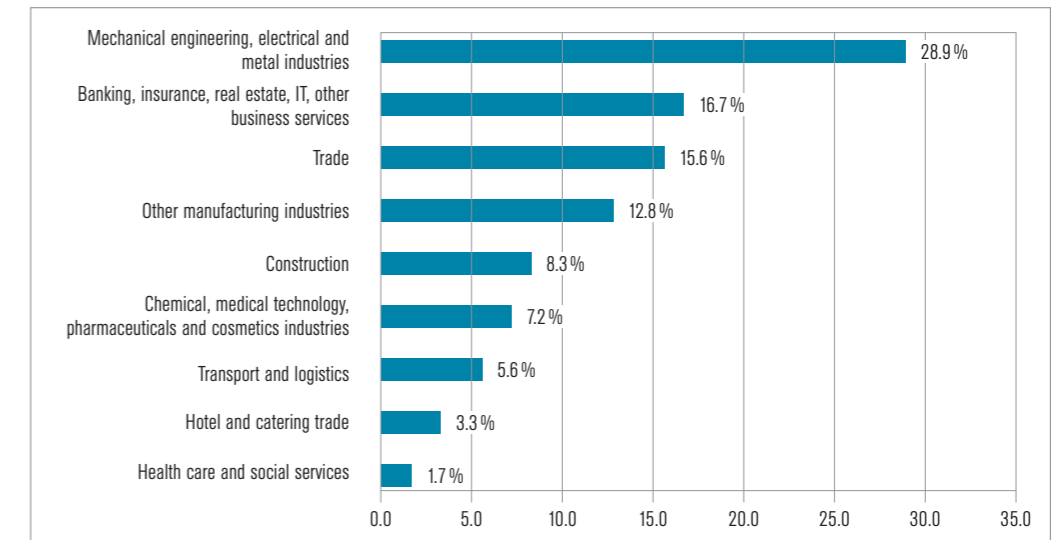


Figure 1: Sectors

Experience shows that the economic environment of SMEs is strongly influenced by the industry. It is precisely this economic context and the dynamics in the individual sectors that were evaluated in the SMEs surveyed on the basis of four - still relevant - indicators (Achrol & Stern, 1988), namely, frequency of new products and competitor's sales strategies, variation in customer enquiries and the dynamics of customer wishes.

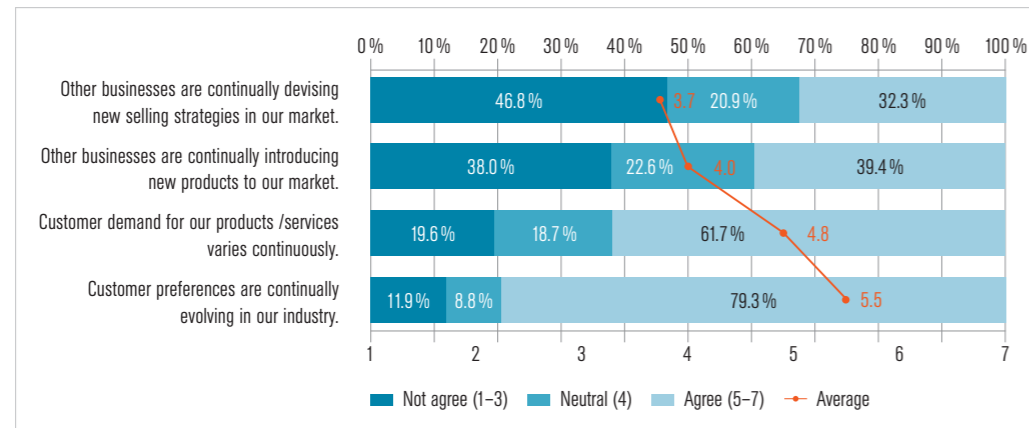


Figure 2 : Dynamics of the SME sectors

The SMEs surveyed stated that they were exposed to high dynamics (Avg 5.5) with regard to customer requirements. Both proactivity on the part of competitors due to sales strategies introduced on an ongoing basis (Avg 3.7) and the constant production of new products by such competitors (Avg 4.0) tend to influence industry dynamics less than varying customer inquiries (Avg 4.8) and more than the dynamics of customer requests. This difference between the strong dynamization on the part of customers and the rather weaker proactivity of competitors is particularly striking in the mechanical engineering, electrical engineering and metal industries. This difference is much smaller in the trade and services sectors. In the retail sector in particular, the sector dynamics triggered by competitors appear to be higher. New sales strategies and newly developed products seem to make this sector more dynamic than the manufacturing sector, but there is no striking difference in the variability of customer enquiries.

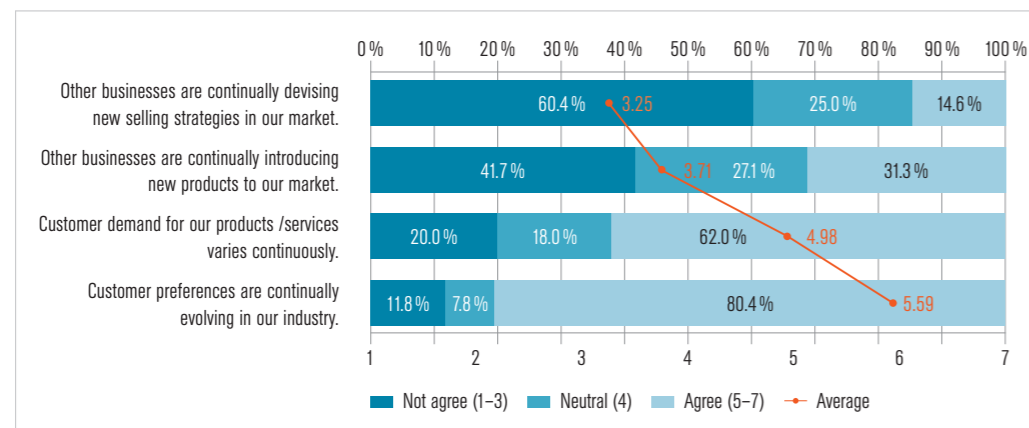


Figure 3 : Dynamics of mechanical engineering, electrical engineering and metal industry

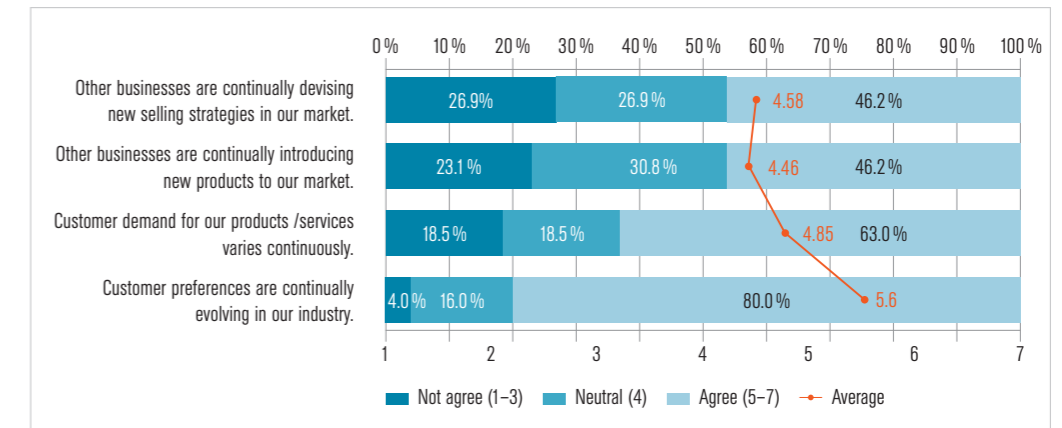


Figure 4: Dynamics of commerce

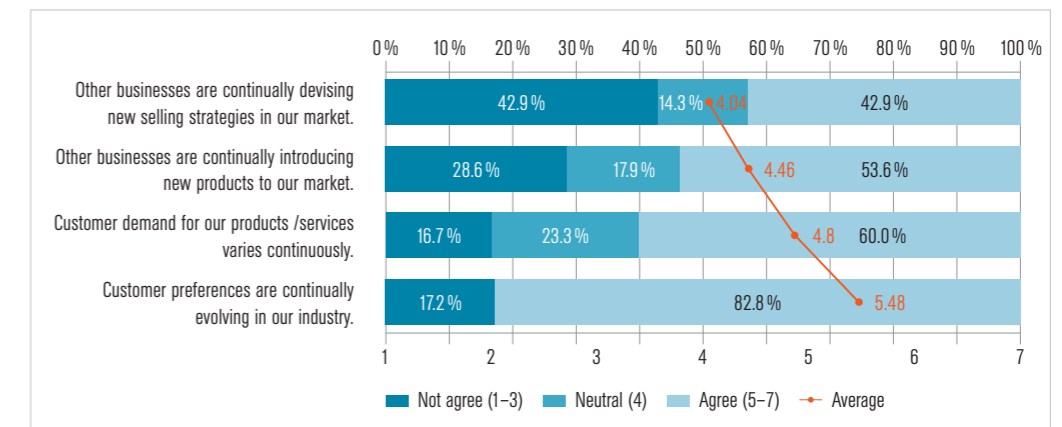


Figure 5 : Dynamics of banking, insurance, IT

Figures 3 and 4 above clearly show that the assessment of sector dynamics on the part of competitors is rated higher in the retail sector than in the manufacturing sector (Figure 2). In the retail sector, the mean values for „other companies continuously develop (...) new sales strategies“ and „other companies continuously produce (...) new products“ are significantly higher than in the electrical, mechanical engineering and metal industries. Nevertheless, it can be stated that all sectors of the internationalizing SMEs perceive the developing customer wishes as the strongest driver.

2 INTERNATIONALIZATION BEHAVIOR OF SWISS SMES IN THE GLOBAL CONTEXT

“Our strategy is ‘grow with your customer’. As many customers are international, we grow with them in Germany, Poland, the United Kingdom and India. We cannot finance our own sales network.”
 Founder/CEO, IT-Small enterprise

Due to the spread of international value chains and the support of network organizations, more and more smaller companies have recently followed their large customers and changed their country areas and timing. In view of these developments, it is necessary to consider taking a more differentiated look at internationalization behavior: above all, how internationalization and innovation are linked and at what speed and with what strategies SMEs enter foreign markets. It is also necessary to distinguish between the extent to which companies pursue a B2B approach with projects or supply end consumers directly via B2C.

At the same time, it should be pointed out that markets and success factors are developing or changing more rapidly than ever before. In the last ten years alone, China has developed from a mere „workbench for the world“ into a strong research and development location. This is contrary to a widespread cliché. The Middle Kingdom spends more on research than all of Europe combined (Speicher, 2018). While competencies in purchasing, production and logistics were more dominant in the past, R&D competencies for foreign business are now gaining significantly in importance. The more these countries develop economically and scientifically, the more critical they become for market success there. The rapidly changing economies of the so-called tiger states of Hong Kong, Singapore, South Korea and Taiwan in particular, but also the many mega metropolises of China, are target markets with high demands and enormous dynamism.

2.1 Effects of Internationalization on Innovation

The effects of internationalization on the innovation capacity of SMEs are manifold and of eminent importance. In general, it can be assumed that internationalization increases the innovation level of SMEs due to the learning effects. The survey has produced ambivalent results only with regard to the effects of internationalization on the number of patents or brands (Avg 4.1).

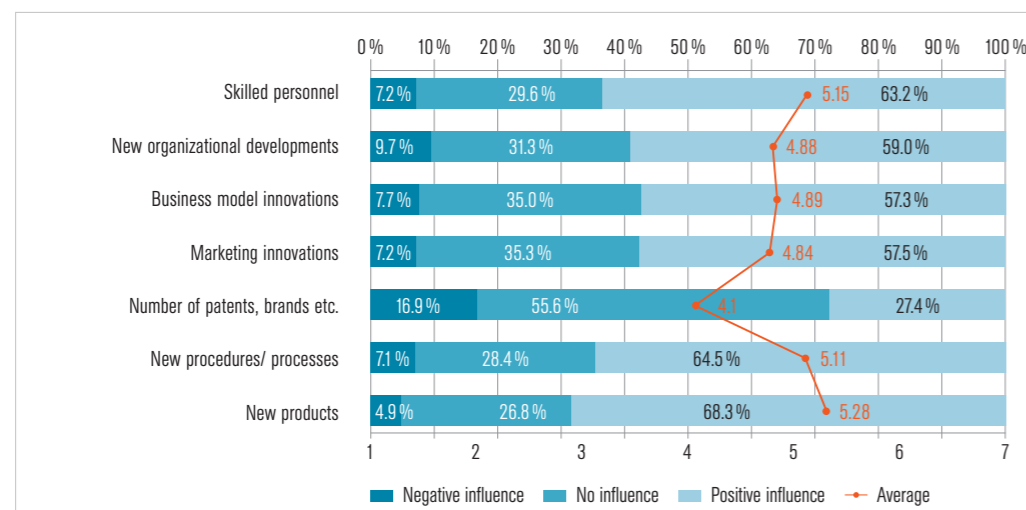


Figure 6: Effects of Internationalization on innovation

The SMEs surveyed stated that, on average, the effects of their international business manifest themselves most strongly in product innovations and in an increase in staff competence. In the case of microenterprises, the effects of internationalization predominate in new business models (Avg 4.89) and employees' ability potential (Avg 5.15).

Interestingly, statistical tests have shown that increased innovation capacity due to internationalization results in **higher foreign sales** for the companies surveyed. In view of the strong innovative power of the local economy, internationalization is both cause and effect. In addition, the results of the study are further proof that international business is indispensable for the well-being of the Swiss economy and SMEs in particular.

2.2 Typology, Speed, and Focus of Internationalization

Basically, there are two fundamentally different modes of internationalization. On one hand, there is **gradual, step-by-step internationalization**, in which companies first sell products or offer services on the domestic market, followed by an evaluation of the new sales markets. The companies then enter these foreign markets (Johanson & Vahlne, 2009). This type of experience can be used to gain valuable experience for the next market. Gradual internationalization is based on a pronounced learning effect, while also minimizing the management risk for the company. In this way, the markets in neighboring countries also represent important classic entry markets, insofar as, for example, a company from French-speaking Switzerland first exports to the French-speaking regions of neighboring France, while a company from German-speaking Switzerland tests the German sales market close to the border.

On the other hand, it is worth mentioning the approach of Born Globals, which, as it were, strive for global activities from the start and very quickly operate in **gradually** different countries (Knight & Cavusgil, 2004). The entrepreneur and his/her team act with a global vision and aggressively enter the markets on different continents. The **Re-Born Globals** show similar behavior of aggressive expansion, however, not when first founded, but after several years of existence (Kalinic & Forza, 2012). The internationalization process is often caused by a change in ownership and/or management. In contrast to the Born Globals, the **Born Internationals** have a very early and aggressive expansion strategy, but limited to markets on the same continent. In contrast to the Born- and Re-Born Globals, their sales markets lie geographically closer together (Kundu & Katz, 2003).

Accordingly, the different modes are constituted by three essential elements in which they differ: Speed, intensity of internationalization (percentage of export turnover) and number and geographical spread of sales markets. The analysis of the **speed and intensity of exports** is shown in Figure 2. As can be seen from the Table below, the stepwise exporting companies are represented in significantly fewer countries and on significantly fewer continents - both in the first few years of internationalization and at the end of 2018 - than Born Globals, Re-Born Globals and Born Internationals.

	SME	Born Global	Re-Born Global	Born International	Step-by step
1 st year: Number of countries	4.1	11.0	4.0	1.6	1.8
1 st year: Number of continents	1.5	2.5	1.5	1.2	1.1
3 rd year: Number of countries	6.6	15.0	9.1	2.3	3.1
3 rd year: Number of continents	1.8	3.0	2.4	1.4	1.2
5 th year: Number of countries	9.2	20.4	11.2	3.4	4.5
5 th year: Number of continents	2.2	3.3	2.6	1.7	1.7
End of 2018 : Number of countries	19.9	40.6	27.4	13.8	11.6
End of 2018 : Number of continents	3.0	4.3	3.8	2.7	2.4

Table 2 : The various types of internationalization and their sales markets in the 1st, 3rd and 5th years of internationalization and at the end of 2018

In 2018, export active SMEs generated an average of 43.45% of their turnover abroad. It is not insignificant that the relative share of exports in total turnover does not necessarily grow with the size of the company, as the results for the micro, small and medium-sized companies show. On average, micro enterprises have an export share of 51%; the small enterprises surveyed, with an average of 38%, are well below this figure, and even medium-sized enterprises, at 47% on average, achieve slightly less than micro enterprises.

Fundamental expansion abroad is, therefore, often not long in coming. Table 2 reveals a further fact of internationalization behavior. After just one year, SMEs serve an average of 4.1 foreign markets on 1.5 continents, 6.6 foreign markets on 1.8 continents after three years and 9.2 foreign markets on 2.2 continents after five years. These findings make it clear that the internationalization strategy implemented is often based on a vision of global dimensions, with all its advantages and disadvantages. This reduces the risks of individual market dependency while not excluding the potential of other business opportunities. Small management structures, however, are often confronted with a complexity problem in which only a coherent strategy can avoid possible dispersion into too many markets and world regions.

At the end of 2018, the SMEs surveyed were active in almost 20 countries and 3 continents on average. This is likely to be accompanied by the need for decision-makers to receive specific professional and efficient support, as it is well known that the structures for international business are limited for SMEs. An effect due to company size cannot be dismissed, especially for medium-sized companies that set themselves hardly any international boundaries (25 countries on average/3.3 continents).

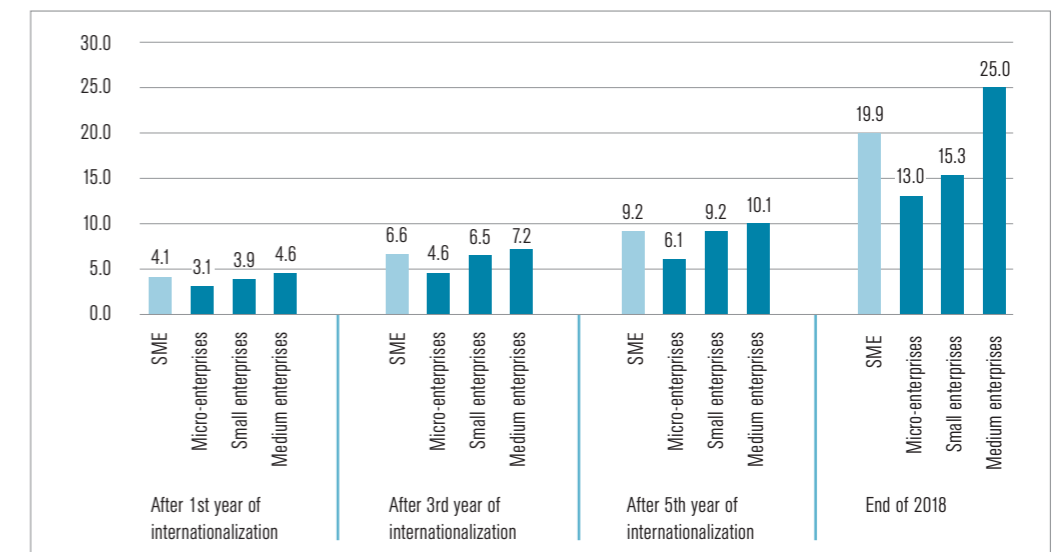


Figure 7 : Speed of internationalization according to company size

Expansion abroad will initially take place predominantly in neighboring countries before geographically and culturally more distant regions such as Asia, North America and Eastern Europe are explored. Table 3 illustrates precisely this pattern of internationalization through successive increases in foreign commitments. Accordingly, most of the SMEs surveyed, namely 91.4%, are active in Western Europe. North America (56.6%), Eastern Europe (50.5%) and North East Asia (47.0%) follow. SMEs generate around half of their turnover in these markets. The Near and Middle East (36.9%), Russia and Central Asia (31.8%) as well as Southeast Asia (28.3%) are still relevant for about one third of the SMEs surveyed. Despite the relatively high relevance of the well-developed and culturally related markets of Western Europe and North America, the importance of the developing markets of Eastern Europe and Asia for Swiss SMEs should not be neglected. Even the smallest companies still generate more than a quarter of their turnover with business activities in South Asia (28%), and around a fifth in Southeast Asia (20%).

“Follow your global customers, place local bosses in local offices, lead in work on guidelines and norms in committees of experts. Quality and prices must be top.”
 CEO, Medium enterprises, Mechanical engineering

World regions	SMEs	Micro enterprises (1 – 9 employees)	Small enterprises (10 – 49 employees)	Medium enterprises (50 – 249 employees)
Western Europe	91.4 %	80.0 %	91.0 %	94.6 %
North America	56.6 %	32.0 %	61.5 %	60.9 %
Eastern Europe (excl. Russia)	50.5 %	36.0 %	52.6 %	53.3 %
Northeast Asia	47.0 %	28.0 %	42.3 %	55.4 %
Near and Middle East	36.9 %	32.0 %	32.1 %	42.4 %
Russia and Central Asia	31.8 %	28.0 %	26.9 %	38.0 %
Japan	30.8 %	12.0 %	29.5 %	38.0 %
South Asia (incl. India, Sri Lanka, Nepal)	28.3 %	28.0 %	21.8 %	34.8 %
Southeast Asia (ASEAN)	27.8 %	20.0 %	20.5 %	35.9 %
South America	26.3 %	24.0 %	20.5 %	32.6 %
Australia/New Zea- land/Oceania	23.2 %	12.0 %	25.6 %	23.9 %
Southern Africa	19.2 %	8.0 %	23.1 %	19.6 %
Central America (incl. the Caribbean)	16.7 %	12.0 %	12.8 %	21.7 %
North, East, West and Central Africa	14.6 %	8.0 %	15.4 %	16.3 %

Table 3 : International SME activity according to world regions (End of 2018)

Target markets of micro and small enterprises in Southern Africa have the same order as measured by their relative turnover. By contrast, medium-sized enterprises are more strongly represented in East Asian countries and much more frequently in Japan.

2.3 SME Entry Strategies into Foreign Markets

With regard to the question of which paths are taken to implement expansion plans, the following can be stated (see also Figure 7): Analogous to the results of previous studies on the internationalization of Swiss SMEs, direct export (Avg 4.89)¹ is again the most common distribution channel of the Swiss SMEs surveyed. In contrast to the earlier results, however, it is no longer classified as the most successful. The frequency of direct exports is probably due to the immediacy of the business relationship, as around half of the companies surveyed describe their product range as a complex product system. At the same time, direct interaction is intensifying. Consequently, trade organizations or intermediaries are losing their position in this form of internationalization. For SMEs, the low use of resources (compared with other forms of internationalization), the high level of knowledge gained about the market and business partners, and the small reduction in the profit margin could be extremely important.

Indirect exports via agencies and sales market assistants were cited as the second most frequent form of export, but with an even lower success rate (Avg 4.77). Due to the high proportion of medium-sized companies in the present study, it is understandable that use of subsidiaries is on the rise, with the highest success value being attributed (Avg 5.52). For the majority of SMEs surveyed, large customers (Avg 5.14) are also a more successful sales channel than direct exports. Due to the greater resources required and the greater scope of cultural, linguistic and/or legal differences, the frequency of foreign production companies with their own sales structures is low, although success is not viewed critically, not least at the level of foreign branches (4.69).

The next group consists of franchising, licensing and e-commerce and, in terms of success value, the joint venture system (Avg 2.84). Although franchising is still considered to be more successful, it is rarely applied. Since this is an overall entrepreneurial concept (procurement, sales, organization and management concept) that can satisfy the needs of the companies surveyed to only a limited extent, this finding is not surprising. But why is the success value of the joint venture model so low? Is it due to the high coordination effort and the complex decision-making processes, or is it due to intercultural conflicts and the outflow of know-how? Are the uncertainties caused by international trade conflicts partly to blame? In many countries, legal and/or regulatory requirements for Swiss SMEs restrict or prevent the option of joint ventures.

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

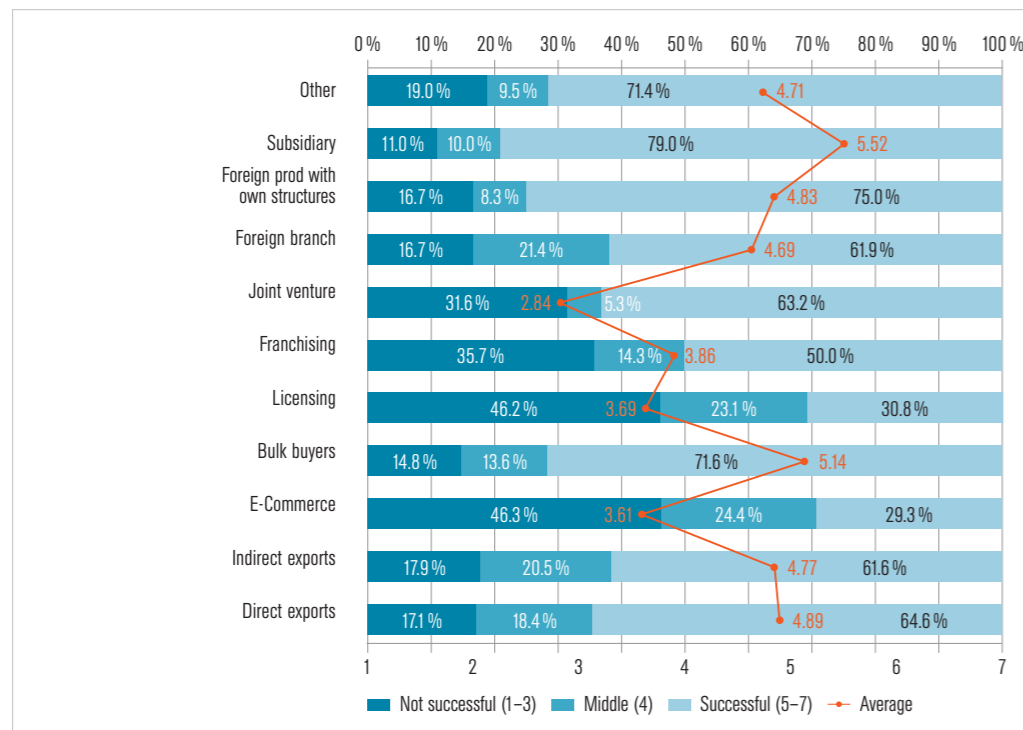


Figure 8 : Success of sales channels in the internationalization process

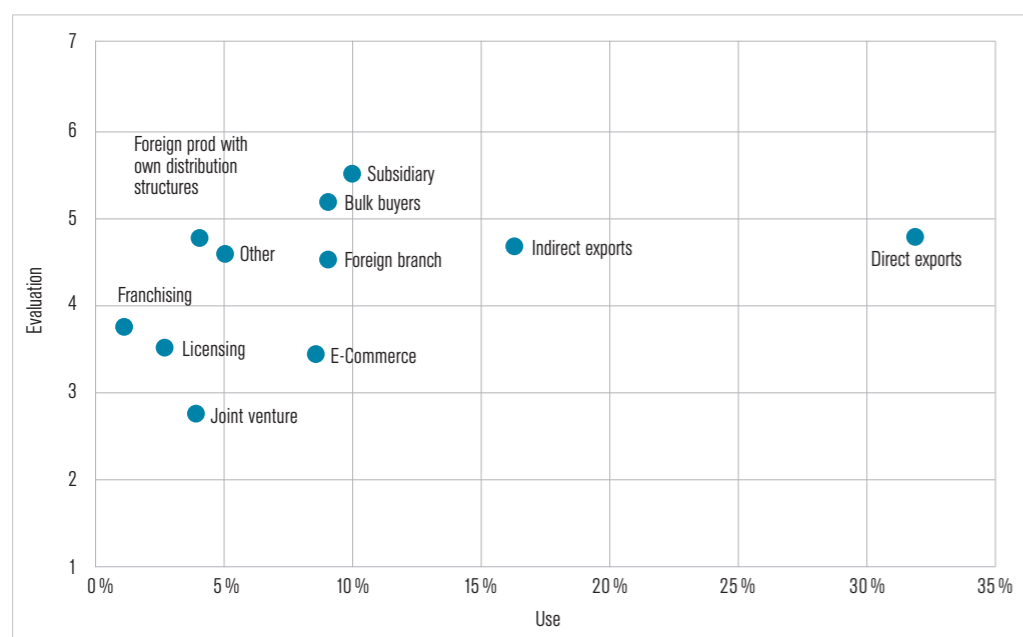


Figure 9 : Frequency and success of sales channels in the internationalization process

Decision-makers continuously invest in the maintenance of their knowledge and benefit from foreign networks expanded by the internationalization process. Access to information gained through the expansion of their networks by foreign partners has considerable value for the entrepreneur. Network expansion has a direct impact on resources and the ability to identify and seize business opportunities. Resources must be provided to enable access to information (e.g. with specific advice). In addition, it confirms that organizations with limited resources are developing unique, enterprise-specific competencies by targeting external resources through their social networks. In this context, it is noteworthy that the majority of entrepreneurs consider **informal networks** in international business to be more important than **formal networks** of public service providers, mixed-economy organizations and private export workers. Informal networks are understood to mean contacts of a personal nature that are established at work and in leisure time, as well as proximity to the families of local employees (cf. Chapter 5).

It follows, therefore, that there is a connection between the social networks of entrepreneurs in different organizations and in cross-organizational cooperation. Entrepreneurs refer to inter-organizational (especially inter-company) cooperation in order to update knowledge and access resources. This collaboration between the organizations functions mainly via informal social integration rather than formal agreements, such as joint ventures or strategic alliances.

Social, national and global integration opens up more opportunities for decision-makers for inter-organizational cooperation, which, in turn, leads to tangible results, such as an agreement on the shared use of resources. These agreements are informal and based on trust between the protagonists of a group of like-minded people. Such international social networks allow companies to transform their expertise into market services that enable or drive internationalization in the first place.

Being better able to recognize international opportunities increases the degree of internationalization, for example, measured in terms of export turnover. However, the type of market entry strategy also fulfills a moderating role as a pre-processing or measurement indicator, enabling SMEs to adapt to the local conditions of the international markets. Companies have a wide range of market entry strategies in the various markets: the nature of the market is often decisive when choosing how to operate in the new market: with indirect export, licensing, sales outlets or through production plants in the form of subsidiaries.

*“Fear of customs duties and export, combined with danger of copying from abroad.”
 Founder, Service enterprises*

2.4 Internationalization in Regions through Global Cities

The effects of globalization are manifold. Due to economic and political power relations, multinational companies have increasingly concentrated 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 today half of the top ten centers are located in Asia (Taylor et al., 2012). The density of decision-makers and experts from all possible disciplines in these metropolises is so high that hardly any global company can afford not to be present there. In addition, global cities have a myriad of specialized service providers in IT, finance, law, marketing, communications, and more. Typically, they are important trading centers and have a significant impact on their hinterland.

Their specific network is a distinctive feature of the internationalization power of SMEs in identifying new business opportunities, for example. The question is, however, how does the company implement this strategy with limited resources compared to multinational companies? Although internationalizing SMEs do not necessarily establish themselves in global cities, e.g. for cost reasons, they are dependent on the services of urban centers. Especially in target markets which differ culturally from the domestic market, a global city can act as intermediary for an SME. Consequently, the network of an internationalizing company would have to be distributed across global cities.

The overview of the **direct and indirect representations**² of the surveyed SMEs provides an initial idea of how important global cities are for SMEs. If we calculate the relative frequency of a (direct or indirect) representation in a city in relation to the number of Swiss SMEs operating in the corresponding world region, Table 4 shows the following findings:

Presence in Japan is overwhelmingly in Tokyo, and in Central America in Mexico City. When entering culturally divergent markets - such as Japan, Central America or Southeast Asia - the success of an SME is usually significant in a mega metropolis such as Tokyo (54.1%), Mexico City (51.5%) or Singapore (47.3%). The top-ranking list of cities has hardly changed since the SIES Report 2016.

² Direct representation means a separate branch; indirect representation is equivalent to a trading partner for SMEs.

World region	Global cities	Ranking ³	% of SMEs in City/Region
Western Europe	Milan	19	15.47 %
	Frankfurt	22	13.81 %
	London	23	13.26 %
	Madrid	24	11.05 %
	Amsterdam	25	10.50 %
	Paris	27	9.39 %
	Brussels	28	7.18 %
Eastern Europe (excl. Russia)	Warsaw	18	17.0 %
Russia and Central Asia	Moscow	5	39.7 %
Near and Middle East	Dubai	7	37.0 %
	Istanbul	8	37.0 %
North America	Toronto	16	18.8 %
	New York	20	15.2 %
	Chicago	21	14.3 %
	Los Angeles	26	9.8 %
Central America (incl. the Caribbean)	Mexico City	2	51.5 %
South America	Sao Paulo	12	30.8 %
South Asia (incl. India, Sri Lanka, Nepal)	Mumbai	10	33.9 %
South East Asia	Singapore	3	47.3 %
	Jakarta	14	25.5 %
	Kuala Lumpur	17	18.2 %
North East Asia (incl. China, South Korea, Taiwan, excl. Japan)	Shanghai	6	37.6 %
	Beijing	11	31.2 %
	Hong Kong	13	28.0 %
	Seoul	15	23.7 %
Japan	Tokyo	1	54.1 %
Australia/New Zealand/Oceania	Sydney	9	34.8 %
Southern Africa	Johannesburg	4	42.1 %

Table 4 : Number of SMEs in global cities

³ The ranking is calculated on the basis of the relative number of SMEs per world region (1st column) that have established themselves in the global cities with a branch office or a trading partner.

3 ENTREPRENEURS AND THEIR MANAGEMENT TEAMS

“Only through unique & innovative products will we withstand the pressure from Europe and India.”
 CEO, Medium enterprise, Metal industry

The influence of the entrepreneur and top management is undisputed in both theory and practice. Managers must recognize and exploit international opportunities in an entrepreneurial way. If one defines entrepreneurial behavior as innovation competence, independent behavior and the conviction that business opportunities can be managed with one's own actions (Locus of Control according to Levenson, 1973), interesting conclusions can be drawn.

Furthermore - in addition to the influence of the entrepreneurial personality - it must be shown to what extent the management team, as a unit, shapes the entrepreneurial orientation (EO) and how this measure affects the success of the company abroad. If this potential is correctly recognized and understood, internationalization processes can be mastered more efficiently and effectively.

The company must face the challenge that internationalization, as a new process, requires new and different competencies. Previous skills may very well have sufficed for outdated goals and tasks. An unequal development of sales or value creation activities without simultaneously adapting competencies would be merely a game of luck. Here, too, the entrepreneur and his/her management team have a key role to play in ensuring that these factors are developed holistically and in parallel. Local activities are best met with local competencies, international activities ideally with international competencies. This makes the international experience of the entrepreneur or top management team essential.

The results are based on responses from founders and CEOs (26.1%), CEOs (29.7%), successors and CEOs (22.0%), senior managers (9.2%) and other persons (13.0%) involved in strategic decisions. The interviewed persons have been with the company for an average of 18.9 years and have been in their current position for 14.4 years. The decision-makers - 92% male and 8% female - are on average 41 years old (exactly 40.7), with only minimal differences in company size (see Table 5). Nevertheless, it is noteworthy that entrepreneurs in small businesses are older, have been in the company and in their position longer, and give their locus of control and level of competence a higher value.

	Average SME	Micro enterprises	Small enterprises	Medium enterprises
Age in years	40.7	41.9	42.7	38.4
Number of years in the company	18.9	19.8	21.1	16.4
Number of years in his/her position	14.4	15.3	17.0	11.5
Self-determination / Locus of control	5.6 Avg	5.1 Avg	5.8 Avg	5.7 Avg
Level of competence / Self efficacy	5.45 Avg	5.3 Avg	5.6 Avg	5.4 Avg

Table 5 : Entrepreneurs and entrepreneurial aspects

A feeling of self-control (Avg 5.93) is just as suitable for decision-makers as is the ability to realize your plans (Avg 5.84) and defend your interests (Avg 5.17). This entrepreneurial conviction is essential for the recognition of business opportunities and their subsequent strategic considerations.

3.1 Self-determination/Locus of control

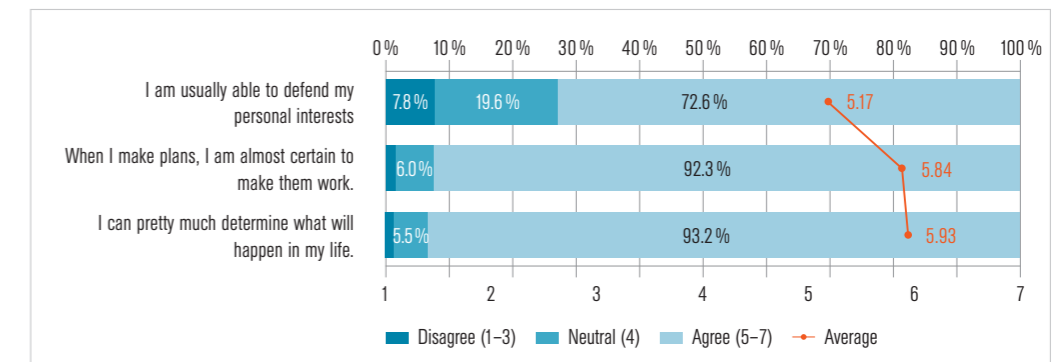


Figure 10 : Locus of control

In combination with the results of the intended competences, there appears a picture of an entrepreneur who successfully manages his/her business (Avg 5.93), can identify new business opportunities (Avg 5.66) and is a leader and communicator (Avg 5.62). The other fields of competence, such as developing and/or commercializing new ideas, are assessed only slightly lower.

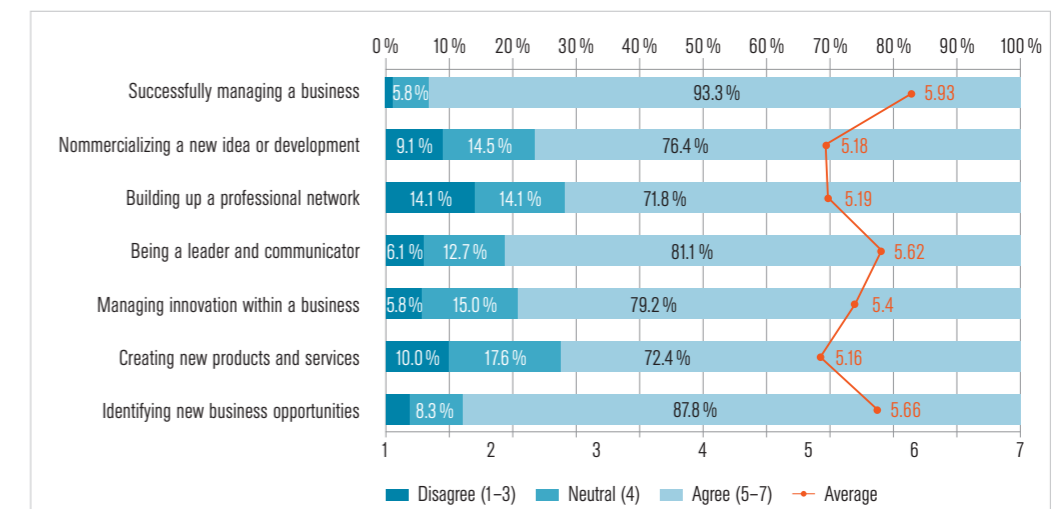


Figure 11 : Level of competence of the entrepreneur

As a rule, SMEs do not occupy staff departments where senior management could delegate internationalization issues. Senior management is so closely involved in day-to-day business that it cannot devote sufficient time to deal with internationalization issues at a strategic level. Nor do SMEs, unlike large companies, usually have foreign branches which they can use to promote foreign business more strongly.

	Average SME	Micro enterprises	Small enterprises	Medium enterprises
EO overall	4.17 Avg	3.66 Avg	4.16 Avg	4.36 Avg
EO : Propensity for innovation	4.06	3.56	4.07	4.23
EO : Proactivity	4.37	3.83	4.32	4.59
EO : Risk Behavior	4.13	3.84	4.11	4.27

Table 6 : Entrepreneurial Orientation according to company size

The decision-makers' strategic attitude – measured on the basis of **entrepreneurial orientation (EO)** – complements the results with regard to entrepreneurial behavior. International Entrepreneurial Orientation (IEO) describes the fundamental attitude to opportunities and competitive positioning in international markets of not only companies, but individual managers and executives as well (Kuivalainen, Sundqvist & Servais, 2007). This openness to international entrepreneurial activities and the focus on them influence the degree of internationalization, on the one hand, and on success on the other.

That is why entrepreneurial orientation is gaining immediate strategic importance and is having a formative effect on corporate culture. Openness to innovation, actual innovation ability and its results, the tendency to take more courageous steps instead of striving for smaller improvements, and the willingness to take risks, combined with a dash of aggressiveness in competition, are characteristics that can make up the international entrepreneurial orientation. If these aspects are empirically examined, Swiss SMEs can be described as follows (see also Figure 11):

Proactivity (4.37) has the highest value. Elements such as initiating actions to which the competitors react, being the first company to introduce new products/services, administrative techniques, operating technologies or being generally very competitive (purpose: dominance over competitors) are components of a proactive attitude.

Risk behavior (4.13) identifies a strong propensity for risky projects or a courageous, aggressive attitude to maximize the likelihood of exploiting potential opportunities.

The propensity to innovate (4.06) contains a strong emphasis on R&D, technological leadership and real innovations. The development of countless product or service lines and their drastic changes have been realized.

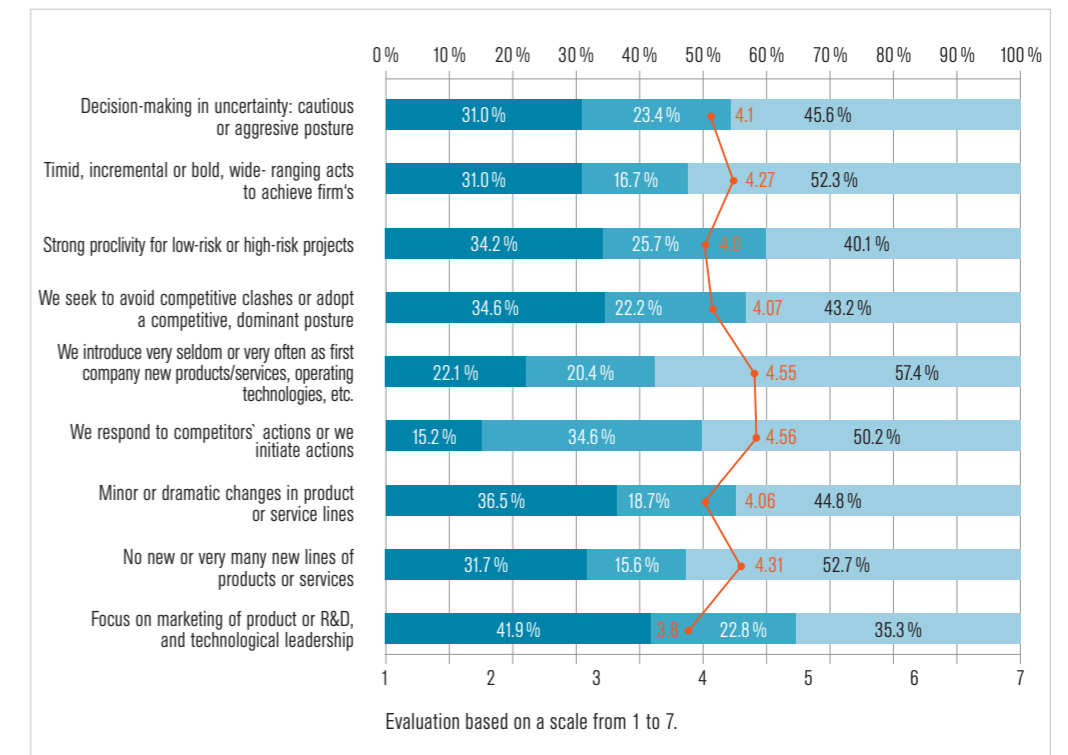


Figure 12 : Entrepreneurial Orientation : Proactivity, propensity for innovation, risk behavior

In the case of medium-sized enterprises, the strategic entrepreneurial orientation (EO total: Avg 4.36) is generally rated higher. Compared to micro enterprises (Avg 3.66), the difference is striking.

4 EFFECTS OF DIGITIZATION

“Digitization is a must. There was no question as to what extent it is possible in this market. In the B2B business model, however, digitization may sometimes only be possible to a limited extent.”
 CEO/Founder, Medium-sized company, electrical engineering

The importance of digitization in international business has grown steadily in recent years. Business models, procedures, entry strategies, branding activities and internal processes have fundamentally changed. For example, direct export plays an essential role for SMEs due to manageable costs and flexibility. Against this background, e-commerce is, of course, a central sales channel. The level of sales via the Internet is between 4-5% among the SMEs surveyed, and is, at 4.1%, the lowest among medium-sized companies.

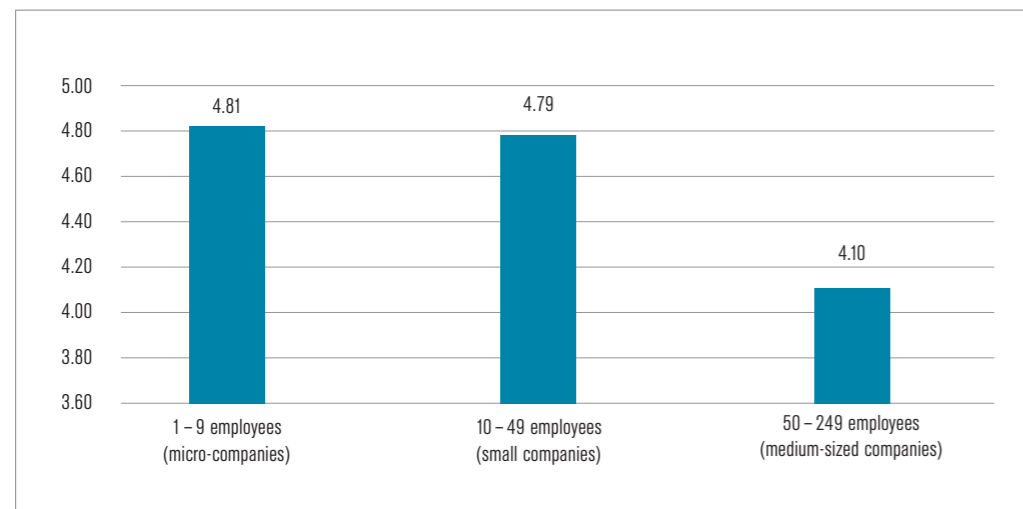


Figure 13 : Turnover realized via e-commerce

The figures for e-commerce turnover of Swiss SMEs are relatively sobering. In addition, only a few SMEs are opting for digitization in order to fundamentally change their business model. Even big data has played a marginal role to date. If at all, in the context of internationalization, digitization often means that sales are increasingly handled via the company’s own website.

The degree of digitization was assessed on the basis of four factors: digital sales; integration of customers into digital processes; digitization of internal processes and infrastructure; degree of digitization of personnel and corporate culture (Greif, Kühnis & Warnking, 2016).

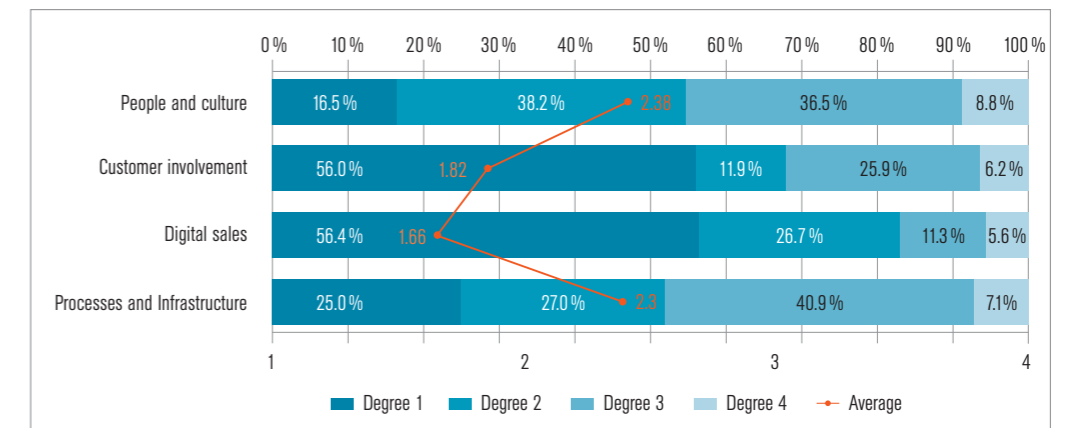


Figure 14 : Digitalization degree of SMEs

In order to offer their products to a worldwide customer pool, SMEs can enter the online world with relatively little effort. To stand out from the mass of online shopping, however, SMEs must create a distinct customer experience. The customer interface - in B2B and B2C - must be adapted to local needs and national cultural idiosyncrasies. The greatest sales effect is achieved with a smart combination of online and offline sales. An all-round sales channel strategy offers customers a wider choice of options when buying their products and makes it easier for companies to get in touch with customers. Customers are becoming more and more demanding and expect service quality to meet the same high standard. Synchronizing the available distribution channels is aimed primarily at providing the customer with a better entry experience and is, therefore, a fundamental factor in a digital sales strategy.

The SMEs surveyed focus their activities on increasing online sales via a standardized website (56% of SMEs) and offering some secondary digital services. Big data is used only in isolated cases. The change dimension of the business model through digitization is small.

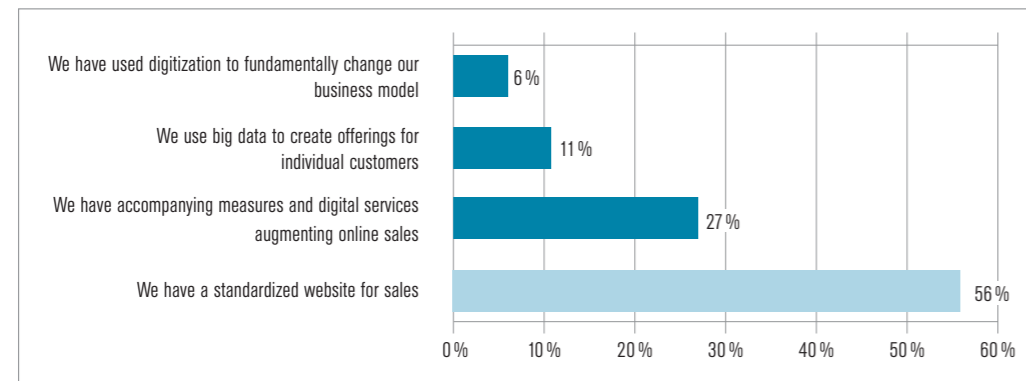


Figure 15 : Digital Sales

Can traditional communication still be considered in isolation today, or must a modern customer experience be oriented to the contemporary mode of interaction? Communication has to be coordinated both online and offline. Different channels or media must be understood as an integral Omni channel. This, of course, increases the complexity, since both forms must be coordinated, that is, they need to complement each other. Ultimately, successful interaction of the distribution channels improves the positive perception, which, in turn, increases the success factor par excellence, namely, customer satisfaction.

The SMEs surveyed bind their customers primarily by means of digital channels (56%), a quarter try to integrate their customers digitally elsewhere.

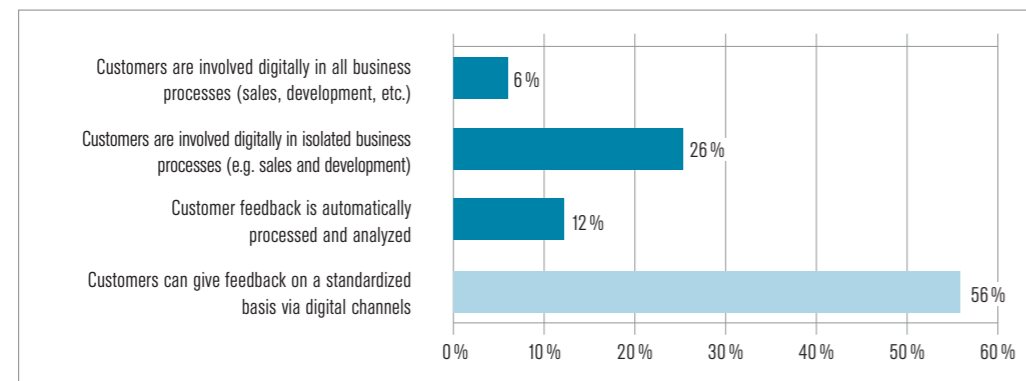


Figure 16: Digitized customer involvement

While a variety of channels makes it easier for companies to orient themselves and reach new and existing customers and buyers, it makes efficient management more difficult. Combining multiple channels and perpetuating adaptation to each country and channel increases the complexity of digital marketing. In addition, as comparability and choice increase and the market becomes more transparent, customers and buyers become more value-oriented and price-sensitive.

In sheer inexperience lies the greatest risk of failure for companies. They do not understand the negative effects of their behavior, just as they do not know how best to combine different products and channels. Companies must also realize that digital marketing has the potential of damaging their brand or reputation. Meanwhile, the SMEs surveyed now seem to be aware of this.

At the personnel level, the main investment is in digital tools, generally in digital staff fitness, in order to encourage the company towards the international path to digitization.

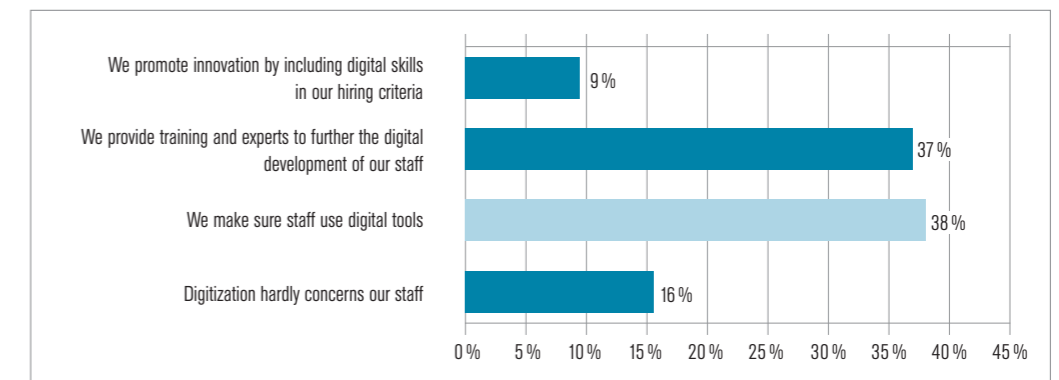


Figure 17: Digitization of staff and the company's culture

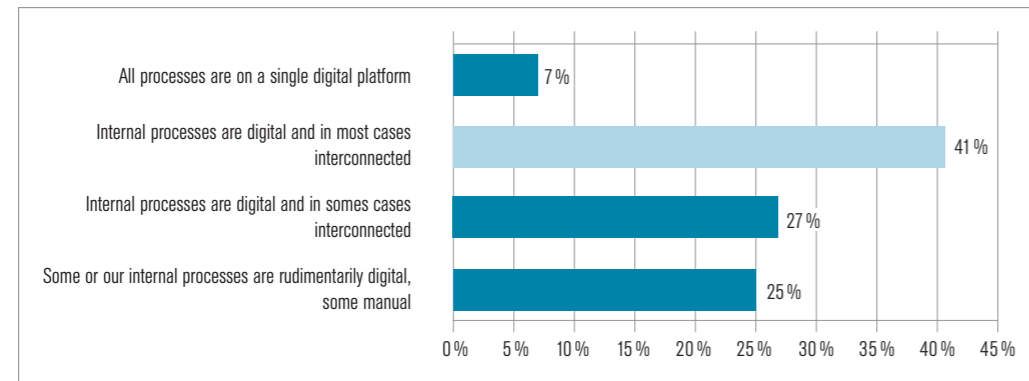


Figure 18: Digitization of processes and infrastructure

The degree of digitization of an internationally oriented SME is an interesting indicator of its basic attitude. On the one hand, it shows that companies that invest more in research and development are significantly more digitized; on the other hand, SMEs with a higher degree of digitization pursue more explorative goals. In contrast to **exploitative** objectives, **explorative** objectives are characterized by a greater willingness on the part of the decision-makers to take risks. From this it can be concluded that the ongoing search for something new is causally associated with an appetite for risk (see Chapter 6).



5 IMPLEMENTING INTERNATIONALIZATION – SERVICES AND SUPPORT

“We are constantly in contact with about 25-30 customers worldwide. So, special marketing is not necessary.”
 CEO/Founder, Pharma Medium-sized Enterprise

Despite their strengths, small and medium-sized enterprises rely on **external support** tailored to their needs. Due to the increasing importance of international legal issues and patent challenges, law firms are ranked first. Even in the last Swiss International Entrepreneurship Survey (SIES) of 2016 the growing need for legal specialists was highlighted, while other specific needs are still waiting to be met.

According to the SMEs surveyed, significant assistance in the internationalization process is provided by private individuals. This result, therefore, confirms the importance of informal networks, which are indispensable for micro enterprises in particular. The significance of the support is inversely proportional to the size of the company: the smaller the company, the more important the help provided by private individuals.

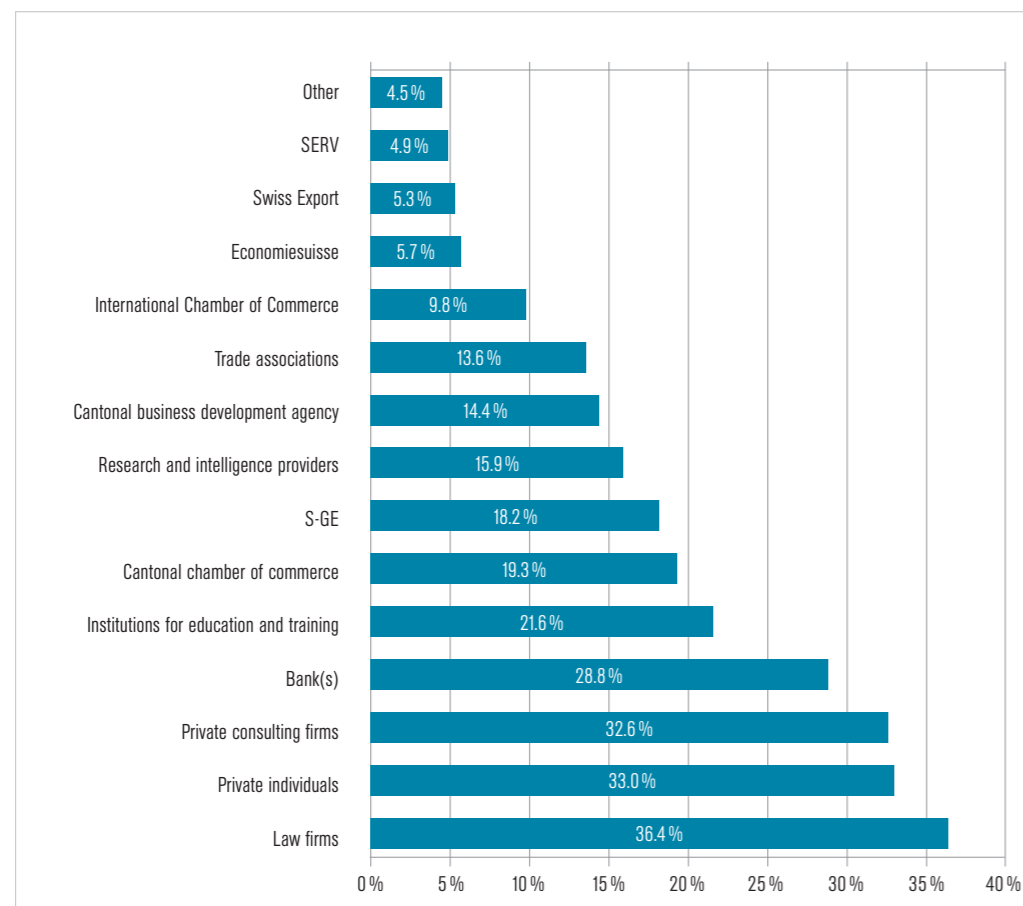


Figure 19 : Use of service providers

Enquiries to consulting firms (32.6%) and banks (28.8%) round off the commitment of private service providers. These are followed by education and training institutions (21.6%), cantonal chambers of commerce (19.3%) and the Switzerland Global Enterprise (18.2%) as well as research institutes (15.9%) and cantonal economic development agencies (14.4%). The Swiss Export Risk Insurance (SERV), which is important in international business, is used less (4.9%). Due to SERV's extremely specific service and the 350 active customers who are covered by this rule, this result is, by no means, surprising.

The strong diversity of the support providers listed above can be interpreted in different ways: on one hand, private providers with specific services are often preferred over public providers; on the other hand, SMEs do not see one organization as the main provider. There is an obvious need to establish an export ecosystem with associations, chambers of commerce and private experts in order to offer SMEs - effectively and efficiently - the greatest possible competence in international business (export and import).

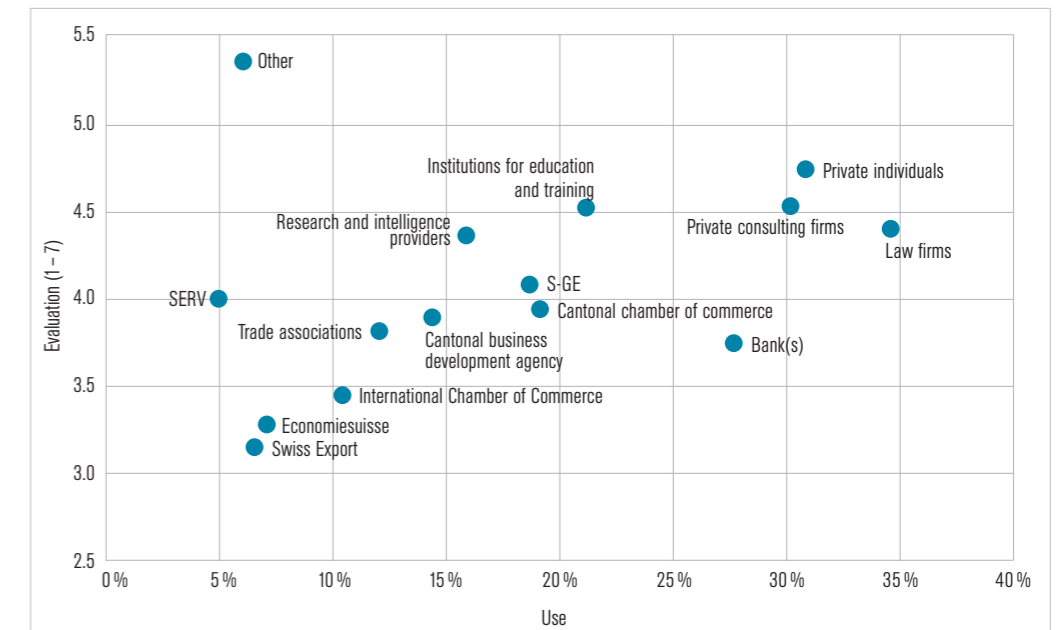


Figure 20 : Evaluation and use of services

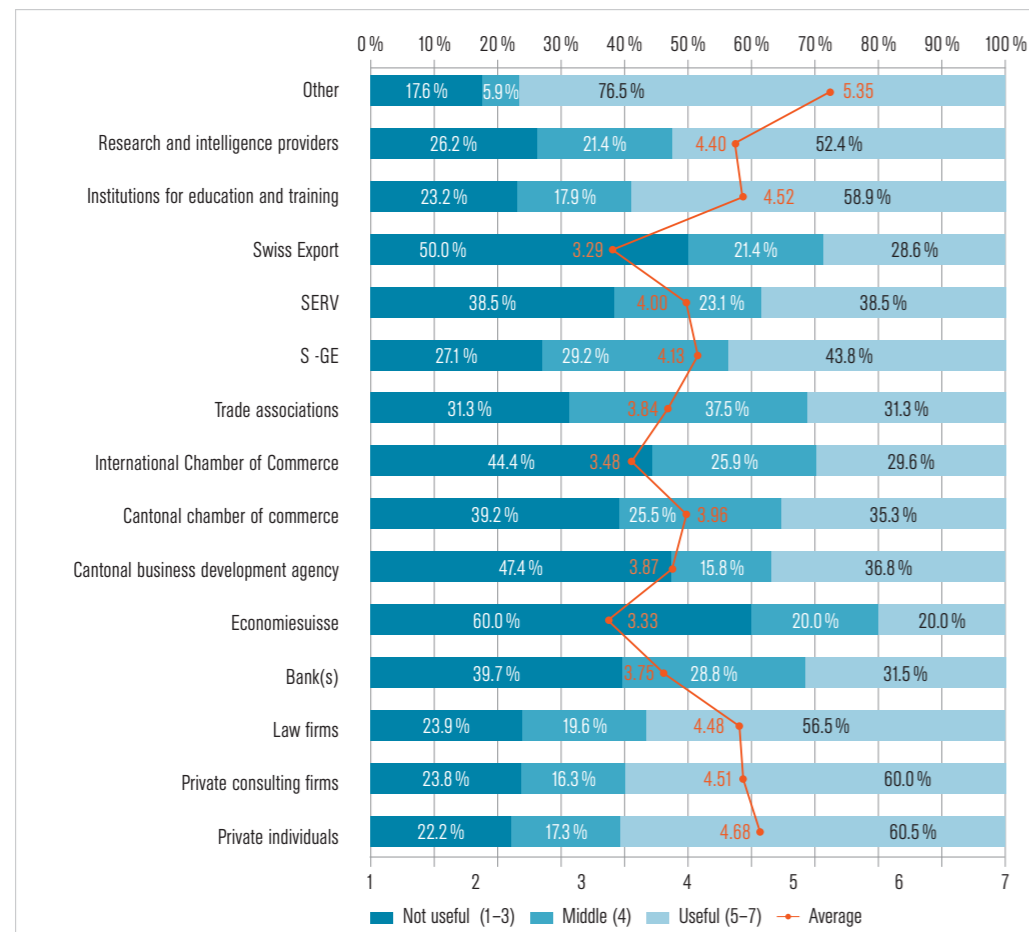


Figure 21 : Assessment of the performance of service providers

It is essential to deepen active cooperation between private individuals and organizations and public service providers. The answer to the question about the assessment of the services and information used for international business over the past 5 years (2014-2018) is relatively homogeneous. The satisfaction scores for the majority of the providers lie between 4 and 5 (measured on a 7-point Likert scale). Of course, assessment depends heavily on the SMEs' experience and knowledge in international business, as well as on the respective needs of how these are implemented: Is there an exceptional need for specific assistance or is general information about a country or market involved?

The use of external services over the last three years has been characterized by participation in trade fairs (43.6%) and information events on international business (42.0%). Tailor-made information events on countries and business practices follow in third place, followed by network events on international expansion (22.7%). One fifth of SMEs have used specific training and workshops in the last three years.

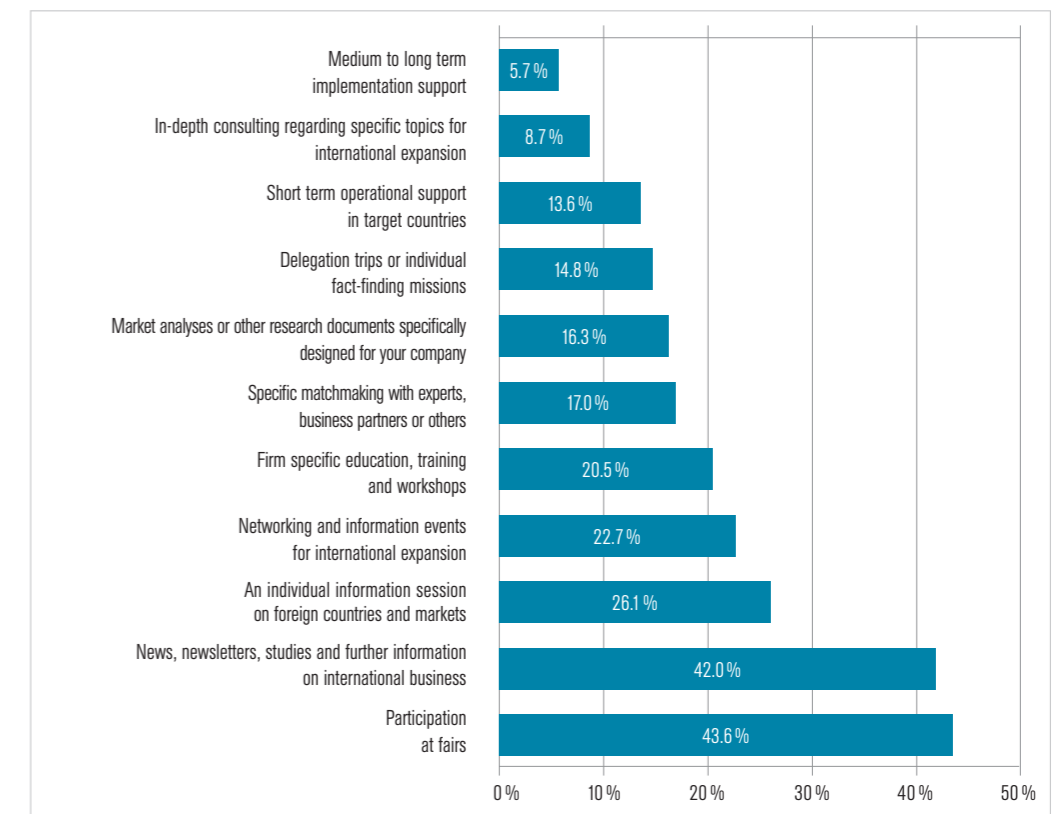


Figure 22 : Use of external services for international business in the last three years

A differentiated analysis of the use of services shows how SMEs assess the usefulness of selected services. Assessed according to this criterion, "matchmaking" with experts and business partners (Avg 5.5) and participation in trade fairs (Avg 5.31) ranked in first place. Despite or perhaps even because of digitization, presence at trade fairs is still very useful, as it is used the most. Market analyses are used only by one sixth of SMEs, although they are classified as useful (Avg 4.93).

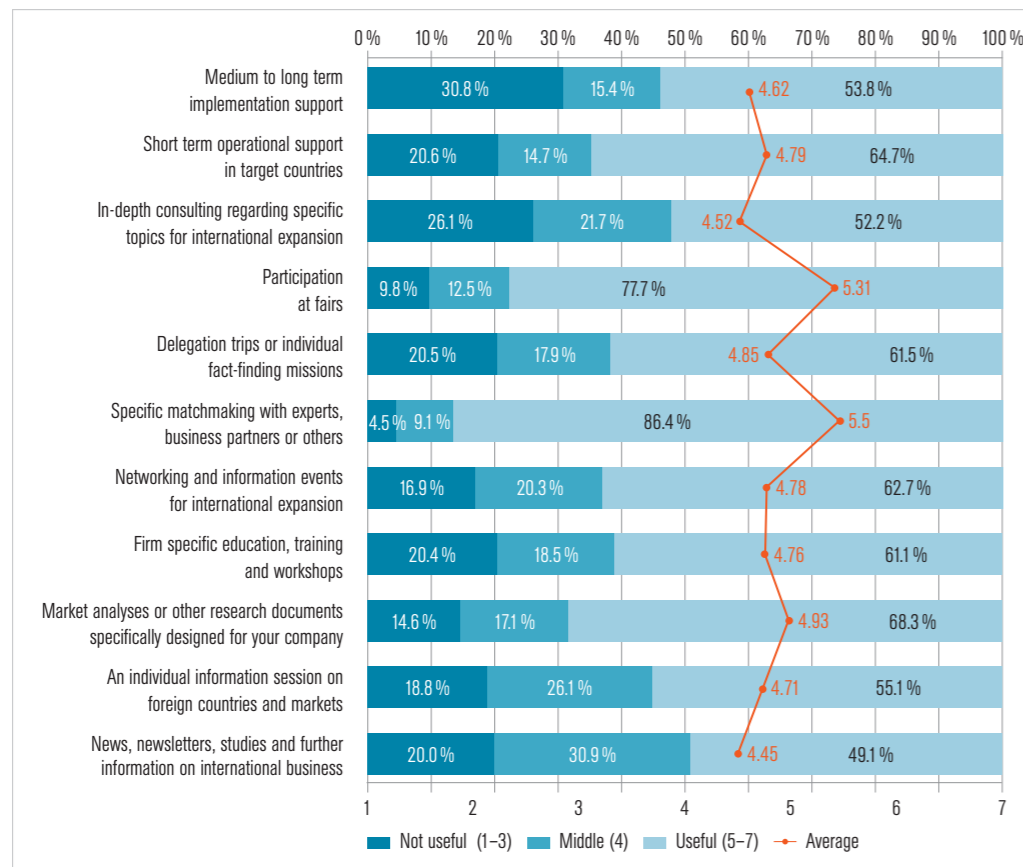


Figure 23 : Assessment of external services for international business

The degree of satisfaction with the services provided by S-GE can be judged to be satisfactory to good. 70% of SMEs attest S-GE competence in international business, almost 60% find that speed and correctness of services are good. Problems can be identified primarily in specific knowledge of the sector (Avg 3.62), in consulting and in matchmaking (3.95). It is also evident that the SMEs surveyed are generally positive about the service process, but that the S-GE is not able to fulfil all their wishes.

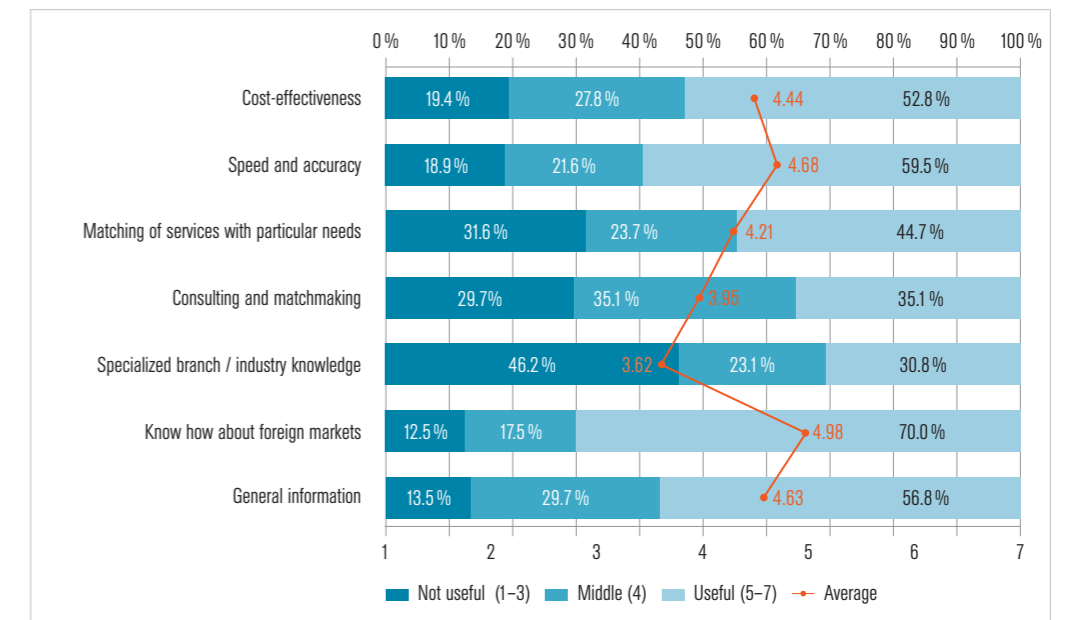


Figure 24 : Assessment of S-GE services

The assessment of SERV's services is ultimately positive cum grano salis, especially with regard to know-how regarding foreign markets (Avg 5.22), speed and accuracy of information and services. 78% rate these two factors as good to very good.

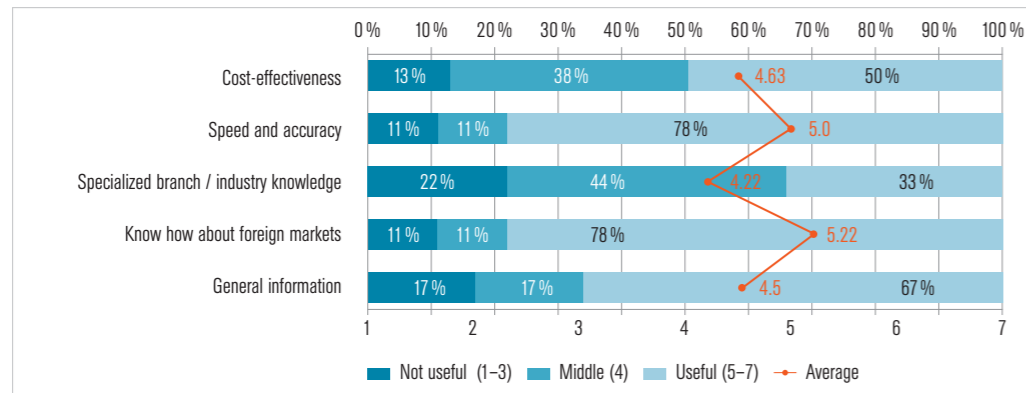


Figure 25 : Assessment of SERV

Both public service providers, S-GE and SERV, are generally rated as positive by the SMEs surveyed. However, it is important that SMEs do not neglect information about both providers and that contact with non-customers continues to be encouraged.

The needs of internationalizing SMEs cannot be completely satisfied by S-GE or SERV alone. SMEs are dependent on other organizations and experts at home and abroad, so that international business can take place professionally.



6 INTERNATIONALIZATION PERFORMANCE

*"I would love to know the actual success rate and total costs."
CEO, Medium enterprise, Chemicals*

The success of internationalization was determined on the basis of the decision-makers' assessment, using eight questions on financial and non-financial success indicators, such as return on sales (ROS) or growth in market share. Satisfaction with international business, especially with the ROS or achievement of financial targets (Avg 4.97), is medium high according to the respondents. The values for the individual performance indicators are relatively close to each other, so that the lowest average value for growth in sales revenue is still 4.59.

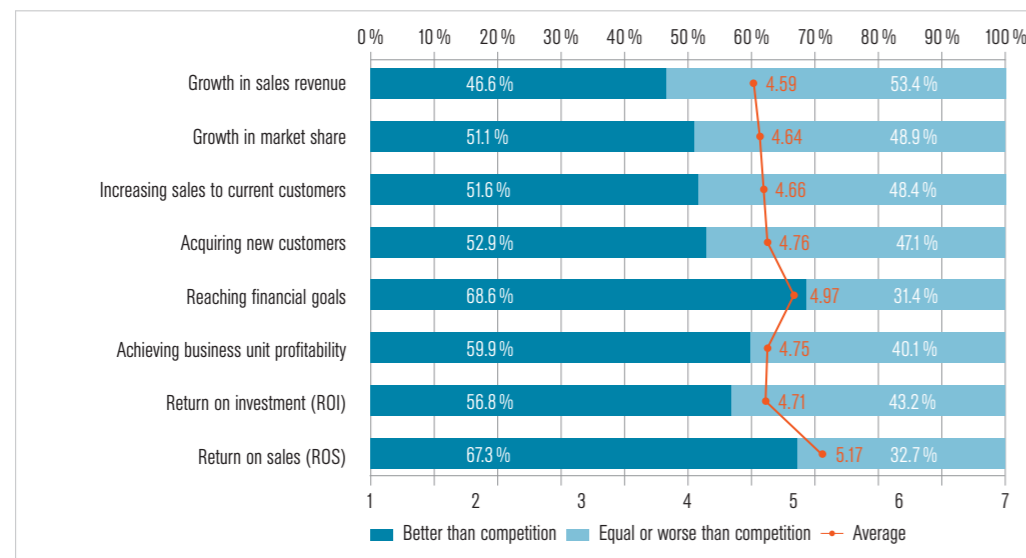


Figure 26 : SME performance

The statistical analysis of the data shows a very positive correlation between the focus measured by the number of countries processed, research and development expenditure and relative performance. The more countries that are worked on and the higher the R&D expenditure of the surveyed SMEs, the higher the relative performance reported by the SMEs. This positive correlation is even stronger for non-financial performance indicators than for financial ones.

Entrepreneurs believe in international business as both driver and success factor. The strong correlation between entrepreneurial orientation and performance emphasizes the strategic importance of international business. Proactivity and risk behavior seem to be the focus of the strategic attitude of the entrepreneur and management team, representing the pillars of international success. Moreover, non-financial indicators for the entrepreneur, namely self-confidence and self-image in terms of competence level, are seen to be essential.

For a holistic understanding of the international entrepreneurial attitude, the perception and goals of the SMEs on which their activities abroad are based must be examined. In this respect, objectives serve to guide the organization to a certain extent: if an **explorative** approach is chosen, new ideas are sought on an ongoing basis, and the corresponding risks are accepted. Innovation is central. The **exploitation** approach means that products and services are constantly refined and that efficiency is increased. In principle, the willingness to take risks is low (He & Wong, 2004).

An exploration strategy is used by organizations that enjoy a relatively high degree of autonomy and operate independently of narrow structures and specifications, while organizations with an exploitation approach control their processes more closely. As a result, they tend to run the risk of excessive bureaucracy. It is, therefore, not surprising that the latter are usually less affected by strong fluctuations in profits and more likely to generate a more reliable performance. According to more recent research results, however, the best performance values are those of companies that follow both explorative and „exhaustive“ exploitation with the same intensity. The following catalogue of questions evaluates three explorative (the first three) and four explosive objectives of SMEs.

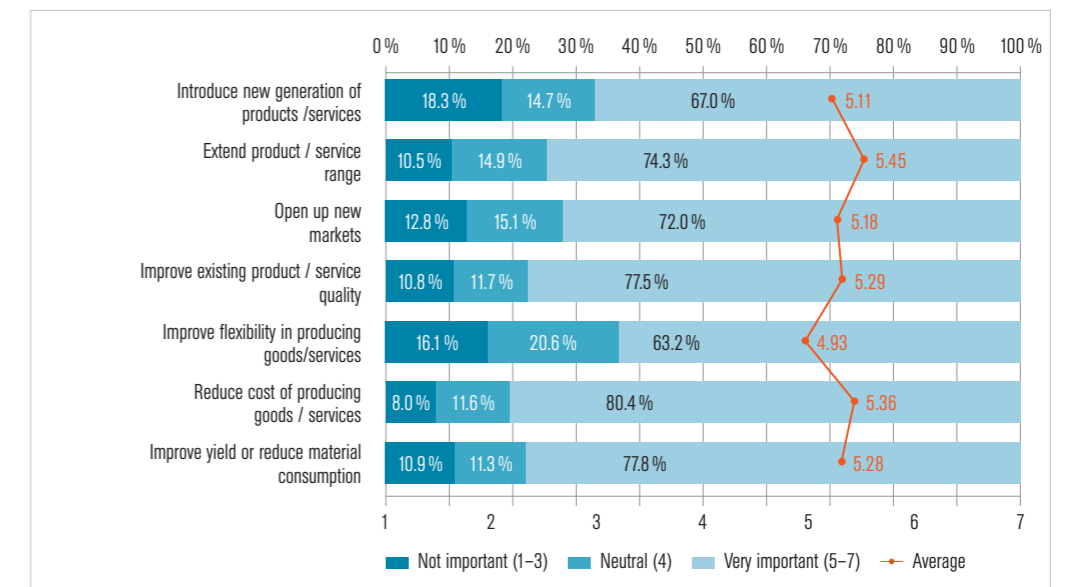


Figure 27 : Explorative and efficiency-oriented values

As the above table illustrates, values for all objectives are relatively high. Swiss SMEs are very skilled at identifying business opportunities. The vast majority of decision-makers seek to offer new products and services (Avg 5.45) and improve their quality (Avg 5.29). At the same time, the decision-makers intend to reduce costs (Avg 5.36), optimize returns and reduce consumption of materials (Avg 5.28).

To achieve these goals de facto, decision-makers need to be wary of acceleration traps and should not overdo it. It can be tempting to pursue countless goals, ideas and projects simultaneously. Time for reflection should not only be desired, but also taken. The decision-makers interviewed make it clear that SMEs can be divided into three groups. The first group has **a non-dominant strategy, i.e. explorative and explosive goals are pursued at a low level.** The second category uses **a dominant strategy** (either explorative or efficiency-oriented). The third class **follows both strategies intensively.** As a result of the survey, SMEs ideally take to heart the third variant, Exploration and Exploitation.

SMEs with an identically dominant weighting of explorative and efficiency-oriented objectives show a significantly higher relative performance measured by both financial and non-financial performance indicators. The demands on the CEO and the management team are therefore higher. Under these conditions, the key to success is a diversified competence portfolio of decision-makers that allows them to simultaneously sift through entrepreneurial opportunities, realize innovations, and strive for operational excellence.



7 CONCLUSION

“The current hostile political environment and monetary policy are accelerating the relocation of value chains abroad. In the last 3 years alone, even small SMEs like us have moved 25% of their value-added chains abroad.”

Founder, small enterprise, electronics

Internationally active SMEs are once again being subjected to the acid test of the strength of the franc. As before, they are benefitting from the positive effects of globalization and digitization, while at the same time being confronted with the negative consequences. In the past, pressure to improve value has been handled more or less well; overall, SMEs have demonstrated their sustainable business with their professionalism and differentiated strategies for the individual target markets. The findings of this study are an indicator that this will also be possible in the coming months and years, provided that SME entrepreneurs and managers remain proactive and convinced of what they are doing.

The study highlights the enormous importance of entrepreneurial orientation, especially the propensity to innovate. Consequently, as a first step, entrepreneurs must be aware or at least begin to realize that they themselves have the greatest influence on internationalization and its success. Nevertheless, there is no model that would sufficiently define the ideal entrepreneur. Depending on the company and life-cycle, certain EO factors are more important than others. For example, the willingness to take risks (e.g. with regard to borrowing capital to conquer niche markets) is more decisive for young companies than for established companies. Each business life-cycle requires different characteristics. It is, therefore, essential to identify at an early stage which skills are relevant to the current situation, to act accordingly and to acquire the missing skills.

It is undisputed that where innovations are involved, the entrepreneur or management team is essential for successful internationalization. The international experience of the entrepreneur or the team is ultimately decisive. Consequently, it is recommended that an internationally experienced management team be deployed for the intended move across borders. This can accelerate the pace of internationalization and lead to quicker success.

It makes sense to use the learning effects gathered on the basis of the experiences of entrepreneurs, assistants and scientists in such a way that those concerned can discuss with each other. This can activate an exchange of knowledge, with cross-industry workshops perfecting the learning process. Storing findings from business cases into a knowledge management tool would be just as fruitful as feeding the abstract knowledge pool with additional information from specialists. This would finally lead to the development of key performance factors, which would promote a successful internationalization process for SMEs.

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