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Article

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Article

Risk Management in the Internationalization of Small and Medium-Sized Spanish Companies

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Abstract: The aim of this study is to analyze how Spanish small and medium-sized enterprises (hereinafter SMEs) manage risks derived from internationalization to improve performance. For this purpose, a case study was elaborated to understand the different risk management strategies used by Spanish SMEs in order to improve performance. Data were collected through sixteen semi-structured interviews. Findings suggest that although the internationalization process involves risk, SMEs, despite their size, can develop a proper risk management which leads to improve performance. Additionally, it is suggested that internationalization risks are not an impediment for SMEs to become involved in international activity, but that it is the way they manage them which makes SMEs improve their performance. Furthermore, the internationalization strategy becomes more efficient when a differentiation and innovation strategy are followed simultaneously.

Keywords: SMEs; internationalization; risks; risk management; differentiation



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1. Introduction

Spanish small and medium-sized enterprises (hereinafter SMEs) are increasingly internationalizing (Guili and Ferhane 2018), given the numerous opportunities to sell their products abroad, which has been bolstered by globalization (Gómez-Conde and López-Valeiras 2017). Undoubtedly, the internationalization process has the potential to render benefits to all kinds of firms. In fact, it allows for the improvement of organizational competitive advantage and business sustainability performance (Kok 2007), and it constitutes one of the means by which SMEs can react to environmental challenges in order to survive (Cerrato and Piva 2012; Freixanet et al. 2020; Andres et al. 2022).

Nevertheless, internationalization is not a process free from challenges and barriers, especially for SMEs which usually operate with limited resources and capabilities in comparison with larger firms (Galdeano-Gómez et al. 2016; Andres et al. 2022). According to Opárhocha (2015), there are internal internationalization barriers that most SMEs face, such as financial limitations, inadequate human capital, or lack of expertise, and external barriers such as political, legal, and economic threats. Indeed, according to Leonidou (1995), who also makes a distinction between internal and external barriers, exporting SMEs confront specific risks such as lack of governmental support and financial resources or difficulties in identifying and selecting foreign markets. However, although Eggers (2020) argued that SMEs suffered from a “liability of smallness” (Freeman et al. 1983), which involves a higher degree of vulnerability to internal and external contingencies due to their size, size does not determine international success, since SMEs also possess strengths such as flexibility, dynamism and efficiency, which have the potential to overcome size-related limitations (Majocchi and Zucchella 2003; Freixanet et al. 2020; Paul 2020).

In the last few years, there has been an increase in the number of research papers that identify the main factors leading to a successful SME's internationalization processes.

However, [Lu and Beamish \(2001\)](#), among others, consider that there is still a conceptual gap here. For these researchers, research on SMEs' internationalization is fragmented and is in need of conceptual clarity ([Cavusgil and Knight 2015](#); [Buckley 2016](#); [Freixanet et al. 2020](#)). Furthermore, prior research studies have analyzed risks derived from the internationalization process and its management ([Dickinson 2001](#); [Mikes 2011](#)), being risk management adopted specifically by SMEs not widely analyzed ([Kim and Vonortas 2014](#); [Brustbauer 2016](#); [Foli et al. 2022](#)). This paper tries to cover this gap by analyzing how Spanish SMEs manage the risks derived from internationalization to improve their performance.

In this sense, SMEs have traditionally been considered as national oriented firms due to their financial and managerial limitations ([Oviatt and McDougall 1994](#)). However, globalization has created opportunities and challenges for them ([Dominguez and Mayrhofer 2017](#)) and they have started to internationalize, despite the high competition faced, which includes larger local and foreign companies ([Rialp and Rialp 2001](#)). Therefore, SMEs cannot be detached from internationalization. Due to the fact that globalization is becoming increasingly important and SMEs represent the backbone of the Spanish economy, it is necessary to study SMEs' internationalization process focusing on the risk management mechanisms used by them, despite their size-related constraints, in order to improve performance. Nonetheless, SMEs' behaviors are not the same as large firms' ([Knight and Liesch 2016](#); [Andres et al. 2022](#)), especially including capabilities and strategies ([Ribau et al. 2018](#)). What they have in common is their control over international obstacles, albeit with significant differences regarding the difficulties that SMEs face in the access to technology that could be avoided by networking ([Galdeano-Gómez et al. 2016](#)).

The remainder of this paper is structured as follows. In Section 2, a theoretical framework was developed in which an analysis of the international Spanish SMEs context and a literature review were carried out. In Section 3, our research method is explained, including the data gathering strategy used. Our major findings are presented in Section 4, which includes an analysis of relevant variables. Finally, in Section 5, our findings are discussed and, in Section 6, the conclusions of our research are drawn.

2. Theoretical Framework

2.1. Internationalization of Spanish SMEs Analysis

According to the [European Commission \(2021\)](#), most of the non-financial business sector firms are SMEs. Specifically, in 2020, 99.% of these firms were SMEs, which accounted for 65% of the employment in the European Union non-financial business sector and represented the 53% of the value added generated by the sector mentioned. In addition, SMEs generated more than 50% of the European Union GDP and contributed to adding value to all of the sectors of the economy ([Government of Spain 2021](#)). Therefore, the importance of this type of company is evident.

In Spain, SMEs are the basis of the economy and their importance is even greater than in the EU ([Government of Spain 2021](#)). According to data updated in December 2021, there were 2,938,391 SMEs in Spain out of 2,943,385 firms, which means that the 99.8% of Spanish companies were SMEs. This number of SMEs represents an increment with respect to last year, as the rate of variation from 2020 to 2021 indicates an increase of 1.58%. For further breakdown, micro-SMEs were the most prevalent type within this category, accounting for 38.86% of Spanish SMEs up until December 2021. Then, 5.38% were small and 0.85% were medium-sized. Indeed, most SMEs were devoted to the service sector (72.75%) and the number of SMEs in that sector grew by 1.8% year-on-year in the period January–December 2021, being followed by the agriculture one (10.16%), which decreased by 0.05% year-on-year in the same period ([Ministry of Industry, Trade and Tourism 2021a](#)). In addition, the regions with the largest number of SMEs in Spain were Catalonia (18.5%), Madrid (16.9%), and Andalusia (15.9%). In these three regions, there were 51.3% of the total number of Spanish SMEs ([Ministry of Industry, Trade and Tourism 2021a](#)).

With respect to the creation of business employment by SMEs in Spain, 64.2% of the Spanish business employment were generated by SMEs in 2021, considering data updated

until December 2021. Indeed, the service sector was the one that contributed more to this parameter as 75.18% of employment in Spain was generated by SMEs devoted to the service sector, percentage that grew by 5.41% year-on-year in the period January–December 2021. The second sector that generated more employment was the industrial one, as it contributed to 13.08% of employment ([Ministry of Industry, Trade and Tourism 2021b](#)). Regarding internationalization, the last data available shows that in 2020, in the calculation of all exports, between SMEs and large companies, exports made by SMEs represented 98.4% of the total exporters, measure that is slightly higher than the EU average (97.8%). From that figure, micro-SMEs represented 72.5%, digit that continued to be higher than the EU percentage (67.6%). Indeed, SMEs accounted for 50.6% of the value exported–37.2% in the EU–([Government of Spain 2021](#)). Non-EU countries were the least preferred destinations as only 600.000 SMEs traded outside EU ([European Commission 2021](#)).

Due to the pandemic crisis, many industries had experienced large decreases on sales, especially in 2020, due to the lockdowns. However, COVID-19 had not impacted all industries in the same way, as there were others that increased their sales. In particular, 52.6% of Spanish SMEs had experimented a decrease in their sales, 26.1% maintained the same operating level and 21.3% increased them ([Chamber of Commerce 2021](#)). Indeed, the fall in income was greater in those sectors that require more social interaction, such as hospitality, oil refining, social and cultural services, and transport (which suffered to a greater extent from the COVID-19 crisis in terms of turnover). Sectors that were less impacted were agriculture, food industry, chemical products, and real estate activities ([Bank of Spain 2021](#)). Moreover, in terms of size, the type of companies being more negatively impacted due to the pandemic was SMEs, specifically micro-SMEs and the ones that were in their early stages of creation ([Cinco Días 2021](#)). As a result, the profitability in 2020 was worse for SMEs and in those sectors more acutely damaged by the crisis ([Bank of Spain 2021](#)). From the point of view of employment, 25.2% of SMEs reduced the number of employees, 62.5% maintained their workforce and only 12.5% hired new employees ([Chamber of Commerce 2021](#)).

However, economic recovery is one of the objectives of the EU and Spain. Certainly, 14.7% of SMEs are experiencing an economic and financial recovery, showing a growth in invoicing and profits; 14.3% are SMEs in economic recovery, which report improvements in billing and/or profits but the financial situation does not evolve as well as in the previous group; 30% of SMEs are in a stable situation with respect to the year 2020 in economic and financial terms. However, most SMEs (37.4%) are in a worse position than in 2020 and the rest would be classified in other categories. Therefore, considered data updated to the first half of 2021, around 30% of SMEs have already initiated the economic recovery economic; 30% are in a stable situation and 40% are in a worse economic situation than a year ago ([CESGAR 2021](#)). Previous research in the area, such as [Frigo and Anderson \(2011\)](#), [Bajo et al. \(2012\)](#), [Verbano and Venturini \(2013\)](#), [Ferreira de Araújo Lima et al. \(2020\)](#), [Le et al. \(2020\)](#), and [Ballesteros et al. \(2022\)](#), as will be discussed in the next section, suggest that a refined management of risks derived from international operations in SMEs can contribute to the recovery of their current situation after the consequences of the global pandemic.

2.2. Literature Review

SMEs have a predominant role in most countries. In selected ones, SMEs stand for more than 70% of the value added, such as Cyprus, Estonia, Latvia and Malta ([European Commission 2021](#)). Therefore, given their economic importance, pursuing an internationalization strategy is essential, as it constitutes a considerable opportunity for SMEs' growth ([European Commission 2021](#)).

Nonetheless, the internationalization process is not straightforward, as a foreign market entry strategy always involves risks ([Hisrich et al. 2017](#); [Foli et al. 2022](#)), especially for SMEs, which are more vulnerable than larger firms and are exposed to a higher level of risk in international business, due to the existence of internal and external factors, such as the limited number of resources and the level of competition in international

markets or the probability of needing support from domestic institutions, respectively (Buckley 1989; Kim and Vonortas 2014; Brustbauer 2016; Andres et al. 2022). Consequently, a proper risk management process is necessary in order to handle the possible implied risks that internationalization involves and to minimize their harm to improve firms' performance (Frigo and Anderson 2011; Bajo et al. 2012; Verbano and Venturini 2013; Ferreira de Araújo Lima et al. 2020), the implementation of a proactive risk management approach not being possible to accomplish due to the time and costs it would imply for SMEs (Pereira et al. 2015).

According to Hollman and Mohammad-Zadeh (1984), the process of assessing risks involves five steps which are risk identification, analysis or evaluation, risk treatment, selection of adequate techniques, strategy implementation, and control.

In this sense, the first step is the recognition of the main risks that affect the process of internationalization. According to Laufs and Schwens (2014), the existence of different regulations and the difficulties in accessing technology have an impact on SMEs' internationalization strategy. Indeed, the lack of information and market knowledge in order to be able to analyse foreign countries, and cultural differences among them, complicate international trade (Leonidou 1995; Child and Rodrigues 2011; De Clercq et al. 2012). Furthermore, Lehmann et al. (2013) gives importance to economic, political, and staffing risks as factors to take into account when SMEs start an internationalization process as part of its corporate strategy. Lastly, another essential risk that has impacted the decision of operating abroad is the COVID-19 pandemic, which has challenged most SMEs (Le et al. 2020). The above-mentioned risks will shape the strategy, destination market and entry mode of a firm in its internationalization, as it will work towards improving performance (Dabic et al. 2019).

In this regard, it is important to distinguish three main entry mode strategies which are, export, contractual arrangements, and direct investment. Export constitutes the simplest mode to enter in a foreign market as production takes place in the home country, which allows one to reduce risks and associated costs (as this involves a lower investment and less uncertainty). Therefore, many firms initiate the process of internationalization by exporting (Vanninen et al. 2022), especially young SMEs, which possess with limited number of resources (Vanninen et al. 2022). Indeed, export-oriented culture assertively impacts in competitiveness and performance of SMEs. When considering one step further in entry modes, through direct investment, it is possible for SMEs to establish foreign subsidiaries or rearrange themselves by making a joint venture, which implies a higher degree of risk and capital contribution abroad (Freixanet et al. 2020). Despite its drawbacks, many SMEs decide to use this strategy to operate in foreign markets and achieve growth (Andres et al. 2022). In between these two modes of entry, contractual arrangements, such as licensing or franchising, represent another feasible option in which rights are transferred to another firm. However, this also involves a lack of flexibility and opportunistic behaviors between the licensor and the licensee. As a result of all of these entry modes, there are firms that decide to stick to an entry mode strategy for extended periods to reduce the perceived risk or to start operating abroad with controlled commitment by using exports or licensing (Foli et al. 2022).

Once, this identification mechanism is completed, the evaluation process begins in order to analyze the possible impact of risks on firms' development and the likelihood of their occurrence. When this step is over, risk management is vital, it being possible to use different approaches for handling those risks. Lehmann et al. (2013) explains a way to manage risks divided into four types. The first one is based on accepting the risks by consenting without taking a corrective action to diminish them. As an example, Child and Rodrigues (2011) argue that cultural differences and institutional conditions have to be accepted by SMEs as they do not have enough power to deal with them. The second one is focused on transferring the risk to another party (such as an insurer), as SMEs can use insurance to protect themselves against financial losses derived from internationalization (Gilmore et al. 2004). The third one is focused on avoiding risks, which

consists on eliminating the probability of occurrence of risk. The last one, risk mitigation, diminishes its impact or its likelihood to occur by, for example, networking with the aim of using personal networks and close relationships with clients in order to attract new customers and maintain them, or creating networks with foreign local partners in order to diminish the risk derived from the lack of knowledge of the local country (Lu and Beamish 2001; Gilmore et al. 2004).

As soon as this process is met, implementation and continuous control are required as SMEs establish their international activity in order to supervise the risk management process effectively (Hollman and Mohammad-Zadeh 1984; Foli et al. 2022). Along with this process of control, for the purpose of maintaining a good level of performance in foreign markets, even if economic recessions or meteorological events occur, SMEs need to be resilient (Bullough and Renko 2013). SMEs due to their size can adapt quite quickly to environmental factors (Weick and Sutcliffe 2006) which positively impact the performance of SMEs as they can deal with uncertainty problems in an efficient way (Reymen et al. 2015; Freixanet et al. 2020), so it is convenient that contingency plans are developed so as to be prepared for unexpected events. Indeed, according to Hilmersson (2014), the internationalization strategy could aid SMEs in developing resilient plans, allowing them to be ready when periods of crisis appear.

However, the internationalization process needs to be accompanied by a differentiation strategy in order to be successful, and its adoption is essential for SMEs as it aids SMEs to become increasingly important and to attract attention in markets with high level of competition, despite not benefitting from economies of scale to compete on cost and not having the ability to dominate product categories to pursue a focus strategy (Porter 1985; Baldauf et al. 2000; Cavusgil and Knight 2015; Freixanet et al. 2020). Notwithstanding the limited number of resources that SMEs have, a differentiation strategy is performed by distinction in terms of goods design, characteristics, and technology to achieve an improvement in profitability (Porter 1985; Cavusgil and Knight 2015).

Considering the importance of risk identification and management derived from the internationalization strategy to increase performance, a summary of the theoretical framework is set in Figure 1.

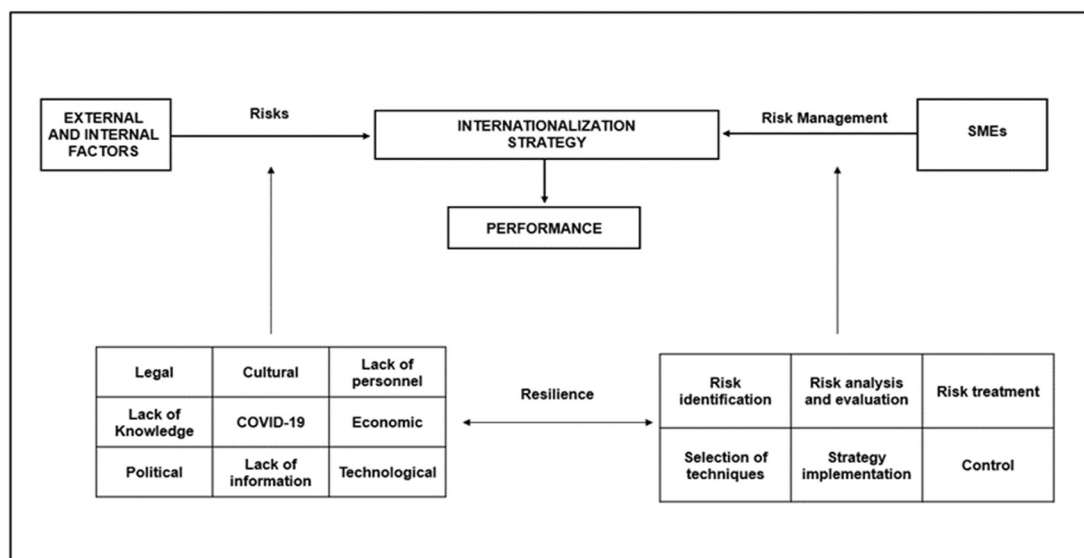


Figure 1. Theoretical framework: An integrative proposal.

3. Materials and Methods

For this part, sixteen semi-structured interviews were conducted with the aim of analyzing and contrasting Section 2.2 with real experiences. The interviews were carried

out by telephone or digital platforms to make video calls, depending on the preferences of the interviewee.

3.1. Literature Review

In order to accomplish this research, an initial literature review was developed regarding the main risks that SMEs face when they decide to internationalize and the way to manage them. To achieve this task, several databases were used such as ABI/Inform, Emerald Insight, Google Scholar, Science Direct, SpringerLink, and other scientific journals. This process of literature review was carried out with the aim of discovering new aspects of internationalization and contrasting the theoretical framework with the experience of specialized managers. By virtue of this review, concepts as internationalization, risks, risk management, and differentiation were identified as of interest to the research project.

3.2. Method Selection

The objective of this research was to analyze how SMEs manage the risks derived from internationalization in order to improve their performance. This work can be listed as qualitative research as it is based on the collection and analysis of information without a numeric analysis, and it has the ability of dealing with research questions regarding 'how' and 'why'. Therefore, as the "why" and "how" on the process of risk management are being studied, qualitative research is the most appropriate approach (Clealand 2017). Due to the explicative nature of this project, the research strategy that best suits is the case study, so it was the one which was selected as it allows a complete and in-depth study of the research question stated (Gerring 2004). Regarding the data gathering method, semi-structured interviews were used, as our aim was to collect data which would not be accessible by other type of data gathering methods (Zhang et al. 2017). Although there are other research papers that use questionnaires as a data gathering method to analyze the main risks derived from internationalization, with the use of them, it is not possible to analyze with such depth the management of the risks derived from internationalization.

3.3. Case Selection

In this step, a selection process was carried out with the goal of choosing the adequate SMEs for the purpose of this research. As the object of this project is to analyze internationalized SMEs, multiple official webpages were consulted, such as the Spanish Chamber of Commerce, Ministry of Industry, Trade and Tourism or the European Commission webpages. To that end, sixteen SMEs were chosen since all of them have been awarded for their performance in international markets (thirteen out of sixteen enterprises interviewed (81%) have won an award related to internationalization and COVID-19 reinvention).

In addition, these SMEs have been selected since they are devoted to different activities in distinct geographical areas which aimed to reduce one of the main disadvantages of this type of data gathering method, which is bias. A greater number of interviews implies that bias is consistent and goes unnoticed (Bell 2005).

3.4. Data Collection

With the aim of gathering data, sixteen semi-structured interviews were conducted. The semi-structured model allows for the advanced preparation of specific questions at the same times as it brings flexibility, allowing for a dialogue between the interviewer and the interviewee to explore the topic in depth (Saunders et al. 2009; Gioia 2021). Interviews were made in November 2021 and consist of sixteen internationalized SMEs. Five of them belong to the agri-food sector, other six are classified as auxiliary activity to agri-food, since they are dedicated to manufacturing raw materials, fertilizers, packaging or machinery for the mentioned sector, and the remaining five belong to different sectors, so, these five SMEs are classified as other types of companies, being devoted to transport, paper, technology, gardening and textile activities.

To follow a semi-structured model, preliminary and basic questions were prepared in order to analyze the key risks that each company has been facing during its internationalization and international activity, how they managed those risks, and how their management has led to an improvement in their performance. To have a better understanding and later analysis of the information obtained, all of the interviews were recorded and transcribed, which aid in accurately establishing similarities and differences among all of the companies and in making conclusions.

Regarding the questions that are part of the interviews, firstly, there was a point that clarified the confidentiality and anonymity in the treatment of those companies along the project. Secondly, the basic and prepared questions were asked, including modifications depending on the company interviewed.

To exemplify the primitive structure of the interviews made and the questions that they implied, a sample is presented in Table 1.

Table 1. Interview sample.

Structure of the Interview	Sample of Questions Used
Personal and company information	Which are your key responsibilities in this company? Which are the key factors for your company now?
Internationalization	Which was the decisive factor to decide internationalizing? Did the company experiment any change due to the internationalization process? How is international activity coordinated and managed?
Risks	What are the specific risks that SMEs must face in the internationalization process? How has the COVID-19 pandemic affected your company? How is the company influenced by environmental factors?
Management Risks	How does your company manage international risks?
Business Strategy	Which strategy have you used to internationalize?

All of the interviews were made with Chief Executive Officers, Chief Financial Officers, Chief Commercial Officers, and Export Managers, who provided relevant information regarding all of the points that the interview comprised.

Indeed, the methodology proposed had been continuously updated by introducing new questions based on the trends that the interviewer found out along the duration of the interview. In that sense, Table 2 displays a summary of all of the interviews carried out, including information about the interviewees' position, duration, the activity to which the company is devoted to, their year of foundation and the moment in which they started to follow an internationalization strategy.

Table 2. Interviews and interviewees information.

Category	Position	Duration of the Interview	Activity	Year of Foundation	Internationalization Experience
Interview #1	Export Manager	42:54:19	Oil	1978	From the beginning
Interview #2	Chief Executive Officer	27:20:50	Transport	2000	From the beginning
Interview #3	Export Manager	25:04:60	Gummed Paper	1998	From the beginning

Table 2. Cont.

Category	Position	Duration of the Interview	Activity	Year of Foundation	Internationalization Experience
Interview #4	Chief Financial Officer	29:25:60	Fertilizers	2003	Since COVID-19
Interview #5	Chief Executive Officer	34:39:19	Sulphur, Fertilizers	2004	Since COVID-19
Interview #6	Export Manager	28:15:60	Almonds	1980	From the beginning
Interview #7	Chief Executive Officer	26:58:80	Marmalade	2005	Since COVID-19
Interview #8	Chief Executive Officer	27:36:50	Textile	2012	Since COVID-19
Interview #9	Export Manager	27:14:28	Packaging	2000	Since Spanish financial crisis 2008
Interview #10	Chief Commercial Officer	24:13:30	Strawberry	1999	From the beginning
Interview #11	Chief Executive Officer	22:35:70	Yogurt	2014	From the beginning
Interview #12	Chief Financial Officer	28:55:80	Technology	2019	Since COVID-19
Interview #13	Export Manager	24:27:60	Containers	2015	From the beginning
Interview #14	Chief Commercial Officer	29:45:80	Gardening	2015	Since COVID-19
Interview #15	Chief Commercial Officer	33:28:20	Machinery	2005	From the beginning
Interview #16	Chief Commercial Officer	36:24:91	Pre-harvest and post-harvest products for food industry	2000	Since COVID-19

3.5. Data Analysis

Once questions were replied and the interviews were finished, the recording was transcribed to make the subsequent analysis. For that purpose, all of the answers were treated in an aggregate way and a document called “Fact Sheet” was created, which fulfilled the function of identifying the most important variables along the interviews. Regarding its structure, it was divided into three parts. The first one was called “Key Points”, which included the most essential features detected in the target company with respect to a concept; the second one was named “Main Trends” in which a development of the “Key Points” were developed; and the third one, “Quotes”, included the extract in which the interviewee makes a reference to the “Key Point” (Merly et al. 2011). This analysis has been also discussed by Gioia (2021). In this regard, authors have analyzed the interviews in two stages. Firstly, showing exactly what the interviewees told and secondly, matching with the concepts/variables included in the research question (Gioia 2021).

Through this method, information was gradually processed and the interviewer, who was always the same person, has a complete view of all of the interviews made, focusing on similarities and differences among all of them with respect to their performance in international markets.

4. Results

Once the methodology process was finished, results are presented in relation to the key features found in Section 3.4 which are associated with the exposed theoretical framework. In the following sections, the key risks that respondents identified will be presented. These constitute the most important risks for them as they have a prevalent impact on the firm's decision to go international. For those risks, an appropriate risk management system will be exhibited in order to diminish their negative effects.

In addition, as the aim of this study was to analyze how SMEs manage the risks derived from internationalization to improve performance, the main differences among the three groups of companies interviewed are going to be presented, which are agri-food SMEs, their auxiliaries, and others. This last group is defined by exclusion as it encompasses SMEs whose core activities are not in relation with agri-food.

Finally, in Section 4.3 will be exhibited the business strategy that respondents follow when they decide to internationalize.

4.1. Identification of Risks

The internationalization strategy encompasses several risks, which need to be identified and managed in order to improve SMEs' performance. One of the most highlighted risks by interviewees was the economic risk, being the exchange rate risk one of the major threats for the SMEs interviewed, since currency devaluations produce a reduction on the cost of a country's exports which translates in an increase on the cost of imports. Therefore, if imports are costlier, national clients would not buy them, which makes national companies stronger than foreign exporters. Currency devaluation will probably cause inflation as imports are more expensive which means that imported products will have a higher price. Therefore, importers would lose purchasing power and, most probably, customers will purchase less of these imported goods. In this sense, interviewees argued the following:

"If money is collected in other currency and a currency devaluation occurs, profitability is compromised. Therefore, currency devaluations jointly with currency instability have a great impact on my business".

Moreover, raises in taxes is another risk that SMEs are concerned about. Along the interviews, respondents expressed their worries about an intensification of customs duties and taxes, as it would imply an increase in the final price. In this regard, respondents stated that "tariffs are an important indicator to take into account whenever a firm wants to start trading abroad since, if there are countries with extensive tariffs, we cannot afford those payments". Jointly with tariffs risk, demand fluctuations are another important challenge for firms that desire to internationalize as if demand increases, the company needs to be ready to adapt in order to produce that new and increasing number of products that, in normal conditions, would not happen, with the consequent risk of having excess capacity or stock if the demand decreases shortly after that. Therefore, both circumstances can negatively impact firms' performance. For interviewees, rapid adaptation is key in these cases as "if a country is less demanded, a change of strategy will be carried out and focused on where there is more demand". In this regard, it could be appreciated a deviation from agri-food companies to non-agri-food ones. In fact, agri-food firms have another relevant issue that is the dependence on climate conditions, which means that, if demand increases but climate conditions prevent them from having enough supply to match demand, it could not be possible to afford the desired demand level, which will lead to miss potential sales margins.

In relation with price variations, interviewees expressed their concerns about price raises and drops. Agri-food SMEs are worried due to the actual shortage of raw materials, which can result in a generalized increase in the price of certain products. This is particularly true now, when raw materials' costs are at an historical maximum. Therefore, with this crisis, price variations get more accentuated. One of the interviewees exemplified this problematic situation with the price of fertilizers: "I spent around 700 euros monthly to

buy feed, but in the last month that amount has skyrocketed to 1300 euros. The price of fertilizers has risen by 300%, fertilizer more than 250%”.

Political risk constitutes another important risk that SMEs have to face when they internationalize. This type of risk is assumed by every company as it is impossible to find one country without political risk. As interviewees stated, political risk exists in the majority of the countries to a greater or lesser extent. However, although it is widely believed that companies are looking for countries with no political instability, interviewees argued that if a country suffering from political instability can work as a niche market and they view potential sales in that country, despite the difficulties, they will try and start commercializing in there. One of the examples is Africa; interviewees value more client potential than political risk, as can be inferred from the following quote:

“If we see that a country is unstable, but there is a customer potential that we see clearly, it is pulled forward. There are times when you must take risks. I can tell you about countries in the Middle East that maybe shock you and with which we are working. There is a political risk, but we consider the potential or progression that the client has had and we decide to go forward. It does not have so much to do with the country’s risk, which is also considered, but with the client itself. If, the country is a bit politically or economically conflictive but we see potential customers, we bet on it”.

Regarding legal risk, it is the one which interviewees perceived as the most difficult to overcome. Adaptation is imperative if they want to sell abroad, but legislation is continuously changing, and those changes imply new costs for companies as they have to adapt all of their production to the new regulation. No adaptation would bring huge penalties that, in many cases, will not be affordable for SMEs and will implicitly affect the image of the company, since if a company is charged with a fine due to not complying with the law, it will lose investors and clients, who will develop a bad perception of the firm.

Inside legal risks, documentary and sanitary risks are implicit. Both have an impact on trade as the first one involves having the necessary customs documentation in order to trade abroad and the second one requires a regular control system to be sure about the quality of the product sold. In this regard, one of the advantages of Spanish SMEs that decide to export to another EU region is that part of these risks disappear or are minimized due to the existence of the four freedoms (goods, services, capital and people) through the EU countries which implies an absence of customs barriers. Indeed, the sharing of regulations, the political stability of the environment and sharing a common currency (19 EU countries use the euro) simplify trading within the EU. When SMEs interviewed decide to sell their products outside the European Union, they have to adapt all of their goods to the legislation of the destination country, which is quite difficult to do, as not much knowledge and resources to do so are available sometimes.

With respect to sanitary risk, agri-food SMEs noticed that it is one of their major concerns as many of the products sold are perishable goods, which need to have rapid bureaucratic processes. But sanitary risk is not the only risk that agri-food SMEs are challenged to, as changing in labelling implies huge costs since specialized personnel is required to constantly adapt the label to new requirements (since, if it not adjusted, the product cannot be sold in the destination country).

In addition, all of the sixteen SMEs interviewed emphasized that the most important factor for a successful internationalization is having an adequate human capital, as not possessing adequate personnel will compromise international success. Throughout the interviews it was affirmed that the success or failure of the internationalization process depends on the employees; and for that purpose, the first step that every SME has to undertake is the creation of an international department, which needs to be interconnected with all other departments in the firm in order to succeed in the international strategy. If this is not achieved, SMEs will be facing an important risk based on the lack of assistance from other departments, which could imply the failure of the international project. As a respondent affirmed: “becoming international is like creating a new firm. Therefore,

choosing adequate personnel to work in the company and involving all of them in order to work in the project of internationalization is essential, and constitutes the first step towards success”.

Furthermore, selecting employees who understand the culture of the target country is essential. In this regard, SMEs interviewed pay a lot of attention to cultural differences when they decide to internationalize, as believing that a SME can operate in the same form regardless the destination country is a mistake. This idea was illustrated by a respondent:

“We want to start our process of expansion to United States but believing that the model of Europe or Spain can work in the United States is a mistake and we have to change things due to cultural differences. As a result, cultural adaptation is needed to succeed”.

Apart from these cultural and human capital risks, lack of information of foreign clients and lack of market knowledge have also been identified by respondents. In these respects, SMEs need to be aware of the likelihood that markets will behave in a different way depending on several circumstances: economic, political, cultural behavior, etc. Therefore, a market study about these matters is completely necessary. Indeed, a sizable probability exists that their brand will not have the same reputation than in domestic markets, so clients are not assured about buying from it. This means that they must work upon a strategy to be able to gain market share.

Indeed, COVID-19 crisis has impacted every company, regardless its size, facing SMEs, due to their intrinsic characteristics, more difficulties to react to challenges. Nevertheless, in spite of having the “liability of smallness” (Freeman et al. 1983; Eggers 2020), interviewees thought, just as Warren Buffet stated: that size is not a drawback. What really matters is the pre-COVID-19 crisis performance: if a SME has been successfully operating prior to COVID-19, they will suffer the economic crisis but in a smoother way when compared with the ones that have been reporting bad numbers prior to the crisis. As interviewees affirmed:

“Our company is financially healthy, so we have had no problem with respect to COVID-19. I imagine that other firms which were not achieving high records in periods before the pandemic have more difficulties to survive than a company which have been financially healthy”.

Of course, these statements are not isolated, as they are influenced by environmental aspects, meaning that depending on the products SMEs sell, they had more opportunities to succeed along the crisis. As a result, there is a clear difference between agri-food SMEs and non-agri-food companies. With respect to the first group, agri-food SMEs had not experienced many difficulties during the COVID-19 effects. Indeed, throughout confinement, many agri-food SMEs experienced an increase in sales. Moreover, auxiliary agri-food SMEs had not been affected by COVID-19 crisis as the needs for agri-food products were increased, which brought about a rise on auxiliary agri-food demand. The reason for the increase in agricultural and food sectors was due to the consequences on the disposable income of the families. During periods of crisis, family budgets are devoted to the purchase of food and medicines as they give more importance to cover basic needs than buying other types of goods. Therefore, a change in consumer preferences during the COVID-19 crisis positively impacted auxiliary and agri-food SMEs, the pandemic situation not representing a real risk for them. Indeed, as these sectors represent an essential activity which is not being affected by stoppages of production, some of the firms interviewed affirmed that in 2021, they increased their sales with respect to 2020 by 40%. Conversely, interviewed SMEs that belongs to other sectors, except one that is devoted to manufacturing protective equipment which increased profitability due to their high demand, have been negatively affected by COVID-19. SMEs whose activities are devoted to transport, textile and tourism have suffered a dramatic decrease on sales and profitability. However, digitalization has been a good remedy that SMEs started to adopt to react to the pandemic. As the need for society to digitize became more evident, the pandemic led to a

promotion of the technology, constituting this issue another risk for SMEs which often do not have the capacity to implement it in their infrastructure.

Apart from increasing sales, no international presence was lost due to the pandemic in auxiliary and agri-food SMEs interviewed. Although the vast majority of the agri-food firms interviewed recognized that they did not lose their international presence, there are others that pointed out that the fact of not traveling to the destination country to visit clients represented an inconvenience for the company. In addition, the possibility of attracting new clients and increasing the portfolio of potential new foreign markets was abandoned due to the pandemic. The following quotes are highlighted:

“Our activity is very specific, so everything was based on visits to clients and attendance at technical fairs and specialists in the sector. For example, there were events that were there without being held for two years, so this activity is really noticeable for our company”.

Nonetheless, the effects of COVID-19 are not only tied to a decrease or increase in sales or a loss of international presence, as the pandemic situation highlights other issues. One of the main obstacles that interviewees pointed out was the non-payment risk since, due to the pandemic, some customers suspended payments. This problem occurred throughout all of the activity sectors and created a situation of uncertainty very difficult to manage for the companies interviewed.

Therefore, since there are several risks affecting SMEs in their decision to internationalize, a proper risk management system, which will be analyzed in Section 4.2, is crucial to diminish their impacts.

4.2. Risk Management Systems

As it was stated in prior sections, the importance of risk management systems is clear in order to achieve success during the internationalization strategy. However, as SMEs are known to be more vulnerable than larger firms, the need for a proper risk management becomes even more imperative. This implies that SMEs should identify and evaluate the possible impact that risks have on their activity, treat those risks in an appropriate way and implement a strategy that makes risk management possible (and with a continuous control of its development).

One of the risks SMEs face is an economic one. For managing this type of risk, SMEs have opted for transferring the risk to an insurance company. However, transferring risks is not an easy task as SMEs remark the existence of many credits insurance companies that do not cover multiple operations. Therefore, whenever transferring risk is not possible, the only way to manage them would be by mitigating their effects by making clients pay in advance or by avoiding clients who are not solvent enough. Indeed, to anticipate this risk, a previous study of the annual accounts is made by some of the SMEs interviewed in order to discard companies with liquidity or solvency problems.

Moreover, with respect to currency risk, some SMEs have decided to charge always in euros in order to avoid currency devaluation risk. Nonetheless, there are others that have manifested their acceptance to this risk as it is something “beyond their control”, so they can only constantly revise currency changes and prices. In addition, there is a SME that affirmed the need for having prior market studies in order to see if tariffs are too high or not, since if they are so extensive that they cannot afford their payments, the company decides to trade with other foreign markets and avoids the ones with a higher tariff. This happens in the European Union, as the majority of the SMEs interviewed stated that most clients are EU-27 partners since free movement of goods and services governs trade policy.

Despite political and economic risks being the most complex to be insured, the latter are simpler to be objects of transfer. Therefore, regarding political risks, interviewees stated that transferring the risk to an insurer is hard to accomplish, so if they want to trade in a specific country which is not politically stable, they do it accepting that the instability risk as it is beyond their control. Other SMEs stated that they develop market studies in order to

have an idea of the situation in the target market, and recalled the importance of the relation with customers in order for them to guide SMEs along the internationalization process.

Following with legal risks, SMEs try to manage them by adapting to regulations basically through the knowledge of clients or by having agents in other countries. However, this last option results in more costs than the direct information obtained through customers. Other firms interviewed broadcasted the need for having a department in charge of adapting the product to regulations, and for this task, a prior study about the legal requirements of each country is imperative. In this regard, as it was analyzed in Section 3.1, the main advantage of the SMEs that are in the European Union zone is the absence of different regulations. Therefore, the majority of SMEs interviewed manifested that most of their clients are EU countries due to the fact that many risks get simplified.

Regarding the lack of adequate personnel, every SME in their process of internationalization, must create an international department, which must be interconnected to all others in order to succeed in the internationalization strategy. Therefore, respondents stated that the achievement of a successful internationalization strategy is not responsibility of one single person or a specific department, but it is a general responsibility of the company that undertakes this strategy, and recalled the importance of having a department in charge of international issues (without being independent from the rest of the enterprise).

In addition, the process of internationalization involves hiring people with certain skills to engage in the international activity, and the professionalization of the company to enable each employee to focus on the tasks for which he/she is best qualified. The indispensable skills that every worker needs to have are good knowledge of languages and culture of the destination countries. Indeed, it would be valuable that the person has knowledge of the foreign legislation and the abilities to attend and organize marketing campaigns and fairs. Interviewees stated that the internationalization process means a process of technical learning, improvement, quality, recruiting staff with languages and acquiring certifications so that the client is attracted to and certain in buying the product.

Furthermore, the internationalization process requires selling to clients with cultural deviations, which should be understood by the internationalized SME if it wants to succeed. Towards that end, some SMEs stated that they start trading with countries with similar culture, which are usually European Union countries. Alternatively, there are SMEs that collaborate with native people in the target country in order to become familiar with the particularities of each market and once they are known, they train their personnel to understand the other's culture. However, this is not the only method that SMEs use in order to face cultural risk. A respondent claimed that the essential character of certifications is to use them whenever they sell to countries that are more cultural deviated from themselves. In this sense, the following quote is highlighted:

“Given the cultural differences, we use the issue of certifications to a great extent. For example, if we sell to Arab countries, we need *Halal* certificates. In the past, these certifications were associated with religion, but now the consumer interpret these certifications as quality certifications. There are also markets, such as Israel or the US, where some products need the *Kosher* certificate. For example, in Turkey, we need a *Halal* certificate and not just any type of *Halal* certificate, since we need one that is recognized by the country where we are going to sell our product”.

Lastly, in order to match foreign tastes, SMEs revealed that they try to make adaptations to the original product commercialized in Spain. This is achieved by a continuous process of analysis of the target market or by the knowledge of a specialized agent in each country. Notwithstanding this, there are other SMEs that choose to avoid the cultural differences and decide not to sell in a specific country so as to not incur in losses.

Apart from these risks, lack of information about foreign clients and lack of market knowledge have also been identified by respondents. To manage them, SMEs are committed to performing market studies in order to get closer to the customer and the final destination. Besides, most of the SMEs interviewed try to combine or substitute market studies with

direct contacts with agents abroad or the final client in which they can tell the company the situation of the country and the tastes of foreign clients. These agents could be workers who know the way in which clients work or organizations that have several services, such as helping to locate companies with which to generate a strategic alliance. However, this information needs to be contrasted by the company, as the source is an external body of the firm. In this sense, a respondent stated that:

“The analysis of the region is given to me by the distributor; but in the countries where I sell more extensively, the local salesperson is the one that performed an analysis of the country for me. We also have traders who provide us with an analysis of the country, but we do not pay much attention to them since their knowledge is via telephone and we do not trust much of the information given by telephone. The most valid information is from the one who is in the country, and in 100% of the cases, we go to the ground and verify what they told us”.

With respect to brand reputation, the strategy followed by most of the respondents is attending to international fairs in order to gain market share. This type of events is essential to evaluate the target country and publicize the brand. Thus, feedback is generated, and a communication is established with potential clients who are interested in the product marketed. Jointly with this strategy, to face technological risks, SMEs have promoted digital marketing as part of their strategy. According to respondents, SMEs, despite their size and scarcity of resources, can be updated in technological infrastructure. In this sense, for firms that have less resources to invest in technology, they only use social networks, which can be a relatively cheap strategy, but very efficient if the firm knows how to use it well. For the ones that have more resources, they tend to use a good product positioning in Google or different search engines, in order to give information about their products. The following quote can be highlighted:

“For international sales we have promoted a lot through digital marketing. So, in the past, it was sold by visiting clients, which was a face-to-face activity. Now, it is more through social networks, Google, or search engines. Keep in mind that our niche market is very specific, so we really are one of the 3 largest manufacturers in Europe. If you position yourself well, it is not difficult, but you must know how to position yourself”.

Finally, with respect to COVID-19 risk, and to deal with one of the main problems associated with the pandemic, which is the non-payment risk, most of the SMEs interviewed have bet on charging the services in advance. Many others have implemented technologies in order to be in contact with clients and have invested more in platforms to make video calls. In this way, SMEs try to explain to clients the difficulties they have been suffering due to the pandemic in order to come to a form of payment that is staggered.

In addition, due to the pandemic, many companies have decided to create a line of delivery in order to compensate for the decrease in operations and profits. In sum, SMEs need to behave with flexibility and to have the ability to be resilient in order to change their strategy towards a new one that meets the new challenges that have appeared.

Therefore, as soon as risk management is designed, implementation and continuous control are required as for the SMEs interviewed, a subsequent control of risk management is necessary if they want that the strategy is effective. However, along the design of this process, differentiation strategy (which will be analyzed in Section 4.3) is the key to being successful and improving performance.

4.3. Differentiation Strategy

As it was affirmed in Section 4.2, the risk management process becomes more efficient when a differentiation and innovation strategy are followed simultaneously. In this sense, all firms interviewed, by unanimity, regardless of the sector, affirm the importance of following a differentiation strategy to grow in international markets, as it is considered by them as a unique way to achieve success.

In general terms, there are two types of strategies that companies can follow when they decide to go international. These are the cost advantage and the differentiation strategy. Nonetheless, interviewees claimed that the cost strategy is only recommended when the company does not have any other choice. Otherwise, if the company wants to follow a strategy focused on costs, it is better to trade in domestic markets rather than abroad. Therefore, SMEs try to implement the differentiation strategy when they decide to internationalize. The reason behind this choice is due to the fact that differentiation leads to a stable improvement of the firms' performance, so it enables for sustainable success, while cost advantage strategy brings results for an immediate future, not being possible to sustain superior performance in the long run. In this sense, whenever a SME desires to go international, it needs to differentiate from competitors since, if not, improvement in performance will not be sustained in the future.

Despite the belief that SMEs have fewer resources to cope with the differentiation strategy, firms interviewed declared that they follow a differentiation strategy with no problems. With respect to this, SMEs try to distinguish their products by making changes in their design or characteristics. In this way, they add value to the original product. A good example that a firm interviewed claimed was the addition of Spanish well-known and accepted goods, which are unknown to the destination country.

However, this is not the only way by which firms interviewed implement differentiation strategies. Many of them asserted that technological improvements are made to enhance the original product. Nonetheless, this investment is not affordable for all of the SMEs interviewed, but those who are committed to it and have the ability to use it, say that this high investment gives superior returns in the long term, so they are committed to use it from the very beginning in order to have superior returns in a future.

On the other hand, the importance of innovation is remarked by interviewees, so most of them pursue a strategy based on differentiation by innovation and declare it as the most successful differentiation tool in order to internationalize. This choice is due to the fact that brand loyalty is a very important variable for growth and SMEs should constantly innovate if they want to create that loyalty. Though innovation, an added value is created which is appreciated by clients and this way, brand loyalty is sustained. To achieve it at the lowest possible cost, the department in charge of the internationalization strategy tries to broadcast the added value of each product sold, which will make clients loyal to the brand. In this sense, a respondent declared the following:

"We try to give to the product an added value or other properties that are not found on the market. If you have an element of technological differentiation, it is easier than if you do not have it. If you do not have one, you must fight with the same weapons as all other competitors and you must look for other different weapons to differentiate you, such as price, advertising/marketing, etc. That is why one of the main criteria for internationalization is innovation. The brand image in Spain is a differentiating element that helps us".

Although, this strategy is not always easy to implement by SMEs, one of the main advantages that SMEs possess is their reduced size, which can lead to flexibility and a rapid adaptation to changes. In doing so, the international department will be constantly looking for improvements in the product and studying the target client in order to analyze his preferences and the subsequent market trends. Therefore, the differentiation strategy is usually accompanied by a rapid adaptation to changes which can be developed due to the flexibility that SMEs have due to their size. The following quote illustrates this point:

"There is a rapid adaptation to the client's needs. For us, that is essential, since it is a differentiating point with respect to other competitors. We adapt very quickly to market situations, and I think it is essential since we have the ideal size for that flexibility, that many larger companies cannot have. For us, on the one hand, it is an advantage, but a disadvantage on the other, as we must adapt to each one's situation".

In sum, a differentiation strategy should be adopted jointly with an internationalization strategy in order to make the improvement of SMEs' performance more efficient.

5. Discussion

As the aim of this study was to analyze how SMEs manage risks derived from internationalization to improve performance, this paper was conducted in order to deepen the management by SMEs of the risks derived from internationalization since most Spanish companies are SMEs. In this sense, findings suggest that most SMEs have to create an internationalization strategy that is capable of mitigating the risk assumed by them when they decide to trade abroad. For that purpose, sixteen semi-structured interviews with managers from Spanish SMEs were conducted in order to contrast the theoretical framework presented in Section 2.2. Therefore, in this section, similarities and differences between Sections 2 and 4 will be exhibited.

Findings suggest that the risks pointed out by interviewees coincide with the identified risks derived from internationalization cited by authors, such as legal, cultural differences, political or economic ones (Leonidou 1995; Bai et al. 2018). Indeed, as Dabic et al. (2019) declared that the level of risks determines the entry mode strategy, SMEs start the internationalization process exporting and once they achieve brand reputation in the destination country, they opt for other types of entry modes such as franchising or direct investment.

However, risks derived from internationalization need to have a proper risk management system in place in order to improve performance (Frigo and Anderson 2011; Bajo et al. 2012; Verbano and Venturini 2013; Ferreira de Araújo Lima et al. 2020). In this respect, although Lehmann et al. (2013) established a risk management process based on risk acceptance, transfer, avoidance and mitigation, SMEs are committed to the last option, as they tend to diminish the risk they are exposed to. This argument is against Child and Rodrigues (2011) who argued that cultural differences, for example, must be accepted by SMEs as they do not have enough power to deal with them.

In terms of risk mitigation, although Galdeano-Gómez et al. (2016) supported the use of networking in order to diminish risks, SMEs interviewed said that despite the aid of clients and agents is useful for the management of certain risks, they do not tend to associate with a foreign company in order to make the process of internationalization easier due to the huge costs it would involve. This is against that which Lu and Beamish (2001) and Gilmore et al. (2004) affirmed.

Furthermore, as (Hollman and Mohammad-Zadeh (1984) established, the management process must be completed with a continuous control in order to supervise that the risk management process is working effectively. If this control is not implemented, there exists a high probability that the risk management process adopted will not work efficiently to reduce the risks to which SMEs are exposed.

Finally, improving performance through mere risk management is not sufficient. It is necessary that it is accompanied by a business strategy based on differentiation in order to achieve an effective internationalization strategy. As Porter (1985) and Cavusgil and Knight (2015) stated, this differentiation strategy is performed by SMEs through the inclusion of new accessories to the original product or the investment in technology, and only through the combination of a differentiation and internationalization strategy would it be possible to improve performance in an effective way.

In sum, although the internationalization process, involves risks, they do not represent an impediment to trade abroad. Thanks to the method of data gathering used in this paper, the knowledge of the best practices of SMEs to face risks derived from the internationalization strategy has been presented. With that in mind, we strongly believe that it is appropriate to develop a risk management system that allows for the anticipation of risks and mitigation of their impact. Therefore, risks are not an impediment for developing an internationalization strategy. Instead, they are a challenge that can be overcome by a proper risk management process. In addition, if this management process is combined with a differentiation strategy, it will more effectively improve SMEs' performance.

The adoption of a differentiation strategy may not seem costly for SMEs to achieve. However, managers should be aware that if they do not adopt this business strategy, improvement in performance will not be sustained in the long run. Therefore, this study is important for SMEs' managers by raising awareness that the size of their company does not determine international success. Instead, it is considered by interviewees as an advantage that enables for the creation of a risk management system to face risks with flexibility, dynamism, and efficiency; combined with a differentiation strategy to ensure future sustained performance (Majocchi and Zucchella 2003; Freixanet et al. 2020; Paul 2020).

6. Conclusions

In an increasingly globalized world, companies have opted for an internationalization strategy, and SMEs cannot be left behind. Therefore, internationalization constitutes the best opportunity for SMEs to improve their performance (Freixanet et al. 2020). However, SMEs are exposed to many risks when they decide to trade abroad, which could lead to avoid an internationalization strategy due to their size and their number of resources. Notwithstanding, findings suggest that SMEs, despite their size, can improve performance by a proper risk management process of the risks derived from internationalization.

SMEs in the process of internationalization must analyzed in advance of considering the external and internal factors that can influence their performance in foreign markets (Andres et al. 2022). By doing so, several challenges such as economic, political, or cultural risks are identified, and once they are analyzed, SMEs need to focus their efforts upon an adequate management, which could be exercised (Foli et al. 2022) precisely due to their size, which involves more flexibility to adapt to changes. Therefore, risks derived from internationalization are not an impediment for improving performance in international markets if they are managed timely and with flexibility. Indeed, to face the pandemic crisis and the recovery taking place after its effects, SMEs need to be resilient in order to adapt to new changes and manage them in an efficient way to grow. In conclusion, SMEs, despite their size, can achieve improvements in performance by a proper management of the risks derived from internationalization. However, Spanish SMEs' results may not be applicable to other countries. In this sense, risks exposed by Lehmann et al. (2013), who analyzed typical examples of risks faced by Swiss companies, coincide with Spanish SMEs risks derived from internationalization. Despite this coincidence, methods of managing risks may differ, especially in the case of agri-food companies, which rely a lot on climate conditions to sell their products. Therefore, with this in mind, the most comparable and similar countries with respect to Spain can be Mediterranean countries and the ones with which Spain has similarities in terms of culture. Indeed, Spanish products have good acceptance in Portugal or Italy, as their culture is quite similar.

By focusing on the study of successful Spanish SMEs, this research contributes to the literature by discussing that, although operating internationally involves risks that could potentially prevent SMEs from internationalizing triumphantly due to their limited resources and small size, these limitations can be used in their advantage in the process of identifying and managing risks. This is important since in an increasingly globalized world in which internationalization constitutes a key strategy to survive, SMEs cannot be left behind, and internationalization has, in fact, the potential to significantly improve performance for SMEs when proper risk management systems are adequately implemented and controlled. In addition, the business strategy that best fits a successful internationalization strategy is differentiation. In this way, the improvement of performance could be achieved and maintained in the long-run, which could not be possible with a cost leadership strategy since economies of scale would trigger profitability.

In terms of managerial implications, the adoption of a differentiation strategy is extremely important. If a differentiation strategy is adopted, the internationalization strategy will be more efficient as the improvement of SME' performance will be sustained in the future, which is less likely to occur with a cost-leadership strategy. The latter strategy

may improve performance in the immediate future, but will not sustain it in the long run. Although, a differentiation strategy is not easy to implement by SMEs, they have the advantage of their reduced size, which could lead to a rapid adaptation to changes with flexibility. Therefore, SMEs can work upon differentiating their products or offering a differentiated service by making improvements on it or by studying the target client in order to analyze his preferences and the subsequent market trends.

This paper is necessary due to the importance of SMEs for the Spanish economy and the increasing globalization. In Spain, SMEs are the basis of the economy, and their importance is even greater than in the EU ([Government of Spain 2021](#)). Indeed, according to data updated until December 2021, there are 2,938,391 SMEs in Spain out of 2,943,385 firms, which means that the 99.8% of Spanish companies are SMEs. Therefore, considering that, due to globalization, SMEs are increasingly internationalizing, it is important and necessary to study how they can manage the risks derived from internationalization in order to improve performance.

Finally, due to the importance of SMEs in the Spanish economy, and the benefits that the internationalization brings to them, this paper allows to future research studies to analyze the use of risk management techniques jointly with a differentiation strategy in SMEs in order to improve performance in international markets in a profound and quantitative approach to obtain additionally conclusions of Spanish SMEs internationalization strategy. Mixing a qualitative and a quantitative approach could be useful for future research in order to study deviations with respect to theoretical background. Indeed, a paper that studies differences among SMEs depending on the country-of-origin could be carried out as the results may differ depending on the country-of-origin features.

7. Research Limitations

With respect to the limitations of this paper, our findings could have been more far-reaching if other approaches or data collection methodology such as questionnaires were applied. Nonetheless, the choice of these methods would have obstructed the accomplishments we achieved in detailing this topic. Additionally, this study examines different variables that had been investigated separately by prior authors, so a qualitative approach was required to engage in a further comprehension of all of the aspects analyzed in this research.

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