

# The Relationship between Business Strategies and Performance: The Case of Iranian Exporting SMEs

Seyed Abbas Mousavi Tatfi

Faculty of Economics, Department of Business Administration, PhD Student, Yerevan State University, Armenia

## ABSTRACT

The linkage between business strategy and performance of exporting small and medium-sized enterprises (SMEs) has been emphasized in the literature. In the Iranian context, however, the review of the small business literature reveals the relationship between business strategy and performance of exporting SMEs has not received much research attention. This study initiated an attempt to investigate this issue by examining the relationships between six business strategies and the performance of 47 exporting SMEs in Iran. On the basis of the analyses of the data gathered from the 47 exporting SMEs, the findings of the study indicate significant positive relationship between business strategy and the performance of the exporting SMEs.

**Key words:** Business Strategies, Performance, Exporting SMEs, Internalization.

## INTRODUCTION

Throughout the world, as economic globalization intensified, business firms are increasingly been forced to expand their business operations by seeking opportunities in the international marketplace. In fact, survival and success in the global business system require large companies, as well as small and medium-sized enterprises (SMEs) to adopt international perspectives<sup>i</sup>.

Exporting is one of the internationalization options for companies to expand their business activities globally. It can provide individual companies a competitive advantage by improving their financial position, increasing their capacity utilization, and raising their technological standards.

Furthermore, exporting is becoming increasingly popular for businesses because of the Internet, fax machines, and overnight air express services (express mail delivery within a day), which reduce the once formidable costs of going international<sup>ii</sup>.

Although exporting is increasingly seen as an internationalization option for growth and profitability among SMEs, findings of past studies on export entry decisions of small businesses showed lack of agreement among researchers concerning the factors that can help small firms to penetrate foreign markets<sup>iii</sup>.

Apart from the disagreement concerning the factors that contribute to the process of internationalization among SMEs, the small business literature further indicates that limited research attention have been given to examine the linkage between small firm business strategies and internationalization<sup>iv</sup>. The lack of information and knowledge concerning the important relationship between business strategy and international business performance of SMEs, specifically in Iran suggests the need for more research in this area. This study was conducted to address this issue. The objective of the study was to examine international business performance of SMEs in Iran.

### Business Strategies and their Relationship with the Performance of 47 Exporting SMEs in Iran

Business strategy is extremely important for organizations to operate in a competitive business environment. Business firms need to develop effective business strategies to help them compete effectively. Business strategy has been characterized as the way in which a firm decides to compete, pursue, achieve and maintain its competitive advantage in an industry<sup>v</sup>. Firms can gain their competitive advantage by producing value to their customers. Moreover, a firm can develop its competitive advantage by performing the chain of strategically important activities (such as production, marketing, sales, service, human resource management, technology development, procurement activities) cheaply or better than its competitors. According to Porter<sup>vi</sup>, business strategies that focused on these activities are called generic strategies. The three generic business strategies include; low cost, differentiation, and focus or niche. In a low cost strategy, the firm strives to lower its costs, increase profit and sales by adopting economics of scales, scope and technology. In a differentiation strategy, the firm emphasizes on making its products appear unique and different. Finally, in a niche or focus strategy, the firm stresses on product development and marketing efforts in a particular market segment that it has a cost or differentiation advantage. Namiki<sup>vii</sup> identified four patterns of competitive strategy adopted by small-sized exporting firms in a study of 393 small computer hardware manufacturers in the United States of America. The competitive strategy include marketing differentiation strategy, differentiation focused strategy, innovation differentiation strategy, and product-oriented strategy.

\*Correspondence Author: Seyed Abbas Mousavi Tatfi, Faculty of Economics, Department of Business Administration, PhD Student, Yerevan State University, Armenia Email:aa.mousavi78@yahoo.com

Marketing differentiation strategy is focused on competitive pricing, brand development, control over distribution, advertising and innovation in terms of marketing techniques. Differentiation focused strategy is stressed on the ability to offer specialized products to specific customer groups. Innovation differentiation strategy is based on the firm's ability to offer technological superiority of products and new product development. Product-oriented strategy is stressed on the quality of the products and high levels of services provided to customers. The findings of the study showed that the firms that adopted a differentiation focused or innovative differentiation strategy achieved higher export performance than those firms that used a marketing differentiation strategy.

The studies by Cavusgil and Knight<sup>viii</sup> further indicated small firms faced competition in exporting markets developed business strategies based on a variety of factors. These factors include business opportunities and market research, promotion of the business and products, selection of and collaboration with agents and distributors, development of local contacts and provision of services after sales, pricing, sales force management, credit risk analysis, knowledge of business practices, and awareness of the competition, product research, development, and adaptation.

In a study that attempted to examine the international strategies of small firms, the relationship between international strategy and firm performance, and the attributes associated with the adoption of an international strategy, found three types of international strategies being adopted by small firms<sup>ix</sup>. The findings of the study indicated that the three international strategies used by the small firms included international strategy (which emphasized on exporting, foreign equity investment, and foreign alliances to develop new products and enter new markets), domestic alliances strategy (which focus on domestic alliance formation, using domestic alliances to enter new markets, develop new products), and domestic solo strategy (the firm entering new markets and developing new products on its own).

Lages and Montgomery in a more recent study, found product strategy, promotion strategy, price strategy, and distribution strategy as the four common strategies adopted by exporting firms<sup>x</sup>. In product strategy, the firm stressed on differentiating the products offered in the domestic market and the products sold in the export markets in terms of brand name, design, labeling, variety of main exporting product line, and quality. The promotion strategy focused on adjusting the domestic promotion program towards the export market in areas such as advertising idea and theme, media channels for advertising, promotion objectives, budget for promotion, public relations emphasis, and direct marketing and mailing. In pricing strategy, the firm used concession of credit, price discount policy, and margins to offer products at different prices across national boundaries. Distribution strategy involved selecting the distribution system, transportation, budget for distribution, and distribution network to the export market.

The sample of the current study was confined to selected small and medium-sized enterprises (SMEs) operating in the Iranian manufacturing sector. In this study, a small and medium-sized enterprise is defined as a manufacturing firm with an annual turnover of less than USD 1 million and as one which employs not more than 100 full time employees. Based on this definition, 150 firms were identified and selected from the listing obtained from the Iranian External Trade Development Corporation. The data for this study was gathered through the mail survey. Structured questionnaires were sent to the senior managers of the 150 firms selected. Out of the total number of 150 questionnaires mailed, 47 usable questionnaires were returned.

The structured questionnaire adopted in this study consisted of three sections. The first section of the questionnaire, which consisted of nine items, was used to obtain the general information concerning the background of the respondents. The items in section two of the questionnaire focused on getting the information on the characteristics of the firms: such as legal form of the firm, number of full time employees, age of firm, the industry in which the firm operates, total sales of the firm, percentage of export sales from total sales, net profit of the firm, and number of years involved in exporting activities. The items in section three of the questionnaire were designed to capture the business strategy adopted by the firms.

These items contained brief descriptions of each of the six business strategies. In the study, to gather the information on the six common business strategies emphasized by the firms, the respondents were requested to rate the importance of each of the six business strategies with respect to their companies' export success. The respondents were asked to rate the importance of each business strategy based on a five point scale ranging from (1) Extremely Important to (5) Not Important At All.

Of the 47 respondents, 27 were managers, 11 were owners and managers, and nine were owners and CEOs of their companies. Thirty of the respondents were males and 17 females. Thirty-two respondents were married, 14 never married, one remarried. The respondents had between one to more than 20 years of work experience. In terms of education, 18 respondents obtained bachelor degrees, 14 master's degrees, 8 respondents had diplomas, five had school certificates, and two respondents earned a PhD degree.

The profile of the sample companies is presented in Table 1. The information in Table 1 includes legal forms of the companies, number of employees, age of the companies, total sales, net profit, and percentage of export sales to total sales.

Table 1: Characteristics of the Sample Companies

Company Characteristics (n=47)	Frequency	Percentage (%)
<b>Legal Form:</b>		
Sole Proprietorship	5	10.7
Partnership	9	19.1
Private Limited	33	70.2
<b>Number of Employees:</b>		
1-25	29	61.7
25-50	6	12.8
50-100	12	25.5
<b>Age of Company:</b>		
<5yrs	12	25.5
6-10 years	5	10.7
11-15 years	14	29.8
16-20 years	9	19.1
> 20 years	7	14.9
<b>Total Sales in 2009 (USD):</b>		
< 500,000	7	14.9
500,000-1.5 million	9	19.1
1.5-3.5 million	3	6.4
3.5-5 million	6	12.8
5-6.5 million	4	8.5
6.5-10 million	18	38.3
<b>Net Profit in 2009 (USD):</b>		
< 40000	8	17
40000-80000	6	12.8
80000-120000	2	4.2
120000-160000	8	17
160000-200000	7	14.9
200000-240000	5	10.7
>240,000	11	23.4
<b>Percentage of export sales to total sales:</b>		
<10%	12	25.5
11% to 15%	8	17
16% to 20	7	14.9
21% to 25%	3	6.3
26% to 30%	6	12.8
>30%	11	23.5

Table 2 presents the mean scores and standard deviation of the business strategies as recorded from the respondents. The mean scores ranged from 1.80 to 2.77, suggesting that in general, majority of the companies viewed the six business strategies to be important to their company’s export success.

Table 2: Business Strategies as Emphasized by the Companies (N=47)

1. Niche Strategy	MEAN	SD
Focus on specialty products.	2.22	1.06
Focus on a specific range of products	2.25	0.85
Focus on a specific foreign market	2.17	0.87
Focus on specific foreign customers	2.33	0.93
Focus on new product	2.42	1.06
<b>2. Product Differentiation Strategy:</b>		
Product quality	1.80	1.04
Packaging	2.14	1.09
Design and style	2.13	1.08
Product uniqueness	2.07	1.05
Maximize perceived value of product	2.10	0.89
<b>3. Marketing Differentiation Strategy:</b>		
Adopt competitive pricing	2.10	0.94
Create new distribution channel	2.23	0.97
Increase advertising and promotion	2.33	1.01
Brand building	2.25	1.17
Update product line	2.41	0.97
Use market research	2.26	0.93
Use personal selling	2.57	0.98
Develop new market for product	2.58	1.06
<b>4. Service Differentiation Strategy:</b>		
Quick product delivery	2.04	1.04
Prompt response to customers' orders	1.93	1.00
Offer extensive customer service	2.16	0.98
Personal contacts with overseas distributors	2.22	0.94
Provide quality service	1.90	1.03
<b>5. Innovation Strategy:</b>		
Technological superiority	2.13	0.95
Focus on new innovative product	2.17	0.98
Use advanced communication technologies	2.22	1.00
Improve existing product	2.04	0.91
Improve product process	2.16	0.90
<b>6. Low Cost:</b>		
Purchase materials in large volumes	2.36	1.06
Mass produce products	2.52	1.04
Limited range of products	2.77	0.97
Maximize economies of scale	2.20	1.01
Sell product at budget price	2.55	1.08

(1)Extremely Important; (2) Important; (3) Fairly Important; (4) Not Important; (5) Not Important At All.

Table 3 presents the results of the correlations between the six business strategies and the performance of the international business of trade SMEs as measured in terms of sales, net profit, and number of employees.

Table 3: Correlations between Business Strategy and Performance

Business Strategy (N=47):	Sales	Net Profit	No. of Employees
Niche	0.415**	0.443**	0.209
Product Differentiation	0.366**	0.359**	0.185
Marketing Differentiation	0.361**	0.323**	0.252*
Service Differentiation	0.400**	0.324**	0.245*
Innovation	0.341**	0.260**	0.189
Low Cost	0.295**	0.315**	0.239*

\* Correlation is significant at the 0.05 level (2-tailed).

\*\* Correlation is significant at the 0.01 level (2-tailed).

The results in Table 3 indicate significant positive relationships between the six business strategies (niche, product differentiation, marketing differentiation, service differentiation, innovation and low cost) and the performance (sales, net profit, and number of employees) of the exporting SMEs. However, the correlations between niche, product differentiation, innovation and number of employees were found to be not significant.

## DISCUSSION AND CONCLUSION

This study attempted to examine the relationship between business strategy and the performance of international business in Iran trade SMEs. The results of the correlation analyses presented in Table 3 are statistically significant, which indicates significant positive relationships between the six business strategies and the performance of the exporting SMEs in the study. This study provides some empirical evidence that suggests positive relationship between business strategy and the performance of the SMEs. The results of the study support findings of the previous studies that found business strategies to be important factor for developing exporting SMEs and to have positive effect on business productivity making it competitive in international market. The findings of the study further appear to concur with the general view presented in the literature that suggests the linkage between business strategy and export performance. Additionally, the study seems to support the strategic management perspective that suggests business strategy based on competitive advantage can provide surplus profit to companies.

This study offers implications for exporting SMEs. However, owners and managers of SMEs should realize that there is not one best business strategy for exporting. In view of this, the exporting companies should attempt to adopt business strategy that fits with their capabilities. Furthermore, to ensure that their companies would be able to compete in international markets, owners and managers of exporting SMEs need to focus on developing their business strategy based on the competitive advantage of their companies.

Although the findings of this study may prove to be useful to exporting SMEs, the literature indicates empirical study in this area remains limited, particularly in Iran. This research suggests further studies to explore and identify other business strategies not included in this study which may be helpful to improve the performance of international business of SMEs.

## REFERENCES

1. Crick, D. and Barr, P. "SMEs' barriers towards internationalization and assistance requirements in the UK: Differences between exporters and firms employing multiple modes of market entry"; *Journal of Small Business and Entrepreneurship*, 2007, Canada, vol. 20, issue 3, 233-244.
2. Wheelen, T.L. and Hunger, D.J. "Strategic management and business policy", 2002, Massachusetts: Prentice Hall.
3. Burpitt, W.J. and Rondinelli, D. A. "Small firm's motivations for exporting: To earn and learn?" *Journal of Small Business Management*, 2000, Washington, US, vol. 38, issue 4, 1-14
4. Bell, J., Crick, D. and Young, S. "Small firm internationalization and business strategy", *International Small Business Journal*, 2004, UK, vol.22, issue 5, 23-55
5. Varadarajan, P. R. and Clark, T. "Delineating the scope of corporate, business and marketing strategy", *Journal of Business Research*, 1994, Chicago, US, vol. 31, issue 2-3, 93-105.
6. Porter, M. E. "Competitive strategy", 1980, New York: The Free Press
7. Namiki, N. "Export strategy for small business", *Journal of Small Business Management*, 1988, Washington, US, vol. 26, issue 2, 32-37
8. Cavusgil, T. and Knight J. "Firm and management characteristics as discriminators of export marketing activity", *Journal of Business Research*, 1997, Chicago, US, vol.15, issue 3, 221-235
9. Baird, I.S., Lyles, M.A. and Orris, J.B. "The choice of international strategies by small business", *Journal of Small Business Management*, 1994, Washington, US, vol.32, issue 1, 48-59
10. Lages, P. and Montgomery, C.A. "Product-market diversification and market power" *Academy of Management Journal*, 2004, US, vol. 28 issue 4, 789-798