

Investigation of Challenges Ahead of Globalization of Iranian Small and Medium-Sized Enterprises Process via Export

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ABSTRACT

The present research investigates barriers and challenges ahead of Iranian SMEs in globalization process. In fact, the model used in this research tests the influence of internal and external barriers on globalization of Iranian SMEs via export. Statistical population of the research included all experienced managers (at least two years) in the field of export of SMEs. 3 provinces were selected out of 31 Iranian provinces by cluster sampling method. Sample was selected by means of simple random sampling method. Data were collected by 207 questionnaires. Data analyses using structural equations modeling technique was conducted in LISREL software. Results showed that internal and external barriers have direct impacts on globalization of SMEs via export.

KEYWORDS: internal barriers, external barriers, SMEs, globalization, export

INTRODUCTION

The present era is full of unpredictable transformations and companies are confronted with the harshest competitive conditions due to factors like unclear borders of markets, fragmentation of markets, short products lifecycles, and rapid changes in customers' purchase desires and awareness of customers (Vazifehdoust, Vaezi & Tavanazadeh, 2014). For decades, a company's value was measured based on its equipment, properties, tangible assets and factories. However, it is now believed that the real value of a company is somewhere in potential consumers' minds (Heidarzadeh et al, 2011). Presence of harsh competition among companies for acquiring more shares of markets and customers' attempts to reach higher satisfaction has made companies to look for better conditions in markets and made customers to look for the best service and product providers (Tavanazadeh and Aligholi, 2014).

One of the main features of the business environment in the 21st century is globalization growth. Globalization of industrial and market environment has increased competition and export. Export activities have increased profitability and improved commercial balance and contribute to alleviation of poverty and unemployment. Many previous studies regarding globalization of companies have emphasized on multinational or large companies. Moreover, a review of the studies conducted on export barriers ahead of SMEs in developing countries show that few studies have been conducted in this regard. From geographical viewpoint, most studies regarding exports have been conducted in USA and EU. This means few studies have been conducted on development of export in SMEs in Middle East (Hyari et al, 2012).

Globalization is a collection of multidimensional and complex processes which embraces various arenas like economy, ideology, politics, culture and environment and increases inter-dependence of countries. Some define globalization as growth of commerce and financial freedom (Terminassian, 2007). Globalization is a continuous process of the historical path of internationalization which increases inter-dependence of countries from economic, political, cultural and environmental dimensions. Globalization makes your problem our problem. War in one country is followed by movement of refugees to other countries and environmental issues in one country brings calamity in other countries (Lucas, 2004). Integration of global markets via reduction of commercial barriers, improvement of communications, and direct foreign investment has facilitated the free flow of capital among different countries and this may accelerate economic growth. Supporters of globalization believe that developing countries can accelerate their development speed (Farlex, 2009). In general, opponents believe that globalization is to large companies' benefits and will harm SMEs. Some

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political commentators believe that globalization brings global invisible decision-making centers and threatens weak countries (Farlex, 2009). SMEs constitute a large part of the economy of each country. These are production-commercial firms which have smaller sizes than large companies. Usually, these firms are classified using the following four indices:

1. the number of employees in the firm
2. firm's total net assets
3. firm's sales level
4. firm's investment

EU mentioned the following criteria for identification of SMEs:

- a. Having the number of employees below 250 people
- b. At most 40 million Euros of annual financial circulation
- c. At most 27 million euros in annual balance sheet
- d. At least 75% of firm's assets are owned by managers.
- e. Owner(s) or their relatives manage the firm on their own.

According to statistics revealed by Iranian Organization for SMEs and Industrial Estates, there are 86506 SMEs in Iran. Further, there are 13686 SMEs which are active in Food Industry which is going to be studied in this research.

Export is a way of entering external markets. The primary motivation for export is use of the market or doing business in order to absorb overload. Increase of export is regarded as a development motor in developing countries (Ibeh, 2004).

Globalization of SMEs via export

In global market, export is regarded as an important strategy for companies. Many studies conducted on globalization concentrate on apparent processes which are related to export, licenses, franchises and direct foreign investment and export is the main part of globalization of SMEs. Globalization of industrial and market environment has increased competition and export. These issues are the commonest and simplest ways for globalization of SMEs (Papalexiou, 2009). Investigations show that 25 to 35 percent of global export belongs to SMEs (Andersson and Floren, 2008). Moreover, export is the main way for entering global markets. However, many SMEs in developing countries do not even think about export. They ignore the fact that export does not need to much investment and some financial and commercial risks are lower in foreign markets (Agndal&Chetty, 2007). Owners of such enterprises do exports very carefully and compare their entrance to external markets via export with different kinds of direct investment, joint venture, and cooperation with multinational companies which have lower financial and commercial risks (Andersson & Floren, 2008). Globalization of SMEs (or export) has many different methods. One way is to teach them to export. The second way is to stimulate non-exporting companies to start export (Tesfom & Lutz, 2006). In developing countries, export development strategy is a means for increasing profitability in SMEs (Kazem & Vander, 2006). This can be achieved by convincing exporting companies to increase their export or teaching non-exporting companies to start export (Tesfom and Lutz, 2006). Because export activities can have advantages in global commerce level, understanding of export barriers is an important subject in today's commercial environment (Leonidou, 2004). Identification of main barriers is an effective way for stimulation of SMEs for entering external markets. Identification of export barriers can help government with making internal companies export (Hyari et al, 2012). Export barriers refer to all obstacles which cause restrictions in enabling a firm to do business in external markets. in general, export barriers are classified into internal and external barriers (Leonidou, 2004). Internal barriers refer to a company's organizational ability and include those behavioral and structural aspects which concern the inside of a company and have a potential influence on exports (leonidou, 2004).

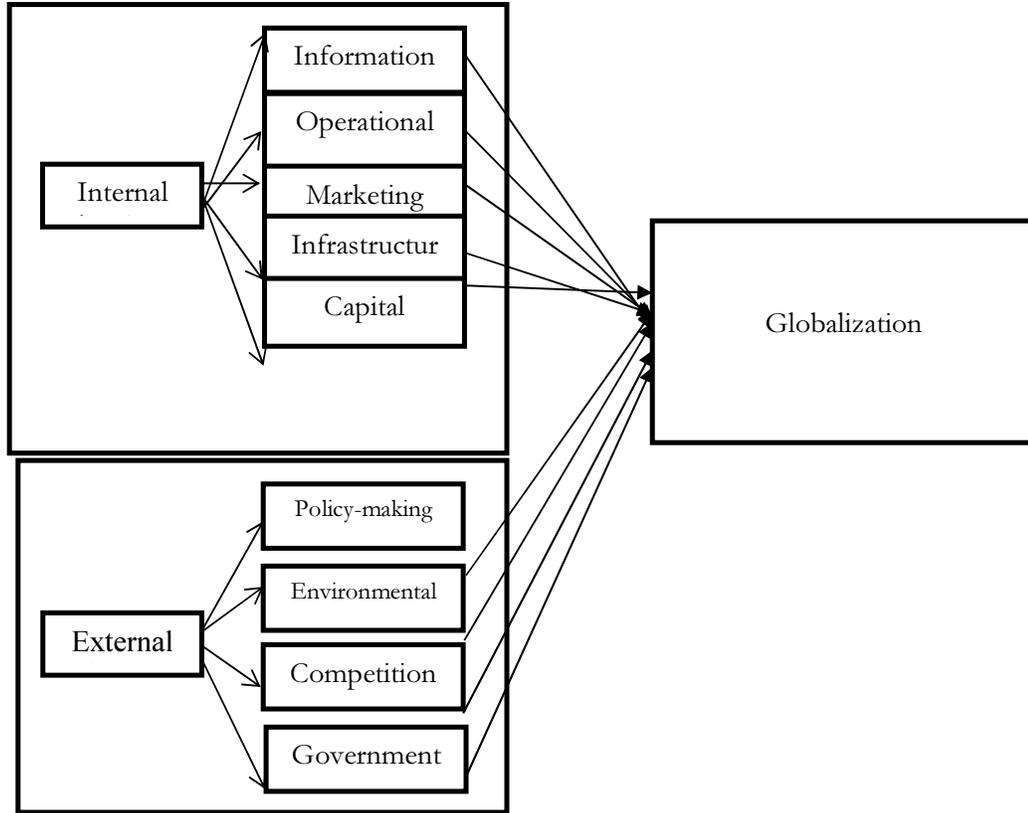
Further, many export barriers are external and do not concern the company's activities and abilities. External barriers include different preferences of external consumers, unfamiliar commercial protocols, tariff barriers shut-in, import control regulations in destination countries, competitive forces and variations in currency value (Tesfom& Lutz, 2006).

Objectives/proposed conceptual framework

Considering the special role of SMEs in creation of jobs and economic growth and their contribution to social stability and their role in increasing export, innovation and inventions, it seems that SMEs are necessary for all-embracing economic and social development and many politicians,

programmers and regulatory and executive entities pay special attention to the importance and role of these firms. SMEs importance in economy has been clarified in the previous studies. SMEs need to overcome export barriers. In the present research, first we classified internal and external barriers considering the previous studies conducted by Hayari et al (2012), Dejbarni and Hayari (2009), Tesfom and Lutz (2006) and Leonido (2004). In the next step, we identified the main internal and external barriers based on studies conducted by Sing and Naz 92010), Tesfom and Lutz (2006) and Leonido (2004) and interview with university professors. The research conceptual model is as follows:

Research conceptual model



These barriers have been classified in different ways but in the present research we divided them into two general categories: internal and external barriers. From an analytical viewpoint, internal barriers include information barriers, operational barriers, marketing barriers, infrastructural barriers, capital barriers. External barriers include policy barriers, government barriers, environmental barriers and competition barriers.

Independent variables which deal with globalization barriers are internal and external barriers. Because globalization barriers influence export performance, the following hypotheses were developed:

- Hypothesis 1: information barriers influence globalization process in companies.
- Hypothesis 2: operational barriers influence globalization process in companies.
- Hypothesis 3: marketing barriers influence globalization process in companies.
- Hypothesis 4: infrastructural barriers influence globalization process in companies.
- Hypothesis 5: capital barriers influence globalization process in companies.
- Hypothesis 6: policy barriers influence globalization process in companies.
- Hypothesis 7: government barriers influence globalization process in companies.
- Hypothesis 8: environmental barriers influence globalization process in companies.
- Hypothesis 9: competitive barriers influence globalization process in companies.

METHODOLOGY

The present research is an applied research in terms of objective. This research is a correlation study. Statistical population of the research included all Iranian SMEs which were active in Food Industry sector. We used cluster sampling method to pick sample members. We used both library and field data collection methods. Parametric statistical methods were used for data analysis. Descriptive statistical indices were used for describing data and inferential statistics were used for testing research hypotheses. In order to do inferential calculations, we used structural equations modeling technique in LISREL software.

Analysis and findings

207 questionnaires out of 250 distribute questionnaires were returned and analyzed. 0.22 (46 companies) in this research had lower than 50 employees and 78% (161 companies) had more than 50 employees. 62 companies (30%) exported to Iraq and the lowest export belonged to Azerbaijan by 16 companies (8%). 24% of companies had lower than 15 years of experience in external markets, 0.57 had between 10 to 15 years of experience and 19% had more than 15 years of experience in external markets. 68 respondents (33%) were managing director or members of board of managers of their respective companies and 138 respondents were sales managers. 27% of the companies were active in confectionary industry, 12% were active in dairy industries, 0.11 were active in food conserves industry, 17% were active in fruit juice and concentrate industry, 0.21 were active in meat products industry and 0.12 were active in other food industries. 59% of the respondents had bachelor degree (the greatest frequency) and zero percent of the respondents had PhD degree (lowest frequency). Therefore, the majority of respondents had bachelor degree.

Confirmatory factor analysis

Data were analyzed by means of structural equations modeling research in LISREL software. LISREL analysis includes two stages: in the first stage, we use confirmatory factor analysis for measuring model variables. In factor analysis, research variables are investigated in terms of validity and in the second step, we use path analysis to confirm the hypotheses and measure causal relations of the variables.

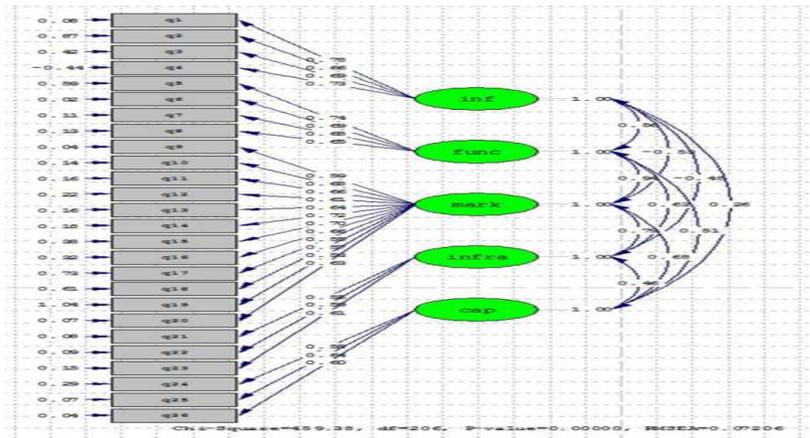


Figure 1: internal barriers variables constructs in standard estimation state

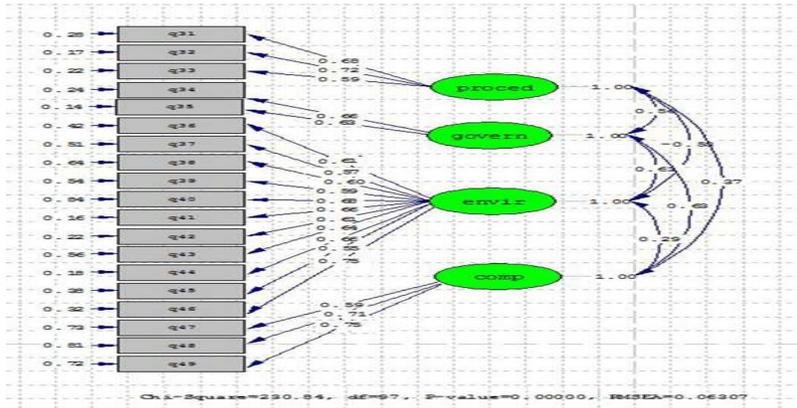


Figure 2: external barriers variables constructs in standard estimation state

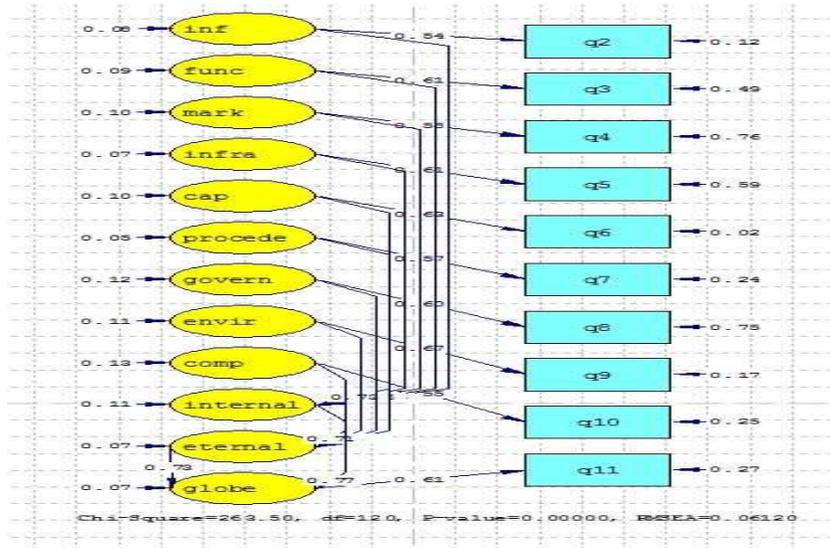


Figure 3: model in standard estimation state

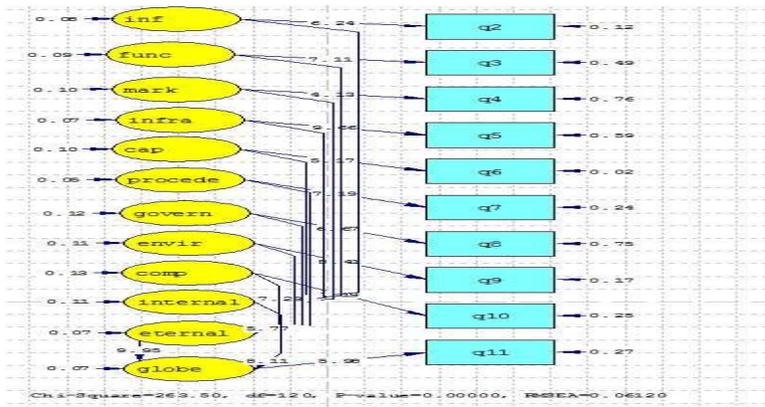


Figure 4: model in significance of coefficients state

Results of confirmatory factor analysis showed that all factor loadings are related to significant constructs and play role in measurement of the corresponding construct and constructs are valid enough. Considering the model in standard coefficients state, it can be said that which variable plays a higher role in measurement of the construct which has a greater standard coefficient. Considering the figure, it can be said that which variable has more share in measurement of each construct. Based on the model in standard coefficients state, the variable with greater standardized coefficient plays a stronger role in measurement of the construct. All factor loadings are significant in 95% significance level and all factor loadings are 0.5 and above. The following table indicates path analysis in detail:

Table 1: path analysis for relationships between research main hypotheses (main hypotheses test)

hypothesis	path	Correlation coefficient (factor loading)	Hypothesis test result
1	Globalization-internal-information barriers	0.76*0.77=0.58	supported
2	Globalization-internal-operational barriers	0.77*0.77=0.59	supported
3	Globalization-internal-marketing barriers	0.76*0.77=0.58	supported
4	Globalization-internal-infrastructure barriers	0.70*0.77=0.53	supported
5	Globalization-internal-capital barriers	0.73*0.77=0.56	supported
6	Globalization-external-policy barriers	0.77*0.73=0.56	supported
7	Globalization-external-government barriers	0.73*0.73=0.53	supported
8	Globalization-external-environmental barriers	0.75*0.73=0.54	supported
9	Globalization-external-competition barriers	0.71*0.73=0.51	supported

Considering table 1, the following conclusions can be drawn:

1. considering the positive, direct(coefficient) and significant (t) relationship between variables, all research hypotheses are verified.
2. the intensity of relationship between variables in the mentioned paths are depicted in table 1. Considering the fact that the research aims to create an appropriate relationship model between variables, the total path of the research is verified.

General model's fit test

In general, there are two types of indices for testing model's fit: 1. Goodness of fit indices, 2. Badness of fit indices

Results of model fitness for main variables

indices	Allowable value	Calculated numbers	result
Chi-square / df	$\chi^2 / df < 3$	2.19	Good fit
RMSEA	0.05 << 0.08	0.063	Good fit
GFI	Above 0.9	0.92	Good fit
AGFI	Above 0.9	0.93	Good fit
CFI	Above 0.9	0.94	Good fit
NFI	Above 0.9	0.94	Good fit
NNFI	Above 0.9	0.93	Good fit

The calculated values for fit indices show that all patterns are appropriate for fitting. Results of factor loadings for measurement variables have been summarized in the following table. All factor loadings or obvious variables are significant and it can be said that the results of confirmatory factor analysis verify the fitness of the model.

Conclusion ad implications

We tried to collect necessary data and propose an appropriate solution for research problem. After data analysis, we should draw conclusion from research results. Results showed that information barriers, marketing barriers, operational barriers, infrastructural barriers, capital barriers, policy-making barriers, government barriers, environmental barriers and competition barriers influence globalization of SMEs in the studied population. Today, managers and all those who benefit from export look for ways to increase their profits. These managers should be able to remove the challenges ahead of entering global markets and thereby survive in the global competition. The main concern of this research was the obstacles ahead of SMEs in entering international markets. Managers of SMEs can adopt more active policies in the field of learning business intelligence and marketing research and

therefore predict, identify and understand export challenges. Managers of exporting production firms can use new technologies and decrease production costs and therefore increase their production to be able to export their production surplus. Managers can hold training seminars and increase employees' skills in exporting activities like marketing, methods for entering global markets, finding target markets and so on. Managers of firms should emphasize on individual and organizational factors in order to improve after-sales services and therefore establish long-term relationships with customers. Considering the different tastes of external customers and standards of exporter's quality, SMEs can observe technical and national standards and investigate target markets and therefore develop new products for external markets. Government should create necessary infrastructure like transportation, new technology import, and inventory and ... in order to facilitate exports. One of the main dilemmas ahead of development of SMEs is restrictions with financing in the form of circulating capital and its organizing involves appropriate interaction between private sector and government policy-making. Small companies have currency restrictions and they require establish agents in the target countries and have direct relationships with external customers. They can also facilitate payments which are usually difficult due to geographical distances. Government policy-makers can regulate national export policies and establish international agreements, create appropriate commercial institutes, reduce tariff obstacles and therefore encourage exporters. This can help join global community. Because shortage in information or inappropriate information paraphrase results in competitive inability against competitors, organizations can predict price variations, competitors' strategies and threats of newcomers by removing such barriers. Entrepreneurs recognize the conditions of ICT era. Managers of exporting companies can ask entrepreneur managers for help and create necessary infrastructure for globalization via identification of target markets, competitors' market share, and product standards in global markets and so on.

Limitations and future research hints

Interpretation of the results of this research should be done by considering the restrictions. One of the limitations ahead of this research was that the research subject was so wide and it would be better if the author was able to do more studies and become familiar with different areas of the topic. Therefore, the research viewed all research areas in a comprehensive manner in all research stages. In future studies, one can use MADM methods for identification and specification of the impact of variables. We hope the present research to have some implications for future studies regarding provision of models for solving barriers ahead of SMEs exports.

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