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A Model for Successful Presence of Iranian SMEs in International Markets

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Joint MSc PROGRAM IN MARKETING AND ELECTRONIC COMMERCE

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MASTER'S THESIS

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2008



TARBIAT MODARES UNIVERSITY
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**A Model for Successful Presence of Iranian SMEs
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Abstract

Due to the significant role of Small and Medium-sized Enterprises (SMEs) in economic and social improvement of a country, further the shortage of a fairly extensive model which holds required factors for their decision makers in order to be successful in foreign market presence, “**A Model for Successful Presence of Iranian SMEs in International Markets**” has been chosen as the topic for this research. Furthermore because of competition ability of Iranian food industry in international markets, this industry selected for the statistical community. Actually, within this study ESPM as the original model has been considered to be tested for Iranian SMEs which are or going to be active in the foreign markets. Totally 246 valid questionnaire were gathered and by means of “Factor Analysis” method both data and model were evaluated through EFA and CFA. In other words, “Exploratory Factor Analysis” postpones the usual assumptions about what kind of model the data follow with the more direct approach of allowing the data itself to reveal its underlying structure and model. In addition, “Confirmatory Factor Analysis” hypothesizes the structure of the model which has been built during the exploratory phase. Furthermore, **AMOS 16** and **Statistica 7.0** were used as the softwares during this research for data analysis. According to the presumed hypotheses in this research, out of 22, the number of 16 hypotheses has been accepted and six of the total number rejected. In this research also a data analysis flowchart has been designed through a teamwork activity as a contribution. Finally the research limitations and some recommendations for further researches have been offered.

Key Words:

SME, Foreign Market Successful Presence, Food Industry, Performance, Timing of Entry, Investment, Competitive Positioning, Sources of Advantage, Product-Market Characteristics

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CHAPTER 1

Introduction

Introduction

This chapter will present a brief background of the thesis, it will begin with the definition of Small and Medium-sized Enterprises (SMEs), also Internationalization and Foreign Market Presence, thereafter will be followed by Problem Statement, Research Question and Hypotheses, Research Design and Research Methodology. Finally, the outline of the thesis will be delivered.

1.1 Research Background

Through studying the economical conditions of recent decades, a remarkable change in the global business environment has emerged. The entry of many multinational companies to the global market –especially in developing countries which have high-potential and advantageous markets as well as low production costs as their main characteristics– have transformed the international trade environment drastically (Ghanatabadi, 2005). Although a large number of developing countries had remained

outside of this growing specialization until the mid-1980s, they have since gained such presence due to factors such as external pressure to open markets, commencing of trade liberalization, globalization, and internationalization (Raynard & Forstater, 2002; Kaplinsky & Readman, 2001). These conditions allow Small and Medium sized Enterprises (SMEs) to expand considerably and catch a huge percent of global business within both developed and developing countries. (UNIDO report, Corporate Social Responsibility: implications for small and medium size enterprises in developing countries, 2002, www.unido.org). The nature of SMEs, in that they promote private ownership, stimulate innovation and possess the flexibility to match rapid changes in market demand, renders them powerful enough to be able to compete and in some cases overtake large companies (Antal Szabó, 2002). Based on the significant role of SMEs in economic development and lack of tentative studies on internationalization of SMEs in developing countries, Iran as a developing country with numerous outstanding circumstances has been selected for this research in order to evaluate a model which offers the factors and constructs effective in establishing a successful presence in international markets. Consequently the definition of SMEs further Internationalization and Foreign Market Presence would be stated hereinafter;

1.2.1 Small and Medium Sized Enterprises (SMEs)

Small and medium-sized enterprises are mentioned as the major points of a country in economic and social development, whereas they represent 99 % of all enterprises in the EU, provide around 65 million jobs, and contribute to entrepreneurship and innovation. In average, there are 52 SMEs for every 1000 persons (Strategy Document to Enhance the Contribution of An Efficient & Competitive SME Sector, 2005). They stimulate private ownership and entrepreneurial skills, they are flexible and can adapt quickly to changing market demand and supply situations, they generate employment, and make a significant contribution to exports and trade (UN/ECE, 1997). Based on the staff headcount and financial ceilings enterprises have been categorized as following:

1. The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

2. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

3. Within the SME category, a micro enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. (Official Journal of the European Union, 6 May 2003)

1.2.2 Internationalization and Foreign Market Presence

Besides the approaches, there are some definitions of internationalization but, Beamish et al. (1990) suggested a new definition to cover the prior definition and findings; they defined internationalization as the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries. Later, Calof & Beamish (1995) defined internationalization as “the process of adapting firms’ operations (strategy, structure, resource, etc.) to international environments”.

Entering new foreign markets may be achieved in a variety ways such as

- ✓ **Exporting**
- ✓ **Strategic Alliances in their various forms such as Licenses, Franchising, and Joint venture**
- ✓ **Foreign Direct Investment and Acquisition (Buckley and Casson, 1998)**

Considering the above preface and definitions the required terminologies, the

research problem will be discussed in the next step.

1.3 Problem Statement

As small and medium sized enterprises have private ownership and entrepreneurial skills, they are flexible and can adapt rapidly to changing market requirements and stresses; furthermore, they can create employment, help diversify economic activity and make an important contribution to business and export. Based on UNIDO report SMEs comprise more than 90% of world enterprises and between 50 to 60 percent of employment in this sector (UNIDO, 2005). However, by considering the above characteristics of the subject firms, there are a number of obstacles to expanding the roles that SMEs may be able to play in domestic and international trade. The important issues for increasing the SME manufacturers' role in exporting are quality and conformity to standards, which entail testing and certification processes as the preclusion to sales (since products cannot be sold if they do not comply with a range of safety, health and other regulations). SMEs have difficulty adopting expensive quality management systems or certification procedures that sometimes have to be repeated several times.

SMEs are estimated to be more numerous in importing than exporting due to higher costs (transport, insurance, non-payment risk) and lower profits realized in export transactions. Therefore regarding evaluation of the entrance of SMEs to foreign markets they are faced with lack of information, lack of capital, shortage of management skill, lack of risk assurance, technical trade restrictions, marketing and distribution problems, high transportation costs, and communication problems.

Iranian SMEs, like their counterparts in other developing countries, could face saturation of the domestic market if they stay in and/or encounter various problems in entering global markets. There are many obstacles to overcome, from choosing the principal foreign market entry mode among Export, Contractual and Investment to surviving in the face of severe competitiveness. But arrival to international markets has

grown increasingly necessary for them in recent years and they must find a solution for these dilemmas. Furthermore, lack of an exhaustive model which covers the aspects of micro and macro environments that enable managers to choose an effective market entry strategy for a successful presence is tangible. Though there is no comprehensive model that fulfills all requirements and considers all risks and threats for SMEs expanding into the international marketplace, a model designed to assist decision makers for effective strategy of market entry to maintain successful presence in foreign markets is highly required and recommended. Therefore based on the problem stated hereinabove our research problem is formulated as follows:

What factors (constructs) are effective on successful presence of Iranian SMEs in international markets, and how the causal effects of these factors on each other are. In other words, what causal model dominates in these factors?

1.4 Research Question and Hypotheses

The research question is often stated in the context of some theory that has been advanced to address the problem, and being the central issue assessed in the study, is often phrased in corresponding terminology. The problem with such a question is that it is still too general to be studied directly (Trochim & William, 2006). Based on the abovementioned problem statement and considering many factors and constructs which must be considered for Iranian SMEs achievement such as target market potential, entry barriers, number of competitors, time of entry to the new markets, marketing strategies, the amount of investment and so on; and moreover, the important role of managers and decision makers of SMEs, the following research question has been developed with general terms. Thus, for a more accurate conclusion these research questions will be studied in specific statements by considering specified hypotheses.

Is there any working model for Iranian SMEs as a guiding basis for the goal of their entry to foreign markets and successful presence?

Consequently, in most research, an even more specific statement, called a

'hypothesis' is developed that describes in operational terms exactly what will be expounded in the study. The hypothesis must be specific enough as to signify clearly that which the study is trying to assess. Therefore, a hypothesis is a specific statement of prediction that describes in concrete terms what is expected to occur in the study (Trochim & William, 2006). The major factors of the model are listed below;

- Sources of advantage
- Concentration ratios
- Number of active competitors
- Timing of entry
- Distribution Investment
- Advertisement Investment
- Quality
- Value
- Performance

As mentioned, this study considers some detailed hypotheses to test and evaluate the casual effect among the above constructs in order to develop the fundamental and major purpose of the research. These hypotheses are as follows:

H1: The earlier the entry of the focal product into a market (new or existing), the better the long-term performance.

H2a: Greater "advertisement investment" at the time of market entry positively and directly affects long-term product performance.

H2b: Greater "distribution investment" at the time of market entry positively and directly affects long-term product performance.

H3a: Greater "advertisement investment" in areas of potential competitive advantage at entry, positively and indirectly affect long-term performance through "Quality".

H3b: Greater "advertisement investment" in areas of potential competitive advantage at entry, positively and indirectly affect long-term performance through "Value".

H3c: Greater "distribution investment" in areas of potential competitive advantage at entry, positively and indirectly affect long-term performance through

“Quality”.

H3d: Greater “distribution investment” in areas of potential competitive advantage at entry, positively and indirectly affect long-term performance through “Value”.

H4a: The “Quality” at entry will result in better long-term performance for a product.

H4b: The “Value” at entry will result in better long-term performance for a product.

H5a: “Number of active competitors” will have a direct effect on the long-term performance of new product entries.

H5b: “Concentration Ratio” will have a direct effect on the long-term performance of new product entries.

H6a: “Number of active competitors” will affect the timing of entry decision.

H6b: “Concentration Ratio” will affect the timing of entry decision.

H7a: “Number of active competitors” will affect the “Advertisement Investment” at entry.

H7b: “Number of active competitors” will affect the “Distribution Investment” at entry.

H7c: “Concentration Ratio” will affect the “Advertisement Investment” at entry.

H7d: “Concentration Ratio” will affect the “Distribution Investment” at entry.

H8: Greater inherent sources of advantage lead to earlier market entry.

H9a: Greater inherent sources of advantage lead to greater “advertisement investment” at entry.

H9b: Greater inherent sources of advantage lead to greater “distribution investment” at entry.

H 10a: Greater inherent sources of advantage lead to superior “Quality”.

H 10b: Greater inherent sources of advantage lead to superior “Value”.

1.5 Research Design

The below image is the schematic procedure of our research processes. The problem is stated in the first step and then to make it meaningful more, some research questions are specified. As far as the research questions are not very detailed we narrow them down to 22 hypotheses hence the final purpose of the research is evaluating them and replying to the research questions.

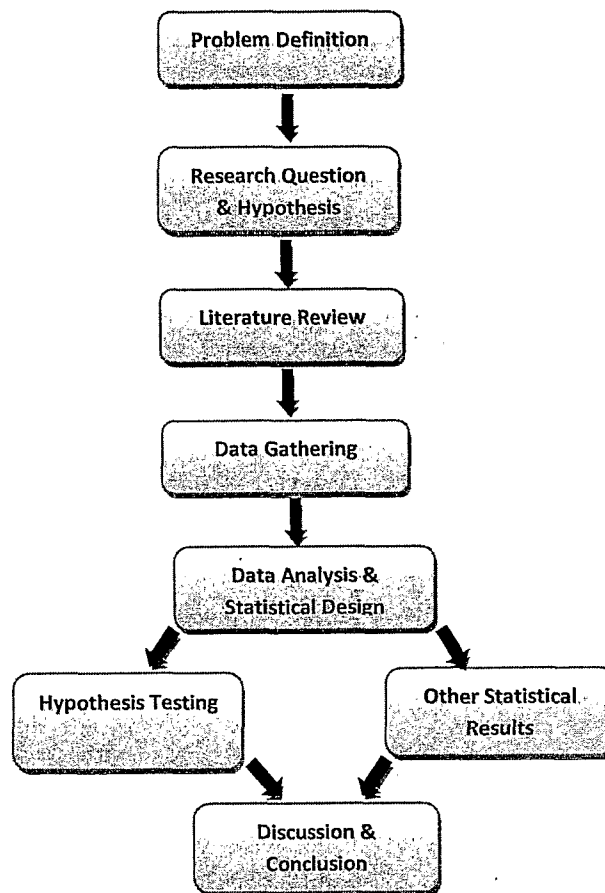


Figure 1-1: Research Procedure 1

1.6 Methodology

Methodology concerns the approach to conducting analysis and obtaining results from a research. It is focused on the specific ways –the methods– used to try to understand the world better. Namely, methodology involves the philosophy of how you come to know the world and methods involve the practice (Trochim & William, 2006). In this regard, rather than explicating the philosophy of methodology in general terms, we

have chosen to focus on explaining the details of the methodology used for this research in the third chapter. In other words, instead of verbalizing the general issues, the specific items will be explicated in further depth.

1.7 Outline of the Thesis

For readers better being comprehended the whole study, based on table 1-1 this thesis has been divided to five chapters. Following the first chapter “Introduction” which is for more reader’s familiarity with the study, the “Literature Review” as the second chapter will be brought. More over the hypotheses, which are proposed for evaluating within next chapters, this chapter is a comprehensive study for related concepts which have been propounded by different writers.

Table 1-1 List of Chapters 1

1	Introduction
2	Literature Review
3	Research Methodology & Statistical Design
4	Analysis of Empirical Data
5	Finding & Conditions

Subsequently, chapter three presents the ‘Research Methodology and Statistical Design’ of the study; i.e., the road map of reaching from the beginning to the end point. Chapter four relates ‘Analysis of Empirical Data,’ with detailed custom graphs, models, and tables. Finally, the last (fifth) chapter contains overall conclusions that can be drawn from the research, based on evaluated data in relation to the research questions and hypotheses, as well as recommendations for further research.