

**Key Reasons Influencing Export Performance in Small and Medium sized Enterprises:
Case study of Iran**

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ABSTRACT

Small and Medium sized Enterprises (SMEs) play a vital role and are considered to be the backbone of industrial development of developing economies. In this situation exporting is an essential growth strategy for Small and Medium sized Enterprises. This study therefore investigated key reasons that, Small and Medium sized Enterprises prefer to export and examined relationship between “key reasons to export” with “performance of SME’s export”. This study follows a quantitative research design using survey methods with statistical treatment. The data was collected from a survey of 44 Small and Medium sized Enterprises which exports fruits and vegetables at Tehran Province in Iran. The key reasons for export are identified with a questionnaire distinguishes with 14 items. Six items were used to measure the performance construct for profitability indicators (growth in sales, growth in profits, and growth in operations, overall performance and rapid growth in export activities, additional facilities and offices). The result of the survey shows that there is a significant relationship between some reasons to export (expanded markets and increased sales, achieving higher profit margin, growth potential for long-term survival, access to international markets, expanded production volume, decreased vulnerability to losing clients or even to economic fluctuations on the domestic market, obtaining hard currency necessary to import raw material, increased levels of employment) and Export performance of Small and Medium sized Enterprises in Tehran.

Key words: Export, Performance, SME, Iran

INTRODUCTION

Small and Medium Enterprises can be defined separately by the number of employees working. The importance of Small and Medium Enterprises was not being considered in past history. Only the large firms were believed to take part significantly in the growth of the economy of the country as well as an important part in the struggle for gaining huge foreign reserves. The situation changed when developing Asian countries developed on the basis of their SMEs and economists started to believe in the potential of Small and Medium Enterprises [8]. SMEs play a very significant role in the development of any economy. This statement is even applied to developing countries more strongly. So, for the developing countries like Iran, SMEs are very helpful for economic development [2].

Export is an important phenomenon for the worldwide economic growth too. The importance of export has remained a hot topic for centuries. Export is an international trade whereby goods are produced in a certain country and shipped to some other country [10]. Authorities in organizations have agreed upon that continuous growth which can be obtained by exploring foreign trade opportunities. So exporting reasons is a key factor for the organizations which require a huge growth potential [6]. SME's ability to export has become very crucial for their long-term survival and growth. This depends on SME's capacity to remain internationally competitive. Productivity growth is the key which will enable SMEs to deliver products at lower costs [11].

In this study, we focused on the key reasons to export in SMEs. The purpose of this survey, therefore, is to explore relationship between key reasons to export in SMEs with 'performance of export' at Tehran Province in Iran.

LITERATURE REVIEW

Small and Medium sized Enterprises (SMEs) around the world are the most important sector of a nation's economy. SMEs account for a majority of the enterprises in many countries

[14]. The SMEs are very important for worldwide economy. So in many economies, the decline in indigenous industries has shifted the focus of attention onto SMEs and exporting is an essential growth strategy for SMEs [5].

SME's ability to export has become very crucial for their long-term survival and growth. This depends on SME's capacity to remain internationally competitive [11]. The action of export sales is really beneficial for the gross domestic production of an exporting country. Several researchers have investigated SME's reasons for export. SMEs are the main players in the international arena where exporting is central to their survival [4].

Katsikeas et al. (2000) highlight the importance of exports from three perspectives. Firstly, for politicians, who analyze exports as a way to accumulate foreign currency reserves, increase levels of employment, productivity and social prosperity. Secondly, for managers since exports are a form of corporate growth that imply an increase in production capacity, an improvement in financial results and business competitiveness, also to ensure the survival of the company in a highly globalised marketplace and to gain experience. And thirdly, for researchers, who consider exports as a changing but promising area to develop theories. Tybout (2000) suggests that foreign competition drives inefficient domestic producers to exploit scale economies, eliminate waste, adopt best practice technologies or shut down. The result of the survey shows that the factors which influence SME's export performances in Indonesia are competition and supply product on time [13].

Rangarajan(2011) indicated that expanded markets and increased sales, decreased production costs and increased productivity due, in general, to economies of scale and better use of resources made possible by greater volume, decreased vulnerability to losing clients or even to economic fluctuations on the domestic market, increased useful life for products and services through the possibilities afforded by new markets, while demand is relatively satisfied on the domestic market, increased company expertise and experience, which will prove a valuable asset even on the domestic market, where it will often allow the company to assert its dominant position over its competitors are typical benefits that a company will gain from exporting.

Gilmore et al. (2001) explained that SMEs decision to export was stimulated by external stimuli in most cases. Owners/managers realized that their home market was limited and business growth and survival depended upon the company's success in exporting. Their primary reason to begin exporting was to initiate trade in emerging or established markets. Mahmood (2003) examined why companies started exporting? The result showed that continuous selling to existing customers who moved abroad, initiate trade in an emerging or established foreign market, reduce manufacturing costs for domestic markets, stabilize revenue fluctuations in domestic market, stay competitive with rival firms are main reasons. To diversify business risk, to expand production volume, to obtain hard currency necessary to import raw material, to achieve higher profit margin, to sell products that do not match local taste, to avoid bureaucracy in the local market, to avail various attractive export incentives offered by the Govt are main reasons for a SME to decide on exporting[9].

Daud (2009) believes that despite the risks involved, which are actually part and parcel of any business, exporting brings a number of benefits to small businesses. These benefits of export are the potential increase of sales and profits, expanded markets, sales of products, better potential for long term growth and lower cost of production.

SMEs are having a huge part in the GDP of Iran. But the exports of SMEs need some serious attention. There is a lack of study on this topic specifically in the Iranian context. Hence, this paper attempts to survey key reasons to export in SMEs. To achieve this, the research poses the following questions.

Q1: Why do small and medium size enterprises export?

Q2: Is there a significant difference between the responses of respondents regarding frequency of level of export's reasons.

Q3: Is there a significant difference between key reasons to export in SMEs with 'performance of export'.

MATERIALS AND METHODS

A survey was conducted among SMEs of fruits and vegetables in Tehran province of Iran. This province was specifically selected because this province has maximum number of SME in Iran. The sample consisted of all members of SMEs that export fruit and vegetable in Tehran. In total, there were 44 SMEs that export fruits and vegetables in Tehran. The survey involved face-to-face interviews for data collection based on a questionnaire prepared in December 2011. A scale from 1 to 5 was used (1 = Very low; 5= Very high) for 14 items to indicate key reasons to export. Performance has been measured in a number of ways in past research. In the present research six items were used to measure the performance construct for profitability indicators (growth in sales, growth in profits, and growth in operations, overall performance, rapid growth in export activities and additional facilities/offices).

Table 1. Reliability Analysis (Alpha).

Scale name	Alpha value
Reasons to Export	75%
Performance of Export	84%

To examine the reliability of the questionnaire, a pilot study was conducted on 15 out of 44 SMEs and Cronbach's alpha for the items of Likert type scales were computed at 0.75 and 0.84 (Table 1). In this research, content and face validity were established by a group of export experts and SME's experts.

We used Frequencies, Mean, Friedman test and Coefficient of Correlation to analyze the data. The analysis was carried out using the "Statistical Package for the Social Sciences" (SPSS 20).

RESUILS

The results showed that of 44 respondents, 42 (95.45%) were male and 2 (4.55%) were female. The education profile showed that of 44 respondents, 37(84.1%) were graduates with BA or BS degree, 7(15.9 %) were post graduates with an MS.c, MA or MS degree. To answer the first research question Q, simple frequency analysis (table 2) was carried out to rank the relevance of each reason to the exporter.

Table 2 .Key Reasons to Export in Fruit and Vegetable SMEs.

Reasons	Frequency of Occurrence
To expanded markets and increased sales(X1).	88.57%
To achieve higher profit margin(X2).	84.71%
To growth potential for long-term survival(X3).	81.42%
To access to international markets(X4).	80.57%
To expand production volume(X5).	77.28%
To compete with other SMEs(X6).	75.71%
To diversify business risk(X7).	75%
To increased company expertise and experience(X8).	74.28%
To decreased vulnerability to losing clients or even to economic fluctuations on the domestic market(X9).	64.28%
To obtain hard currency necessary to import raw material(X10).	63.28%
To increase levels of employment(X11).	56.14%
To avoid bureaucracy in the local market(X12).	52.28%
To sell products that do not match local taste(X13).	44.14%
To avail various attractive export incentives offered by the Govt(X14).	42.85%

Hence, it is quite interesting to note the significance of expanded markets and increased sales as the highest score for a reason to export.

In order to find out whether there is a difference between responses of respondents regarding frequency of level of export's reasons, Friedman test analyses were applied. The test conducted for 13 degrees of freedom at the 0.05 level of significance shows that there is a

significant difference between the responses of respondents regarding frequency of level of export's reasons (F value=196.941, $Sig=0.000<0.05$), hence, the research hypothesis is supported.

Spearman coefficient was employed for measurement of relationships between the key reasons to export in SMEs and performance of export. Table 4 displays the results which show that there was relationship between independent variables (expanded markets and increased sales, achieve higher profit margin, growth potential for long-term survival, access to international markets, expanded production volume, decreased vulnerability to losing clients or even to economic fluctuations on the domestic market, obtain hard currency necessary to import raw material, increased levels of employment) and performance of SME's export.

Table 4. Correlation Measures between Independent and Dependent Variable

Independent variable	Dependent variable	R	Sig.
expanded markets and increased sales	Performance of SMEs export	0.922**	0.000
achieve higher profit margin	Performance of SMEs export	0.908**	0.000
growth potential for long-term survival	Performance of SMEs export	0.875**	0.000
access to international markets	Performance of SMEs export	0.856**	0.000
expand production volume	Performance of SMEs export	0.362*	0.016
decreased vulnerability to losing clients	Performance of SMEs export	0.646**	0.000
obtain hard currency necessary to import raw material	Performance of SMEs export	0.348*	0.021
increase levels of employment	Performance of SMEs export	0.382*	0.010

However, there is no significant relationship between other independent variables (compete with other SMEs $P=0.189$, diversify business risk $P=0.194$, increased company expertise and experience $P=0.751$, avoid bureaucracy in the local market $P=0.094$, sell products that do not match local taste $P=0.528$, avail various attractive export incentives offered by the Govt $P=0.173$) and performance of SME's export.

CONCLUSION

Small and Medium-sized Enterprises (SMEs) have played a significant role in the economic development of most of the countries, especially in developing country like Iran, because SMEs make up the majority of manufacturing enterprises in Iran. In general, the expansion of a nation's exports has positive effects on the growth of the economy as a whole as well as on SMEs. Exporting is of vital economic importance to trading nations. Export boost

profitability, improve capacity utilization, provide employment, and improves trade balances [1]. Therefore, the Iran's SMEs export development can play a vital role in the economic growth and development of the country. Hence to provide consultancy and suggestion to non-exporter SMEs the investigation of factors leading to export and the impact of these factors on the performance of SME's export in the exporter SMEs seems to be essential.

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