

# A Survey on Export Barriers Faced by Small and Medium Sized Enterprises in Iran

Fatemeh Kabiri<sup>1,\*</sup>, Mokshapathy S<sup>2</sup>

<sup>1</sup>Research Scholar, Agri-Business, Institute of Development Study, University of Mysore, India, 570005

<sup>2</sup>Assistant professor, Agri-Business, Institute of Development Study, University of Mysore, India, 570005

\*Corresponding author: Fatemeh Kabiri, Research Scholar, Agri-Business, Institute of Development Study, University of Mysore, India, 570005, E-mail: fa\_kabiri@yahoo.com

## Abstract

Many governments have in place measures aimed at stimulating many of their Small and Medium-sized Enterprises (SMEs) to get involved in exporting. SMEs with an export potential face significant obstacles in gaining international competitiveness. This study is concerned with an empirical investigation that explores the barriers that Iranian SMEs faced in when engaging in international business and compared these barriers with exporter and non-exporter SMEs. In this study barriers are separated in tow basic categories- internal and external. The data was gathered from a survey of 76(44 exporters and 32 non-exporters) fruits and vegetables SMEs at Tehran Province in Iran. Statistical Package for the Social Sciences (SPSS 20) were used to analyze the data with the aim of assessing which of the barriers have major roles in exporter and non-exporter SMEs. The result of the survey shows that in exporter SMEs internal and external barriers are almost equal but internal barriers are more influential than external barriers in non-exporter SMEs. Findings show that exporters and non-exporters largely differ in their views of the internal barriers to export but there were little differences between exporters and non-exporters in respected of external barriers.

**Keywords:** Export; Barriers; SMEs; Iran.

**Abbreviations:** SMEs - Small and Medium-sized Enterprises; SPSS 20 - Statistical Package for the Social Sciences.

## Introduction

There are various criteria in defining SMEs and these are directly related to the development level of countries and the structure of the industries. The most common criterion used is the number of employees. In this study, the criterion for SMEs is set to include firms with 10 to 50 employees (Ozkanli, 2006). SMEs are the focus of this study because they have a very significant role in the development of any economy. This statement is even applied for developing countries more strongly. Therefore, the developing countries like Iran, SMEs are very helpful for the economic development (Altintas, 2007).

Exporting is one of the most attractive entry modes for SMEs because it involves minimum risks, requires low financial and human resources and at the same time, offers high flexibility of movements (Pinho, 2010). The general objective in most of the countries today is to find ways to raise exports. This can be achieved either by encouraging exporting SMEs to export more or by

instigating non-exporters to start on exporting (Ahmad, 2006; Al-Hyari, 2011). But there are many SMEs in developing countries which are not exported in despite of the fact that export has a vital role in the health and dynamism of a modern economy of SMEs (Dosoglu-Guner, 1999). Because SMEs face many hindrances in the exporting procedure and Studies show that when companies are confronted with the decision whether or not to export, they are generally reluctant to decide in favor of expanding and often decide to retain their non-exporting status (Morgan Robert, 1999). In order to effectively motivate local firms, particularly SMEs, to enter foreign markets, it is necessary not only to understand the factors stimulating SMEs to export but also the barriers they face to successfully enter and operate sustainably and efficiently in foreign markets (Leonidou, 2004).

Barriers are different in nature and directly or indirectly have some effect on the exporting procedure. Classification of export barriers were

undertaken by Leonidou (2004) who conducted a comprehensive analysis of 32 studies and came up with 39 export barriers which he classified into internal and external barriers (Djebarni, 2009). Internal export problems refer to the inside of the company and usually related to the company resources for export activities and they are generally related to the products characteristics. The troubles originating from external factors such as export market competition, image of exporting country's policies made by both host and home countries are referred to as external barriers (Khattak *et al.*, 2011).

Export barriers are more severe and intense in the psyche of those non exporters who have never tried export (Craig and Ahmad, 2005). Some studies found that exporters perceive export barriers as less important and difficult to overcome compared with non-exporters (Suarez-Ortega, 2003). Other studies found that exporters perceived more barriers than non-exporters. So the cognitive dissonance of export barriers is more rigorous than in non-exporters when compared to the exporters. Non exporting firms consider the obstacles more severe if they were exporting. These differences between thinking of exporters and non-exporters can be eliminated through exporting experience (Khattak *et al.*, 2011).

Anyhow government programs are designed in most of the countries to reduce these barriers and improve domestic firms' capabilities to compete internationally. So an understanding of the export barriers have become particularly important in today's business environment. Thus, it should be expected that national governments would be interested in promoting and implementing the most effective mechanisms to stimulate the exporting of domestic firms (Rocha *et al.*, 2008).

SMEs are having a huge part in the GDP of Iran too, but the exports of SMEs from Iran have encountered many undulations during recent years. So 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 aims at contributing to this understanding by

investigating perceived barriers to export involvement among exporter and non-exporting fruits and vegetables by SMEs firms at Tehran province in Iran. This study focuses on ranking the export barriers in Iran which may act as major drivers or barriers for improving the probability of a firm being an exporter or non-exporter. Difference between exporters and non-exporters in their attitudes towards the barriers to export was another purpose of this study.

## Methodology

A survey was conducted among SMEs of fruits and vegetables at Tehran province in Iran. This province was specifically selected because this province has maximum number of SME in Iran. The sample consisted of all exporter and non-exporter SMEs of fruits and vegetables in Tehran. In total, there were 76 exporters and non-exporter SMEs of fruits and vegetables in Tehran. The survey involved face-to-face interviews for data collection based on a questionnaire prepared in December 2011. The questionnaire was developed based on the modified model of Leonidou (2004) that classified exporting barriers into external and internal. According to this classification the internal barriers (related to organizational capabilities / resources and company approach to export business) are classified into informational, functional, financial and marketing barriers and external barriers (related to the home and host environment within which the firm operates) are classified into procedural, governmental, task and environmental barriers. All items measuring barriers to export were measured by a five-point Likert scale ranging from 1 (very low) to 5 (very high). To examine the reliability of the questionnaire, a pilot study was conducted on 15 out of 76 SMEs and Cronbach's alpha for the items of Likert type scales were computed at 0.76 to 0.97. In this research, content and face validity were established by a group of export experts and SME's experts. We used frequencies, percentage, mean, significance testing to analyze the data. The analysis was carried out using the "Statistical Package for the Social Sciences" (SPSS 20).

Table 1. Perceived internal and external exporting barriers-frequency distribution

External Barriers	Frequency for Exporter	Frequency for Non-Exporter	Frequency for Total	Importance Degree for Exporter	Importance Degree for Non-Exporter	Total
Task	20.5	15.1	17.3	(1)	(1)	(1)
Procedural	20	14.5	16.8	(2)	(5)	(2)
Governmental	19.2	14.8	16.6	(4)	(3)	(3)
Environmental	19.8	13.9	16.4	(3)	(6)	(4)
Political-Legal	33.9	34.4	34.1	1	1	1
Sociocultural	33.6	34.3	34	2	2	2
Economic	32.5	31.3	31.9	3	3	3
Internal Barriers	-	-	-	-	-	-
Informational	6.3	14.9	11.3	(7)	(2)	(5)
Functional	6.4	14.6	11.2	(6)	(4)	(6)
Marketing	7.8	12.2	10.4	(5)	(7)	(7)
Logistics	28.6	22.9	24.6	1	1	1
Distribution	21.2	21.1	21.2	2	2	2
Product	16.3	20.5	19.2	4	3	3
Price	18.8	17.6	18	3	5	4
Promotion	15.1	17.9	17	5	4	5

### Data Analysis

Table 1 shows the descriptive statistics for the list of perceived export barriers by both exporters and non-exporters. A majority of managers of exporter SMEs agreed that the two most important barriers in SMEs exporter were task and procedural. The findings also indicate that many barriers are related to the external barriers compared to the internal.

In table 1, the main reasons for not exporting are presented; the most important perceived barriers for exporters seem to be: Task and Informational. According to analyzed results, non-exporter SMEs

are faced almost with equal barriers (internal and external). It can be concluded that exporters and non-exporters largely agree in their views of external barriers to export but they do not agree in internal barriers to export.

Independent t-tests were used to determine whether significant differences existed between barriers to export of exporter and non-exporter SMEs. From Table 2, it is evident that the p-value is greater than  $\alpha$  (0.05) in 1(marketing barriers) of the 3 Internal barriers items. P-value 3of 5 marketing barriers items are greater than 0.05, it indicates that exporters and non-exporters largely agree in this barrier from other internal barriers. But in totally p-value of internal barriers are lesser than 0.05 and we can conclude that exporters and non-exporters have differences in situation about internal barriers. From table 2 we can see that the p-values are greater than 0.05 in 3 of the 4 external barriers to export. P-value in 2 of 3 environmental items are greater than 0.05 and in totally p-value of external barriers is greater than 0.05. Thus, we can conclude that exporters and non-exporters largely agree in their external barriers to export.

So for answering this question that whether significant differences existed between barriers to export of exporter and non-exporter SMEs, present study revealed that there is significant differences between internal barriers in exporter and non-

Table 2. Significance Testing Between Exporter and Non-Exporter SMEs

Barriers	F	Sig
Informational	18.022	0.000
Functional	31.952	0.000
Marketing	2.908	0.092
Product	1.085	0.301
Price	6.839	0.011
Distribution	0.821	0.368
Logistics	0.976	0.326
Promotion	46.217	0.000
Internal	12.587	0.001
Procedural	0.165	0.685
Governmental	12.814	0.001
Task	0.892	0.348
Environmental	2.752	0.101
Economic	17.304	0.000
Political Legal	1.66	0.202
Sociocultural	0.860	0.357
External	0.397	0.531

exporter SMEs. But there are not any significant differences between external barriers in exporter and non-exporter SMEs. But in totally P-value 4 of 7 barriers items (internal and external) are greater than 0.05, it indicates that exporters and non-exporters almost agree in export barriers.

## Conclusion

This study explored the export barriers faced by SMEs in Iran. Basically two types of main export barriers exist internal barriers and external barriers (Leonidou, 2004). Internal barriers include informational, functional, marketing (product, price, distribution, logistics, promotion) barriers. External barriers were procedural, governmental, task, environmental (economic, political-Legal, socio-cultural) barriers. Frequency data revealed that in exporter SMEs, internal and external barriers are almost equal, but Findings of this study showed that internal barriers are more influential than external barriers in non-exporter SMEs. The highest ranked internal berries were informational and functional in non- exporter SMEs, this clearly showed that international assistance programs should be targeted towards educating the Iranian SMEs on how to enhance knowledge in the global marketplace. This suggestion also was pointed out in Ahmed *et al.* (2004) study. In SMEs although internal barriers are more controllable as compared to external barriers but all stakeholders should play their roles to minimize these internal barriers in order to magnify the SME exports. This finding also was reported by Khattak *et al.* (2011). The highest ranked external export barriers were task in both of exporter and non-exporter SMEs. Overall, the vast literature that has been produced on internal and external export problems of firms in developed countries can be useful to develop a methodological of research in developing countries. In present study, we tested difference at exporter and non-exporter fruits and vegetables SMEs in these barriers too. Findings show that exporters and non-exporters largely differ in their views of the internal barriers to export. This is an important issue to encourage non-exporters SMEs managers to minimize internal barriers and find

export assistance programs to attract the resources needed for successful foreign market involvement. This study found that, overall; there are little differences between exporters and non-exporters in external barriers. This is in line with findings of Ahmed *et al.* (2004). Therefore a better understanding of export barriers are necessary for government agencies and other export promotion organizations whose mission is to provide better services and support to export-minded organizations. This creates an opportunity for governments to assist SMEs in overcoming trade barriers. In terms of programmes, governments should try and assist exporting SMEs to diagnose and understand the operating business environment they face in host countries, including trade barriers. Also governments or trade associations should explore avenues to enhance SMEs technical capabilities that would allow them to actively participate in the consultative and regulatory development processes. SMEs on their part should work closely with their home governments, to identify trade barriers that can then be acted upon.

## References

1. Ahmad ZU and Craig CJ (2006) Firm Internationalization and Export Incentives from a Middle Eastern Perspective. *J. of Small Business and enterprises dev*, 13(4), 660-69.
2. Ahmed ZU Julian CC, Baalbaki I and Hadidian TV (2004) Export Barriers and Firm Internationalization: A Study of Lebanese Entrepreneur. *J. of Manage & World Business Res*, 1(1), 11-22.
3. Al-Hyari, KH, AL-Nasour MA, Insour M, Al-Weshah GH and Zbutayeh A (2011) Exporting Performance and Manufacturing Activities in Jordanian SMEs: External Barriers and Relationships. *Int J Global Business*, 4(1), 44-72.
4. Altintas MH, Tokol T and Harcar T (2007) The Effects of Export Barriers on Perceived Export Performance: An Empirical Research on SMEs in Turkey. *EuroMed J. Bus*, 2(1), 36-56.
5. Craig, JC and Ahmed ZU (2005) The Impact of Barriers to Export on Export Marketing Performance. *J. Glob. Mark*, 19(1), 71-94.
6. Djebarni RK and Al-Hyari (2009) Exporting Barriers and the Internationalization of Manufacturing Activities by SMEs in Jordan, International Council for Small

- Business-World Conference *ICSB* 21-24 June, Seoul, Korea.
7. Dosoglu-Gunera B (1999) An Exploratory Study of the Export Intention of Firms: The Relevance of Organizational Culture. *J. Global Marketing*, 12(4), 45-63.
  8. Khattak, JK, Arslan M and Umair M (2011) SMEs' Export Problems in Pakistan. *E3 J of Business Manage Econ*, 2(5), 192-199.
  9. Leonidou CL (2004) An Analysis of the Barriers Hindering Small Business Export Development. *J. Small Bus. Manage*, 42(3), 279-302.
  10. Morgan Robert E (1997) Export Stimuli and Export Barriers: Evidence from Empirical Research Studies. *European Business Rev*, 97(2), 68-79.
  11. Ozkanli O, Benek S and Akdeve E (2006) Export Barriers of Small Firms in Turkey: A Study of Ankara-Ivedik Industrial District. *Problems and Persp Manage*, 4(3), 78-90.
  12. Pinho JC and Martins L (2010) Exporting Barriers: Insights from Portuguese Small- and Medium-sized Exporters and Non-exporters. *J Int Entrepreneurship*, 8(3), 254-272.
  13. Rocha, A, Freitas Y and Silva J (2008) Do Perceived Barriers Change over Time? A Longitudinal Study of Brazilian Exporters of Manufactured Goods. *Lat. Am. Bus. Rev*, 9(1), 102-108.
  14. Suarez-Ortega, S (2003) Export Barriers: Insights from Small and Medium-Sized Firms. *Int Small Business J*, 21(4), 403-419.