Entry Strategies for Foreign Markets: Evidence from Small and Medium Enterprises in Iran

Ali Ashraf Ahmadian
Department of Management, Abdanan Branch, Islamic Azad University, Abdanan, Iran

Ali Reza Ma'attoofi (Corresponding Author)
Department of Management, Gorgan Branch, Islamic Azad University, Gorgan, Iran
E-mail: alirezamaattoofi@gmail.com  Tel: +98911-178-2139

Rasoul Jafarian Kykanloo
Department of Management, Neyshabur Branch, Islamic Azad University, Neyshabur, Iran

Seyed Meisam Tabatabaie Nasab
Department of Accounting, Allameh Tabataba‘i University, Tehran, Iran

Mahdi Safari Gerayli
Department of Accounting, Bandargaz Branch, Islamic Azad University, Bandargaz, Iran

Abstract
The changes having recently occurred in customer perspectives, information technology, and also in environment have propelled economic enterprises toward entrance into foreign markets, or, in other words, toward globalization. The same thing is also happening in small and medium enterprises especially in the developing countries (which are known as the main outlook for employment and generation of added value). The main intent of the study was to investigate the strategies developed for entrance into foreign markets especially with respect to small and medium Iranian enterprises. Moreover, in addition to recognizing the most important motives driving firms' managers to enter into foreign markets, the study was seeking to analyze the main limitations on such an entrance. Concerning the aim, the study is an applied one and with respect to method of data collection, it is a qualitative and survey study. The research statistical population consisted of all those small and medium experting enterprises of Tehran province that had exported their products in 1385. Having done a simple random sampling on the statistical population, 128 firms were selected to work as the sample of the study. The research data were gathered through questionnaire and then were analyzed using SPSS software. The results indicate that from the strategies existing for entrance into foreign markets the one which is used the most by the abovementioned enterprises is Export. It was also shown that the most important motivation of managers to enter into foreign markets was preparation for facing the phenomenon of Globalization while the greatest limitation of enterprises on entry into such markets was economic boycotts.

Keywords: Entry Strategies, Small and Medium Enterprises, Entry Limitations

1. Introduction
To enter the field of commerce and competition with other countries with the aim of achieving a more share of international markets entails fundamental changes to occur in the management of commercial enterprises.

Undoubtedly, Interaction occurring between management of commercial enterprises and competitive environment of world markets will lead to the growth of management position. That is why, Export, from this perspective, is considered as a motive pushing commercial enterprises to enter the field of international
competition which in the end will lead to the improvement and promotion of management in their enterprises. The two factors of Government and enterprises’ Strategies are known as the main foundations for the success of world markets (Aaby and Slater, 1989).

Continuous changes occurring in world markets are the cause of many trading and economic threats and opportunities. For countries to advance their position in such markets, they should provide a better condition for themselves so as to resist against such threats and simultaneously take the best advantage from opportunities (Benito and Welch, 1994).

World-wide enterprises usually decide to interact with a foreign country through various levels of trading activities. In fact, to enter the market of each country, such enterprises have two main options: Export and Production in that foreign country.

It is highly important to analyze and perform research on small enterprises. As a matter of fact, such analyses can be performed from different aspects some of which are the economic activities of that enterprise, its position with respect to employment and innovation, and its ability to generate wealth in other countries (Katsikeas and Morgan, 1998; Leonidou and Katsikeas, 1996).

The present research is intended to investigate the strategies adopted for having small and medium enterprises (SMEs) internationalized. The results of the research can be useful for managers of Iranian enterprises in their decisions to enter foreign markets. They can also be of use for the planning of SMEs’ policymakers to have a better attendance in world markets. Furthermore, the findings can provide later research with a fruitful literature with respect to internationalization of SMEs.

2. The Importance of SMEs’ Internationalization

The term Internationalization was first used by Welch and Leosternin (1988) which means "the process of increasing involvement and participation in international markets”. Job Strategy is a term which is used as an umbrella that covers a wide range of strategic decisions made by enterprises and includes the strategies of organizational and operational management, market-product strategies and diversity strategies.

The results of a number of previous studies with respect to enterprises' internationalization behavior indicate that the process includes several fundamental stages (such as Export and other forms of internationalization) in which enterprises gradually involve. In other words, involvement of industrial firms with high-technology in cooperation with other firms will increasingly lead to having more and more resources and also will result in an attempt of such firms to increase their share of foreign market through export and other methods of internationalization (Fletcher, 2001; Coviello and McAuley, 1999; Acs, Morck, Shaver and Yeung, 1997; Oesterle, 1997; Coviello and Munro, 1997; Bloodgood, Sapienza and Almeida, 1996; Johanson and Vahlne, 1992; Czinkota, 1982; Cavusgil, 1980; Bilkey and Tesar, 1977).

Coviello (1994) in a study maintained that the tendency to overcome environmental uncertainty has brought about a situation that has resulted in the establishment of “Knowledge-Based Firms”. He defines knowledge-based firms as “those with high-value scientific knowledge surrounded by the field of production and processes”. In a study being performed between 30 firms (15 of which were knowledge-based and the remaining 15 were traditional-based), Bell, Crick, and Young, (1998) found that there is an inter-connection between firms' products and concentration on market. The results of their study also show that knowledge-based firms and traditional ones have different patterns and processes for internationalization.

3. Investigating the Strategies to Enter a Foreign Market

It is usual of firms and enterprises to use different "Entry Strategies” while entering into the market of a foreign country. Some of such strategies are as follows:

**Exporting:** export is the method with the lowest amount of risk to enter foreign markets. To do sale through export entails the lowest amount of facilities' allocation and also has the least changes on the inner-plans of firm. The amount of foreign exchange needed for export is more than every other method of entrance into foreign markets. Export can be done through either direct or indirect method.

There are some factors that cause a firm to decide to convey its production line to the target country (i.e. to manufacture its products inside the country with which the firm wants to have interaction trough export). Some of such factors include: firm’s being large, intention to have Local Production so that to be more
consistent with the needs of the target market regarding the products' design and its pertinent services, and lower cost. For those firms that have not yet managed to convey their production line to the target country, the easiest and the most rapid method for entrance into such markets is to purchase an active firm inside the target market or at least to cooperate with such active firms.

Having decided to enter the market of a foreign country through producing the products in the respective country, a firm can use various strategies some of the most important of which are as follows:

**Giving License:** is an agreement by which a license giver bestows a valuable thing to the receiver of license in exchange for a specific performance and a certain amount of money. In fact, the license giver (international firm) bestows one of the following things (issues) to the receiver of license (national firm):

- The right to use a specific good, technology and/or process
- The right to use particular brands (name and signs)
- The right to publish and print the brands (the activities related to publication, art, music, computer software, etc.)
- Technical knowledge about products and/or processes

**Contract Manufacturing:** contract manufacturing means that an international firm makes a legal agreement with an independent foreign firm to manufacture its goods through that foreign firm, based on the articles of the contract. The only responsibility of the foreign manufacturer here is to produce the goods. But after production is finished, the goods produced are given to the international firm. Marketing responsibility (sales, promotion, and distribution) is on the shoulder of international firm.

**Turnkey Operation Project:** it means that the International Firm undertakes to build a factory with all necessary equipments. When ready for operation, the factory will be delivered to the owner. In addition to providing the factory's machinery and equipments, the international firm also offers engineering and technical skills to the buyer, and usually trains the local personnel to run the factory, as well. Such an international firm not only will profit from prompt sale but in future will do well out of supplying the factory's materials and equipments.

**Foreign Direct Investments:** the strategy is made up of two strategies: joint venture and the establishment of wholly-owned subsidiaries. Joint venture occurs when a firm asks a foreign enterprise to buy some part of its shares. The partnership can vary from 10 to 90%, but the usual amount is between 25 to 75%. To be more precise, partnership is a foreign operation that gives the international firm the right to choose the firm's management (vote right) due to having some shares in the firm, but the share is not so much to allow the international firm to have dominance or to get complete control over the foreign firm.

**Wholly-Owned Subsidiaries:** among the internationalization strategies, the highest amount of commitment by an international firm occurs only when that all operations related to production are performed by a foreign country, that is to say when the firm is wholly owned by a foreign country (i.e., when the foreign country has purchased all the shares of the firm).

**Strategic Alliances:** a number of strategic alliances have in recent years been signed between firms. Such agreements are beyond joint venture. What is typical in any alliance is that the two parties of agreement (i.e. the two firms) intermingle their skills and resources so that to complement their proficiencies and supplies. As a result, each of the two parties uses the other party's skills to gain more benefits. Such alliances can occur in the fields of technology, production, and/or distribution (Jolly, Alahuhta and Jeannet, 1992). Strategic partnerships are those alliances based on which firms use each other's resources to achieve competitive ability (Berry, 1998). The theory of strategic management protects the assumption proposed in Strategic Alliances. According to this approach, the existence of partnership between firms will improve their abilities in the achievement of their goals. Based on the theory, it is necessary that the activities and deeds of an organization be in agreement with the changes of environment.

4. The Theories Presented in the Area of Internationalized SMEs

Small and medium enterprises (SMEs) and small industries have a significant partnership in the economic and industrial development of the countries with developed as well as developing economic systems. As a matter of fact, such enterprises and industries form the pillars of private sector. More than 90 percent of
world firms are SMEs and small industries, forming 50 to 60 percent of employment of the private sector.

Small and medium enterprises have even more partnership in the fields of industry (small and medium industries) especially in the developing countries. They comprise more than 90 to 95 percent of all small and medium industries, and 70 to 75 percent of employment in the field of Industry. Such firms produce about 50 to 60 percent of industrial products.

A lot of new research has in previous decade been done about the newly-established world firms. Internationalized firms are in such studies known as international new capitals, committed internationalizers, and knowledge-based firms (McDougall et al, 1994; Bonaccorsi, 1992; Bell, 1995; Boter and Holmquist, 1996; Coviello, 1994; Jones, 1999).

The necessity of such firms, according to Knight and Cavusgil (1996), can be recognized by the trends having occurred recently, such as developments in information and communication technologies, increasing role of cellular markets and the growth of world webs. The theory of Internationalization / Exchange Cost suggests an accepted model in the field of international commerce which is protected by empirical cases especially Foreign Direct Investment (FDI).

Researchers have currently found that the internationalization of SMEs can easily be made understandable if the central theoretical frameworks are integrated and blended into each other. Bell and Young (1998) claimed that the nature and feeling of internationalization is dependent not only on internal factors but also on product, industry and other external environmental variables.

Furthermore, uncertainty may lead firms to insisting on their participation in exporting deeds. To explain, firms may decide to go on exporting even though the deed proves to be temporarily not beneficial or although they have postponed entering into market because of their expectation to acquire more information which is of great value to them.

As firms’ need to get internationalized grows more vital, equally the deed of internationalization also gets more and more risky. As a matter of fact, the firms that are trying to enter the field of internationalization have to face the following issues:

- First: high amounts of debts, inflation and unemployment in many countries will bring about political and foreign exchange instability which by itself is a restrictive factor in the field of commerce and trade.
- Second: governments always impose more laws and regulations on foreign firms and enterprises.
- Third: foreign governments often try to protect and shelter their own domestic industry by ratifying high taxes and also by producing commercial obstacles.
- Eventually one of the main problems of firms to get internationalized is financial corruption.

On the other hand, if internal firms aim at foreign markets with opposite income levels, then the relationship between internal sales and exporting development may be different from what predicted by the theory of internationalization (Pauwels and MatthysSENS, 1999).

Furthermore, to strengthen the international cooperation in the area of small jobs is the field that has turned out to be a significant priority of economic policy-makers (Crick, 1997; McNaughton and Bell, 2001; OECD journal, 1997; Cannon and Willis, 1981).

5. Motivation of Managers versus Internationalization

The results acquired from some studies indicate that inner organizational appraisal is an effective incentive for entrance into world markets (Aram and Cowan, 1990).

Changes occurring in the interests of consumers, industrial development, information and communication technologies and the changes happening in competitive circumstances are some of the factors that have provided small firms with a desirable environment to get internationalized. In fact, such factors have encouraged managers of small and medium enterprises (SMEs) to move in this direction.
The entrance of small and medium enterprises into world markets to commence competition in this stressful environment is nowadays highly dependent on the managers' perceptions and thoughts. Evidence shows that managers of knowledge-based firms are more active and have a better performance in this area (Crick and Jones, 2000; Knight and Cavusgil, 1996).

6. Research Methodology

As far as the aim of the study is concerned, the present research is an applied one; regarding attention to time, it is retrospective; and concerning attention to findings, it is results-oriented. Moreover, with respect to the method of data collection, the research is qualitative and survey.

With respect to different classifications done for survey research, the present research, regarding the method and accuracy of analysis, is a periodical one. That is to say, to gather data needed for the research the sample was analyzed at only a specific period of time.

The statistical population of the research included all those small and medium exporting enterprises in Tehran province that had exported their products to other countries in 1385. The research sample was selected from this population. In fact, simple random sampling was used for the research. Using the formula of KUKRAN, 128 manufacturing firms were selected to work as the sample of the study.

7. Research Questions

The present research intends to answer the following questions:

1. What strategies are used by Iranian small and medium enterprises for entrance into foreign markets?
2. What are the methods used for the internationalization of small and medium enterprises (SMEs), according to priority?
3. What are the motivations of SMEs' managers for the internationalization of firms?
4. What are the motivations of SMEs' managers for the internationalization of firms, according to priority?
5. What limitations do Iranian SMEs face in the improvement of technology and getting internationalized?
6. What are the limitations of Iranian SMEs in the improvement of technology and getting internationalized, according to priority?
7. What are the factors effective on the attendance of Iranian SMEs in foreign markets?

8. Research Findings

8.1 The First and Second Question

To answer the above questions, taking the variables' scales in the questions into account, initially a Chi square test (\(\chi^2\)) was used to make sure whether the answers given by sample participants are equal. The results acquired from the Chi square are indicative of unequal and undependable data at the significance level of 5% (\(\alpha=5\%\)).

Then, in the next stage, by using the data acquired from qualitative statistics (i.e. Frequency tables), the entry strategies for foreign markets were analyzed. It was found that firms, to attend foreign markets, use the strategies of Exporting, License giving, Contract Manufacturing, Turnkey Operation, Foreign Direct Investments, and Strategic Alliances. Moreover, it was shown that the strategy of Management Contracting was not used by firms.

Eventually, to prioritize strategies, considering the variables' scales, a Chi square test was first used.
The results acquired from Chi square test showed that the prioritization done on the basis of frequency is of high validity. The information related to prioritization of strategies is illustrated in table 1.

8.2 Third and Fourth Questions

The same method was used to answer these questions as the one used for questions 1 and 2. Based on the findings of qualitative statistics, motivations of firms’ managers for entrance into foreign markets are the followings: increased sale, short-term interest, long-term interest, technological promotion, readiness for internationalization, and achievement to international success.

To prioritize managers’ motivations for entrance into world markets, the Frequency statistics of the responses elicited concerning the variables under analysis was used. The results acquired from Chi square test indicated that the prioritization done on the basis of frequency has validity. The remaining information is brought in table 2.

8.3 Fifth and Sixth Questions

To answer these questions, taking the variables’ scales in the questions into consideration, Chi square test ($\chi^2$) was first used. Based on the findings, firms' limitations for entrance into world markets consist of: financial limitation, economic embargo, weakness of R&D, and lack of qualified manpower.

To prioritize firms' limitations for entrance into world markets, Frequency statistics of the responses gathered with respect to the variables under analysis was used. The results acquired from Chi square test ($\chi^2$) indicated that the prioritization done on the basis of frequency has validity. The remaining information is given in table 3.

8.4 Seventh Question

Based on the research findings, the factors effective on the attendance of small and medium enterprises in foreign markets consist of: concentration on short-term interest, dependence on foreign partners, fulfillment of commitments, existence of harmony and coordination between technological changes and management thoughts, protection of government, protection of bank, protection of incurrence company, laws and regulations, skilled manpower, geographical proximity, inner-organizational cooperation, available resources, managing style, commitments of financial management, cooperation of public sector, inner-organizational changes and participation in technology.

9. Conclusion

The aim of the research was to investigate the strategies, motivations of managers, and limitations of small and medium enterprises for entrance into foreign markets. The results obtained from analyzing the data were discussed by giving responses to the research questions.

The first research question tried to elicit the data related to the various strategies used by Iranian small and medium enterprises for entrance into foreign markets. The results indicate that such strategies consist of: exporting, license giving, management contracting, contract manufacturing, turnkey operation, foreign direct investment, and strategic alliances.

The next research question tried to elicit data related to the priority of the above strategies (that is to say, which one of the above strategies are the most important). The results indicate that the strategy which is used the most by Iranian small and medium enterprises is Exporting.

The third research question asked about managers' motivations for entrance into foreign markets. The
results obtained from analyzing the data indicate that their motivations include: increased sale, short-term interest, long-term interest, technological promotion, readiness for internationalization, and achievement to international success.

The aim of the fourth research question was to prioritize the above motivations in Iranian SMEs. The results indicate that such motivations from highest to lowest priority are as follows: readiness for internationalization, long-term interest, increased sale, technological promotion, achievement to international success, and short-term interest.

The next question was about limitations of firms for entrance into foreign markets. The findings show that such limitations consist of: financial limitation, lack of qualified manpower, economic embargo and weakness of R&D.

The other research question was about prioritization of the above limitations with respect to Iranian small and medium enterprises. The results indicate that such limitations according to priority (i.e. from highest to lowest importance) consist of: economic embargo, financial limitation, lack of qualified manpower and weakness of R&D.

Taking the above results into account, the following recommendations can be suggested:

- The necessity to revise and facilitate the exporting rules and regulations restricting exporting small and medium enterprises
- The necessity to provide more financial protection for exporting small and medium enterprises by the country's banking system
- The necessity to provide more support for exporting small and medium enterprises by the country's incurrence company
- Providing the substructures necessary for encouraging exporting small and medium enterprises by the use of other entry strategies for entrance into foreign markets

References


**Notes**

Table 1. Priority of Entry Strategies for Foreign Markets

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<thead>
<tr>
<th>Priority</th>
<th>Strategy</th>
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<tbody>
<tr>
<td>First</td>
<td>Exporting</td>
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<tr>
<td>Fifth</td>
<td>License giving</td>
</tr>
<tr>
<td>Third</td>
<td>Contract Manufacturing</td>
</tr>
<tr>
<td>Fourth</td>
<td>Turnkey operation</td>
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<tr>
<td>Second</td>
<td>Foreign direct investment</td>
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<tr>
<td>Sixth</td>
<td>Strategic alliances</td>
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Table 2. Priority of Managers' Motivations for Entrance into Foreign Markets

<table>
<thead>
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<th>Motivation</th>
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<tbody>
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<tr>
<td>Sixth</td>
<td>short-term interest</td>
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<tr>
<td>Second</td>
<td>long-term interest</td>
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<td>Fourth</td>
<td>technological promotion</td>
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<tr>
<td>First</td>
<td>readiness for internationalization</td>
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<tr>
<td>Fifth</td>
<td>achievement to international success</td>
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Table 3. Priority of Firms' Limitations for Entrance into Foreign Markets

<table>
<thead>
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<th>Limitation</th>
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<tbody>
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<td>Second</td>
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<tr>
<td>Third</td>
<td>lack of qualified manpower</td>
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<tr>
<td>First</td>
<td>economic embargo</td>
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<tr>
<td>Fourth</td>
<td>weakness of R &amp; D</td>
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