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**Original article**

## **Development of small and medium enterprises to export to external barriers**

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ARTICLE INFO

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ABSTRACT

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*Article history,*

Received 17 September 2014

Accepted 19 October 2014

Available online 29 October 2014

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*Keywords,*

SMES

Export barriers

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The aim of this study is to explore the current export challenges for SMEs in Iran and how these barriers affect the SMEs. This study disseminates the attention of SMEs export managers towards the genuine and main problems coming across the SME exports so they can deal with these barriers to magnify their exports as internal barriers are more controllable as compared to external barriers. This study offers insights into SME export barriers in Iran.

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### **1. Introduction**

In recent times small and medium scale enterprises have drawn a lot of interest among the policy makers, academics, and donors. This intense attention in the backdrop of the failure of various structural and trade policy reforms to stimulate any significant response from the private sector is remarkable, which seems to suggest that liberalisation measures must be supplemented by pro-active policies to attain the desired goal.<sup>1</sup> There is now a broad consensus that a vibrant SME sector is one of the principal driving forces in the development of a market economy. They stimulate private ownership and entrepreneurial skills, are flexible and can adapt quickly to changing market demand and supply situations, generate employment, help diversify economic activity, and make a significant contribution to exports and trade. Even in the developed market economies SMEs account for a large share in output and employment

## **2. Investment and working capital**

One of the most important problems affecting supply is the access to finance. SMEs need finance to enable them undertake productive investment in order to expand their business, to introduce new products, and to market them. Various survey and micro studies in Bangladesh have identified access to finance as the main problems facing the SMEs. For example, in the most recent private enterprise survey (Daniels, 2003), as many as 58 per cent of the surveyed businesses reports the problem of lack of investment funds and 35 per cent also mentions the problem of lack of operating funds. Banks are shy to lend to SME activities, as they do not consider them as attractive and profitable undertakings (Hossain, 1998; Bhattacharya, 2000; and Sia, 2003). It has been found that in most cases banks and non-bank financial institutions require collateral in the form of land and buildings for advancing loans to their clients. The value of the real-estate security is usually set at twice the amount of loan (Bhattacharya, 2000), which many enterprises fail to provide as collateral. SMEs are also regarded as high risk borrowers because of their low capitalization, insufficient assets, and high mortality rates (Sia, 2003) and consequently, they are not offered any attractive deals in terms of loans and interest rate. Furthermore, The loan application forms for investment financing from banks are long, tedious, and redundant (Hossain, 1998).<sup>11</sup> SMEs in the export sector also have the problem of access to working capital and there is no credit insurance policy for them.

## **3. Literature review**

Small and medium enterprises 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 Pakistan, small and medium sized enterprises are very helpful to for economic development (Altintas, 2007).

In Pakistan, the concept of small and medium enterprises is increasing. SMEs are having a huge part in GDP of Pakistan. But the exports of SMEs need some serious attention. Entrepreneurs of Pakistan face several challenges in the exporting process. Fletcher (2004) states that Small and medium enterprises play a significant and critical role in development of export and economy of countries in every part of the world. Exporting is considered as a complicated and expensive process. In the initial stage, exporting process consumes high cost as well as a lot of time. But with the passage of time, it provides many strategic opportunities and chances for profit taking. So for the companies, it is a very important and difficult decision to make (Koksal and Kattaneh 2010).

Authorities in the organizations have agreed upon that continuous growth that can be obtained by exploring the foreign trade opportunities. So exporting factor is a key factor for the organizations which require a huge growth potential (Karakaya and Harcar 1999). Exporting behavior is greatly dependent upon export barriers.

Export stimuli and export barriers play a significant role in the exporting performance; so the role of exporting barriers cannot be ignored (Morgan 1997). Katsikeas and Morgan (1994) explained that the size of an organization matters a lot in the barrier's perspective. Small firms face more exporting problems as compared to the large organizations.

Generally in importing countries, the reasons behind the export barriers are lack of government support in defeating export barriers, rivalry with firms in foreign markets, the need to adjust pricing and promotion strategies, high foreign tariffs in export markets and a lack of resources to finance expansion into foreign markets were the major barriers to enlarge the exports (Ahmed et.al 2004)

Okpara (2011) identified many barriers that hamper export development in developing countries. These are shortage of finance, insufficiency of export knowledge, scarcity of qualified personnel and severe international

## **4. Information**

Lack of information is a major constraint to market development of Iran's SMEs. Firms need all kinds of information: with regard to setting up a business, accessing finance, fulfilling government requirements, developing markets, and finding markets. Trade information is more than ever an element of competitiveness due mainly to three reasons: (i) assessing market trends and characteristics, (ii) understanding the market and new market access conditions, and (iii) identifying new market opportunities and potential trading partners. The Internet has introduced a new way of doing business especially in the field of commercial operations – selling and buying, advertisement, servicing and training. The number of enterprises using Internet to market their products and

services is rapidly increasing and more and more SMEs are becoming aware of the potential of this new technique. Poon and Jevons (1997) therefore appositely view that Internet has created unpredictable and unprecedented opportunities for SMEs and they can access to certain markets similar way as large enterprises and are able to engage international marketing which otherwise could have been unaffordable due to huge amount of resources required. The use Internet at the private enterprise level is still very low in Bangladesh and there is a serious lack of infrastructure in this regard. Amongst others, the dissemination of information is badly affected as result of little use of Internet. It is often the case that since the private enterprises does not have the appropriate and adequate information (e.g., they are unaware of the rules and regulations and compliance requirements), government agencies monitoring the business practices take undue advantages (Haque, 2003).

## **5. Conclusion**

The contribution of SMEs in iran's economy cannot be overemphasized. Currently, SMEs are confronted with a number of problems that impede the development of their markets. To conclude this paper, we point out a number of factors that may be considered to help SMEs to overcome various problems.

This study explored the export barriers faced by SMEs in iran. Basically two types of main export barriers exist i.e. internal barriers and external barriers (Leonidou 2004). . Internal

barriers include functional barriers, marketing barriers, energy crises and environmental barriers. Energy crises contain shortage and high charged prices of electricity, gas and other energy components. An energy crisis leaves industry unable to fulfill orders. High rates of

electricity, gas and oil increases the production cost. Environmental barriers comprise political, economical, social and technological problems of exporting country i.e.iran. Economic problems include poor economic conditions in the country and fluctuating currency exchange risks. In poor economic conditions it is very difficult for exporters to invest as SMEs are always facing

lack of funds. Political problems include political instability in exporting country or strict exporting rules and regulations and high tariff, non tariff barriers these issue can shake the confidence of importers and they hesitate to sign a contract. Socio cultural barriers include

unfamiliar local business practices and lack of foreign verbal, non verbal languages. Dissimilarity between cultures of host country and export country causes inability to adapt exporting process. Marketing barriers include problems related to product, price, distribution

and promotion. Barriers related to product include barriers concerned with product like developing new product for foreign markets, adapting exporting product design and style, meeting exporting product quality standards/specs, meeting export packaging/labeling

requirements, offering technical/ after sale services. Product which is not according to the customer demand and specifications will cause a failure and less future ordering. Pricing problems include offering unsatisfactory prices to customers, lack of granting credit facilities to

foreign customers. In such a competitive scenario, difference in price will eliminate the xporter from competition.

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