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Studying the Degree of Readiness of Small and Medium-Sized Enterprises to Enter the International Markets (Case Study: Food companies)

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Abstract: *In the present-day world, the concept of internationalization plays a significant role in organizational achievements. Therefore, it is crucial to identify the factors affecting the readiness of small and medium-sized enterprises to enter the international markets. Based on the conceptual model, environmental factors have been divided into external (micro and macro environment) and internal (managerial and organizational factors). This research is descriptive, co-relational survey in terms of data collection and analysis. The statistical samples in this study include: managers, professional and expert supervisors from 33 small and medium-sized food enterprises in the City of Tehran. Participants were members of Tehran Chamber of Commerce, Industry, Mines and Agriculture engaged in international activities. The data were collected by using questionnaires which were validated by a panel of experts and the reliability was obtained through a pilot study with Cronbach's Alpha Coefficient of 0.879 and 0.816 for environmental factors and international markets' readiness, respectively. The findings indicate that there are positive and significant relationships between independent variables (environmental, external, micro environmental, macro environmental, internal, organizational, and managerial factors) and a dependent variable (international markets' readiness). In general, the results of this study present a new classification of factors affecting the readiness of enterprises to entry into international markets which could be used as a guideline for firms' managers and decision-makers.*

Keywords: *Environmental factors, International readiness, food SMEs, International Business.*

I. Introduction

From Tokyo to New York, from London to Japan, it is obvious that what happens in one corner of the world totally influences us all. International commerce no longer identifies national frontiers, international buyers, global supply chains and joint ventures are disfiguring the business environments. Internationalization has lessened barriers to enter global markets, and foreign market entry no longer claims the essential resources and organization of large firms. Entrepreneurs and small to medium size enterprises (SMEs) are inspired to "go international", and firms are increasingly influenced into pursuing foreign markets. There are many motives and the obstacles of entering into foreign markets have led to many questions regarding about the "readiness" of these firms to guarantee international activities and to successfully conduct the internationalization process [5]. Iran, the second largest OPEC¹ oil producer, embraces 100 billion barrels of proven oil reserves, about 10% of the world's total, after Saudi Arabia and Iraq [23]. Generally speaking, oil exports account approximately half of Iran's government expenses, and Iran's oil exports have decreased to about 1.1 million barrels—less than half of the 2.5 million barrels per day Iran exported during 2011. Due to loss of revenues from oil, coupled with the cut-off of Iran from the international banking system, Iran's economy declined partially from 2012 to 2013 and will plausibly do so again during 2013 [4]. Studies have reported few firms have entered foreign markets in Iran, especially in some potential industries like food industry. This study significantly focuses on Internationalization and export, inasmuch as business has become progressively more globalized, companies encounter rising competition, and in point of fact that non-petroleum export in Iran is not adequately in comparison with other countries in neighbor.

II. Literature Review

Internationalization readiness: From the early work of Cavusgil (1990) that clearly examined the internationalization readiness of firms, which identified software (CORE: Company Readiness to Export) that assesses a firm's export preparedness. Indeed, Cavusgil (1990) distinguished readiness to export into two key dimensions: organizational (which includes top management commitment, the availability of human and financial resources, and the wholeness of the organizational structure) and product (e.g. product adaptation, design, and positioning). Furthermore, Liesch and Knight (1999) considered the topic of readiness, highlighting the function of information internalization in the internationalization process of SMEs. They defined internationalization readiness as "being a function of its state of awareness on foreign market(s) and the means for entering them" [15]. According

¹ Oil Producer Exporter Countries(OPEC)

to the definition, the accessibility of information and knowledge about foreign markets is essential for a firm's preparedness to internationalization.

External environmental factors are uncontrollable forces which are external factors upon that the management or decision maker has no control [24]. Therefore, this study proposes the following hypotheses:

H1. Environmental factors have significant positive effect on Iranian SME's readiness to enter international markets.

H2. External factors have significant positive effect on Iranian SME's readiness to enter international markets.

Based on conceptual model, environmental factors divided into external micro and macro environmental factors. Macro environmental factors include *political*, *economical* and *cultural* factors. It is determining for firms whether in domestic or foreign, large or small that considers the political environment of the target country before starting internationalization activities [11]. Indeed, any firm engaging in international marketing has to also be aware of the essence of national governments and its consequences for global operations [14].

It is argued that a firm needs to consider economical development and performance of a country in international process. Economic growth influences the request for goods and the distribution system found within the country. Indeed, consideration of economical environment in target country is essential not only to gain understanding the developing countries, but also according to market potential and market growth.

Another micro environmental factor is culture, which is considered as the most challenging measure for opting targeted country. When marketers are designing a product, service, promotion, packaging and other connected marketing activities, they have to be satisfactory to the connected cultural market [11]. As Zekiri and Angelova (2011) explained marketers need to distinguish cultural delicateness and concepts that are related to one's culture, and to comprehend the cultures' differences by evaluating in a purpose. Drawing on the above discussion, the following hypothesis will be tested:

H3. Macro environmental factors have significant positive effect on Iranian SME's readiness to enter international markets.

In this paper, micro environmental factors include *market potentials*, *government policies* and *competitive circumstances*. Evaluation of foreign markets size and estimation of international market potentials comprise important challenges that many enterprises have failed to meet.

Furthermore, competitive pressure is another micro environmental factor. Enterprises may fear losing domestic market share to competing enterprises that get benefited from economies of scale acquire by international marketing operations. Competitors are a significant micro environmental factor encouraging internationalization [24].

H4. Micro environmental factors have significant positive effect on Iranian SME's readiness to enter international markets.

Internal environmental forces are controllable factors upon which the decision makers manage to conform to changes in the uncontrollable forces [24]. In this study, internal environmental factors divided to Managerial and organizational ones. This leads to the following hypothesis to be tested:

H5. Internal factors have significant positive effect on Iranian SME's readiness to enter international markets.

It has been identified in many international SMEs and entrepreneurship empirical and theoretical studies that management characteristics (both objective and subjective) play an important role in the international development of SMEs [7-9-12-3-16-13]. Hutchinson et al. (2006) explain the management or decision-makers' objective (International experience) and subjective (attitudes, perceptions, and personality) characteristics within smaller firms, and assesses the impact of such factors upon the international progression of the firm. The international experience as an objective characteristic includes the extent to which management or decision maker has involved in foreign travel, the number of languages spoken by management, whether the decision maker was born, lived, or worked abroad, and their access to networks [22-6-19]. Drawing on the above discussion, the hypothesis for testing is:

H6. Managerial factors have significant positive effect on Iranian SME's readiness to enter international markets.

Hence in this paper, the literature pertinent to firm size and firm age considered as firm competencies. Firm size considered as the determinant of firms competence. It is assumed to be a representative of firm resources and capabilities [2] defined as a number of employee. Firm age as another determinant of firm competence is not basically the age of the firm based upon its founding date. Drawing on this brief review the following hypothesis on organizational factors and Internationalization readiness was tested:

H7. Organizational factors have significant positive effect on Iranian SME's readiness to enter international markets.

This framework also incorporates marketing/operational readiness, functional readiness and managerial commitment Readiness to evaluate internationalization preparedness of Iranian SMEs as follow:

Marketing/operational readiness: obtaining reliable foreign representation abroad; absence of tough competition internationally; low transportation costs; ability to adapt to customer preferences overseas; ability to offer competitive prices overseas; short distance from overseas market; appropriate export strategy.

Functional Readiness: familiarity with export documentation; no fear of the unknown export venture; availability of a unique and differentiated product; availability of qualified export personnel; availability of financial resources.

Managerial Commitment Readiness: appreciation of the importance of the export; market to the firm's overall success; devotion of managerial time to exporting; international outlook among export decision- makers; incorporation of exporting into the overall firm strategy [25].

III. Research Methodology

Research framework and variables: As it is shown in figure 1, the influential factors in attainment to international preparation include environmental factors which have been divided into external (micro and macro environmental factors) and internal (managerial and organizational factors) categories.

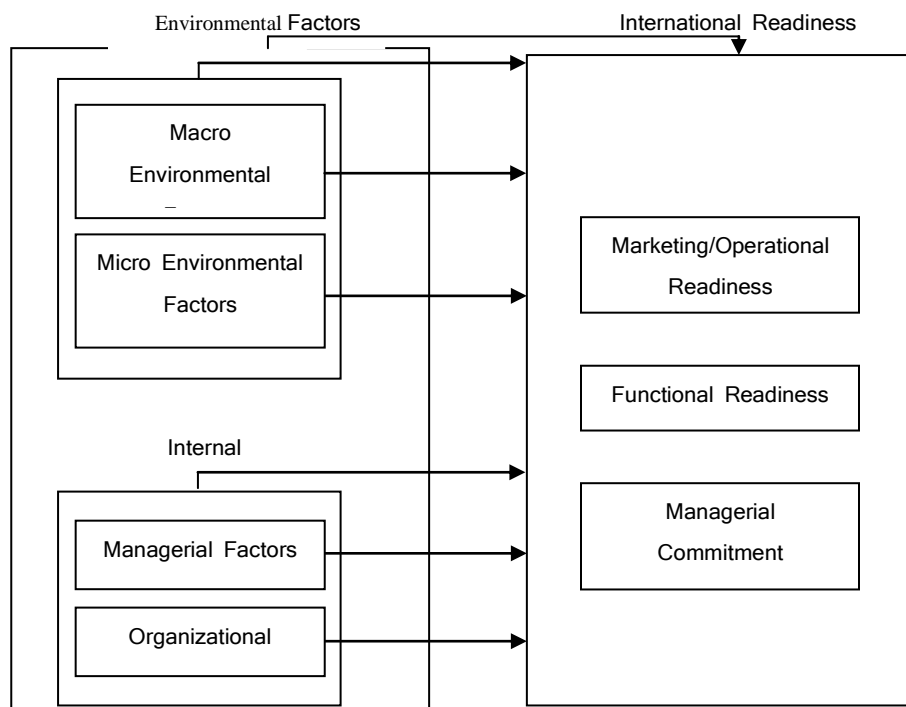


Figure1. Conceptual model of the study

Population and Sample Size: This paper is an applied, descriptive one and used survey to collect data. This is a correlation analysis which evaluates significant relations between environmental factors (internal/external) which influence on SME's readiness to enter international markets. Literature review and research community consisted of managers, professionals and expert supervisors from food SMEs that operated in Tehran area. These firms were all members of Tehran Chamber of Commerce, Industry, Mines and Agriculture with experience in international activities. At last, a well-designed questionnaire was distributed among managers, professionals and expert supervisors. Finally, 135 returned questionnaires were used in this study. The initial version of the questionnaire was submitted to supervisor and consultant professors and it was modified based on their recommendations. We calculated Cronbach's alpha in SPSS 18 to assess the reliability of questionnaire. Cronbach's alpha score for environmental factors and SME's preparation index to enter international markets were 0.879 and 0.816, respectively. It shows that the questionnaire reliability is fairly good and acceptable.

Hypothesis Testing: Likert's scale used for view-polling. Kolmogorov-Smirnov was used to test data for normality. Also linear regression and correlation test were used for data analysis.

IV. The Results of Hypothesis Testing

Environmental factors influencing SMEs' readiness to enter international markets were evaluated with regard to external (the outside environment of the firms) and internal (organizational and managerial) factors. Majority of environmental factors had mean value more than 5 which implies that these factors have moderate influence on

SME's readiness to enter international markets. We found that macro environmental factors (5.89), micro environmental factors (5.82), management factors (5.62), and organizational factors (5.52) had most significance, respectively. With regard to table 1, we calculated determination coefficient between environmental factors and SME's preparation to enter the international markets which was equal to 0.702. Because its significance level is 0.0000 (<0.05) the H_0 was rejected. Therefore, it means that environmental factors have significant and positive impact on SME's readiness to enter international markets.

Table1. Research hypothesis test based on conceptual model factor regression

Independent Variables	Dependent Variables	R	R Square	Standard β	T test	Sig	Results
Environmental Factors	International Readiness	0.838	0.702	0.838	8.128	0	H1:Accepted
External Factors	International Readiness	0.892	0.796	0.892	10.44	0	H2:Accepted
Macro Environmental Factors	International Readiness	0.921	0.848	0.921	10.03	0	H3:Accepted
Micro Environmental Factors	International Readiness	0.934	0.872	0.934	10.44	0	H4:Accepted
Internal Factors	International Readiness	0.867	0.751	0.867	5.003	0	H5:Accepted
Managerial Factors	International Readiness	0.913	0.833	0.913	7.056	0	H6:Accepted
Organizational Factors	International Readiness	0.971	0.942	0.971	3.56	0.001	H7:Accepted

Results for regression test in table 1 show that determination coefficient between environmental factors and SME's readiness to enter international markets is equal to 0.702. Because its significance level is 0.0000 (<0.05), H_0 was rejected. It means that the linear relationship between environmental factors and SME's readiness to enter international markets is confirmed. Regression test results imply that following linear relation is held between the variables.

Table2. Demographic characteristics

Education	Frequency Distribution			Percent	Work Experience	Frequency Distribution			Percent
	Men	Women	Total			Men	Women	Total	
Diploma	15	3	18	%13.33	None	3	0	3	%2.20
Associates Degree	14	7	21	%15.56	Less than 5 years	21	13	34	%25.20
Bachelor	60	12	72	%53.33	Between 5-10 years	30	8	38	%28.10
Master's Degree	16	2	18	%13.33	Between 11-15 years	22	4	26	%19.30
PhD	3	3	6	%4.44	Between 16-20 years	16	2	18	%13.30
Total	108	27	135	%100	More than 21 years	16	0	16	%11.90

V. Conclusion, implication, limitations and future research

Comparatively, few studies have investigated SMEs' internationalization readiness. This study addressed a knowledge gap in respect of the firm internationalization readiness in the context of Iran. Furthermore, this research provides an integrative conceptual framework and practical implication on how international growth can be inspired, given its significance to economic growth prospects within the Iran. As the reduction in the obstacles for international trade continues and the country economy becomes more integrated, there is a raised consideration being placed on the internationalization of small and medium-sized enterprises in Iran.

As indicated earlier, the role of organizational and managerial factors on the internationalization's readiness of an enterprise cannot be denied. The empirical findings of this research provide evidences that manager's attitude and perception toward international markets play a significant role in firm's internationalization process. The higher a degree of knowledge about the foreign market and the international marketing process, the more managers and decision-makers handle and overcome potential obstacles and progressively obtain a positive perception of the foreign market environment [21]. Rasmussen et al. (2011) emphasizes the findings by Nummela et al. (2005) that INVs are knowledge intensive firms, and the making knowledge depends on the relationship between research and educational infrastructure in the area. The entrepreneurs and managers need to continuously assess different factors related to internationalization. Particularly critical are the skills, competencies, and management know-how the entrepreneur requires to enhance due to be successful in the process of internationalization [20].

In this paper, the literature pertinent to firm size and firm age considered as firm competencies. Firm age positively influences higher survival rates in international markets due to the more advanced organizational capabilities and resources of more established firms. In contrast to the firms that survive in international market(s), younger firms showed higher short-term growth rates than their more established partners [8].

Iranian enterprises can use their potentials and capabilities to select right number of markets and then by getting informed about rivals conditions, marketing mix and regulations they will be able to plan to enter the international markets with a well-established marketing program. On the other hand, these corporations can improve their international activities through quality improvement measures based on consumers' taste and interests in target markets. Those companies which haven't had international activities mentioned following causes for absence from international markets: (1) difficulty in finding new costumers or establishing channels in abroad; (2) lack of enough experience in international markets; (3) cross-cultural differences or inability an another languages; (4) risks in conducting foreign operations; (5) achieving to the expected profit in the foreign markets is time consuming; (6) satisfaction with local/domestic market.

In present paper, we simply evaluated the influence of environmental factors (micro/macro environmental, management and organizational factors) on SME's preparation to enter international markets. It is suggested that future studies can focus on international networks and information factors and their effect on SMEs' preparation.

VI. References

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