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The Challenges Of Iranian Small and Medium-Sized Enterprises
Through Process Of Internationalization



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The effect of globalization and attracting new market increase the attitude of firms toward foreign market incrementally .This thesis was conducted to introduce a comprehensive framework of internationalization process in Small and Medium-Sized Enterprises in Iran as well as monitoring challenges that firms will face in foreign market operation. Take a glance at the literature of internationalization, Iran`s economic situation and entry modes. The aim of this research was encouraging other studies in the field of internationalization inside and outside of Iran. This subject is still need to flourish and digging out more research. The role of SMEs in developing economic growth need to be consider by the government.

In order to achieve objective of this research I have used both quantitative and qualitative research method. Primary data was acquired by a survey through sending of questionnaire to firms in Tehran Stock exchange. These questions were divided into two groups. First group was firms which operate only in domestic market. Second group involved firms which operating both in home market and foreign market through export mode (direct/indirect) or subcontracting. Qualitative researches were applied through interview questions of export companies and try to increase liability and validity of this research.

This research had a strong internationalization literature and I strive to be creative and use variety of articles. The result revealed that most important challenge for Iranian small and medium-sized enterprises was political risks, creating by imposing sanctions against Iran. Other problems such as lack of financing support by government, fluctuation of exchange rate, trade policy that enterprises have to overcome through process of internationalization. There is no evidence of government or private organization to boost internationalization of Iranian SMEs export. I suggest based on this research ,the government must establish an organization to support both financially and doing marketing research . I hope this research open a new window for further studies around international marketing environment. Finally I would like to express my sincere appreciation to teachers in Turku University of Applies Scienc at International Business Department specially my supervisor Matti Kuikka.

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KEYWORDS:

Internationalization ,SMEs, Barriers ,Entry mode ,Iran, Political issue

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LIST OF ABBREVIATIONS (OR) SYMBOLS

ECO Economic Cooperation Organization

EEC	European Economy Community
EFTA	European Free Trade Area
EU	European Union
FDI	Foreign Direct Investment
FSA	Firm-specific Advantage
IMF	International Monetary Fund
INV	International New Venture
ISIPO	Iran Small Industries and Parks of industries
JVs	Joint Venture
MNE	Multinational Enterprise
OECD	Organization for Economic Co-operation and Development
OLI	Ownership .location, Internationalization
OPEC	Organization of the Petroleum Exporting Countries
SEO	Securities & Exchange Organization
SME	Small and Medium-sized Enterprise
TCA	Transition Cost Analysis
TSE	Tehran Stock Exchange
UNIDO	United Nations Industrial Development Organization
UNSC	United Nations Security Council

1 INTRODUCTION

The effect of globalization and attracting new market increase the attitude of firms toward foreign market incrementally. However this issue goes behind the economic dimension and linkage between countries increase the business cooperation and transferring technology. There are significant issues such as different business environment, security, religious conflict, cultural sensitivity, education, trade policy and investment and negotiation that consider by small firms through globalization. In the other hand multinational companies reduce the risk by outsourcing, mass customization and bundling their product. (Czinkota Michael R. Ronkainen, Ilkka A. 2005). There are both opportunity and threat behind internationalization of a firm such as expand market, access to suppliers of raw materials, cost efficient, growth of market, benefits of investing in target market, low cost, bankrupt, cheap labor force and psychic distance.

”Number of books proclaim that whether we like it or not, global capitalism and economic globalization are here to stay,...yet, despite the huge benefits from free trade and other aspect of the global economy, an open and integrated global economy is neither as an extensive and inexorable nor as irreversible as many assume”. (Robert Gilpin 2002).

1.1 Definition of internationalization

As a firm grow up the need for new market will appear not only to sell their product in foreign market but also to stay in competition. Because always there is a risk of other competitors initiate going to international market and get benefits of it and be more powerful in domestic market. Although doing business in foreign market increase risks and challenges for companies in new environment. Here are some definition for internationalization of firms since 1960; Calof & Beamish (1995) defined internationalization as “the process of adapting firms’ operations (strategy, structure, resource, etc.) to international environments” (p.116).

It is the growing tendency of cooperation’s to operate across national boundaries (commerce) or an approach to designing product and services that are easily adoptable to different cultures and languages (marketing and computing). International marketing

is the performance of business activities that direct the flow of a company`s goods and services to consumers or users in more than one nation for a profit. (Ghauri 2010, 7)

International marketing means identifying needs and wants of customers in different market and cultures, providing products ,services and technology and ideas to give the firm and competitive marketing advantage ,communicating information about these products and services and distributing and exchanging them internationally through one or combination of foreign entry mode .(Bradley 2005, 3)

Internationalization is the growth, development and maintain of the firm in foreign market. (Zucchella, Antonella, Scabini.Paolo, 2007 28)

1.2 Iran in a landscape

The Islamic Republic of Iran was established after the revolution in 1979. The country faced with social unorganized and problem of war with Iraq near 8 years .After the war ,country tried an economic reform in a way to increase FDI, privatization and improve infrastructure by transforming towards a market-based economy. The economy of country depended on oil sector sales significantly. The Iranian state still plays a key role in the economy, owning large public and quasi-public enterprises which partly dominate the manufacturing and commercial sectors. Over 60 percent of the manufacturing sector`s output is produced by state-owned enterprises; the financial sector is also dominated by public banks despite the entrants of four private banks in the early 2000.¹

Iran has the second largest GDP -US\$ 453 billion in Middle East and North Africa after Saudi Arabia in 2011 and in terms of population second largest country with more than 76 million. It ranks second in the world in natural gas reserves and third in oil reserves. (Table 1).At the beginning of spring in 2011 the IMF announced the economic growth of country zero .But after trip of representative of IMF to Iran it changed to 3.2 % because of increasing price of oil , agriculture productivity ,subsidy reform by government . The authorities of monetary policy brought down annual average inflation from 25.4% in 2008/09 to 12.4% in 2010/11.² Statistics presented in the international monetary fund have been questioned by economist inside and

¹ The world bank organization overview of Iran

² International Monetary Fund country report NO/241 August 2011

outside of Iran. This organization release the reports based on data which provided by country members.³

National Day	11th of February (Islamic Revolution of Iran -1979)
Capital	Tehran
Area	1,648,196 sq km
Sea boundaries	2,700 km (Including the Caspian Sea)
Land boundaries	4,137 km
River boundaries:	1,918 km
Bordering countries	Afghanistan, Azerbaijan (Nakhichevan), Armenia, Iraq, Pakistan, Turkey, Turkmenistan
Climate	Mostly arid or semi-arid, temperate along Caspian coast and mountainous temperate along west and north-west.
Natural resources:	Petroleum, natural gas, coal, chromium, copper, iron ore, lead, manganese, zinc, sulfur
Land use (1998)	Arable land: 300,000 sq. Km 18.2% Meadows and pastures: 900,000 sq. Km 54.6% Forest and woodland: 120,000 sq. Km 7.3% Other: 258,000 sq. Km 15.7% Irrigated land: 70,000 sq. Km 4.2%
Agricultural products	Wheat, rice, barley, potato, grains, sugar-beet, cotton, fresh & dried fruits, dates, pistachio, fruits, nuts, poultry, meat, dairy products, wool; caviar, flowers and medicinal plants
Industries	Oil and gas, steel, aluminum, copper, electric and electronic equipment, cement and other building materials, metallurgy, home appliances, iron, textile, rugs and carpets, tapestry, miniature, ceramic, food processing (particularly sugar refining and vegetable oil production), petrochemicals, and car manufacturing and assemblies
Population (000)	76,861(Novemer 2012)
Total Labor Force (000)	23,388
GDP at Current Price (Mln US\$)	453,454
GDP per Capita (US\$)	6,100(2010)
Inflation rate	26.2(July 2012)
Unemployment rate:	12.3
Total Imports	61,808 million US \$ (2011)
Total exports\	144,835 million US \$ (2011)

Table 1.ECO at a glance .member profile ,Islamic republic of Iran p.61

³ BBC Persian , http://www.bbc.co.uk/persian/business/2011/08/110805_i27_imf_iran.shtml.

1.3 Iran political issue

It starts on November 1979, when Iranian students attacked the U.S embassy in Tehran. Following the embassy hostage crisis, United States has confiscated 12 Billion Dollars of assets of Iranian government. After the release of the hostages by the Iranian government in 1981, they did not end the confiscation of assets until now.

This conflict increased when Iran continue nuclear programme secretly. Imposing several time of international sanctions in UNSC against Iran make the risks of doing business higher for foreign companies. It also targets investments in oil, gas and petrochemicals, transportation technology, central bank, insurance transaction, shipping and latest one which was behind that sanction made by EU in January to stop import oil from Iran after June 2011.

1.4 Research purpose

In the view of above background and discussion, purpose of my research is presenting a clear framework of internationalization in Small and Medium-sized Enterprises as well as challenges as to go a foreign market.

International market is wide subject and endless for business scholars. The goal of this project is figure out challenges of Iranian business companies and how managers come up with solution of those problems in new market. Although there is a gap in Iran about the subject of internationalization .If we go back in 1975 when the literature of internationalization revived with Uppsala model, Iran was confronted with political instability until the new revolution happens. And after that we faced with war with Iraq about 8 years which means basically the knowledge of internationalization academically came to Iran after passing decades. Here are research questions

- ❖ **What are the most challenges for going to international market?**
- ❖ **Does the sanction in UNSC affect the internationalization of SMEs?**

2. LITERATURE OF INTERNATIONALIZATION AND ENTRY MODE

In this chapter we are going to draw a picture of research and theories behind internationalization. Looking deeply and critical reviews at those theories could create a framework for next chapters. Then we clarify the importance of entry mode for firms which is planning to operate in foreign market.

The root of internationalization theory was made by Ronald Coase (1937), who argues that under some conditions firms establish their internal marketing rather than entering foreign activities with extra costs. The internationalization theory extended by other researchers such as Dunning (1980), Johanson and Vahlne (1977), Rugman (1980, 1981) and summarized and extended by Buckley and Casson (1992). (see Fina and Rugman 1996 , 200)

In the last decades number of studies and research has been increased around field of both entrepreneurship and international business. (McDougall and Oviatt, 1997, 2000; Zahra and Garvis 2000; see Zucchella .A; Scabini.P, 2007, 28).

Despite different model of internationalization and theories but research indicates that none of them could be completely happened in actual internationalization. The studying of these theories will make the process of internationalization easier to understand. The modern theory of internationalization comes back to 1960s, when number of research base on internationalization concept and advantage increased. Otherwise the traditional models comes back to economist (Smiths theory in 1776).The concept of this theory is each country have comparative advantage in some products or goods. Because of shortage of natural resource and technology it was better to focus on comparative product and import other products which country doesn't specialize for producing. (Zucchella .A; Scabini.P, 2007 , 29).

Therefore traditional theories in the field of internationalization could be divided into economic-decision base approach and behavioral internationalization approach (Benito & Welch, 1994; Fina & Rugman, 1996. Zucchella .A; Scabini , 2007).

2.1 Economic internationalization theory

This section refers to the traditional theories and models of internationalization of economist. The giant companies which their mainly focus on cost-related strategies and looking for a monopolistic and oligopolistic advantage theory. The main theories on this field are concentrating on FDI in MNEs.

2.1.1 Hymer's Approach

Stephen Hymer (1960) ⁴argued that foreign direct investment has some kind of monopolistic advantages for firms which are not available for local firms in domestic market.

The priority of firms through process of internationalization is maximizing profit through efficient resource and utilization. This expansion not only may consist of inadequate exchange opportunity and increase the risk of competition in domestic market but also bring a specific advantage or maturity industry for companies. For sure this specific advantage takes extra cost for company in compare with domestic market.

In his point of view, organization in international market has face with some challenges such as, different culture, language, legal and consumer habits. Being as an international or multination organizations offer some advantages such as: access to resource, scale economic, exclusive ownership of intangible assets, the exploitation of different skills and knowledge compare to home based market. (Zucchella .A ; Scabini.P ,2007 ,32)

⁴For more complete theoretical support see Hymer. Stephen.H(1976),The international operations of national firms:A study of direct foreign investment,Cambridge MA:The MIT Press.

This theory is based on some assumptions such as firm's size; market position establishment should be at home, the ownership of the firm and enough resource and capabilities.

2.1.2 Product life cycle (PLC) approach

Vernon (1966) introduces the new model of international trade based on research of trade between United States and European countries. Generally products of multinational companies from U.S (high technology) imported to market of developing countries in Europe. It will provide first a monopolistic market in home country. He argued that four stages base on that assumption in below.

First, introduction, which firm produce a new product and spread it around county.in this stage along with high growth margin at fixed price and a dominant position in home market. The price elasticity is low and there is no need to go abroad. Second stage (growth) product is still popular in home market with rising in sales and exports it to new market. In the maturity stage, exporting is no longer convenient. The local competitors in foreign country inter the market. It is logic to go closely to the market with establishing production or manufacturing product and decrease price and

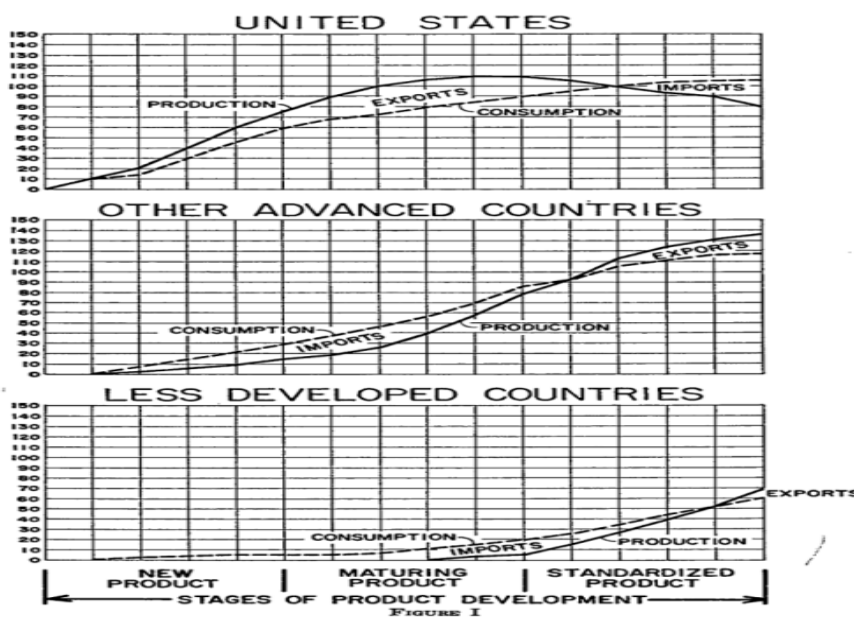


Figure 1 International investment and international trade in the product life cycle Source: Rayond Vernon 1966

standardize product. The last stage is decline, product lose monopolistic role of the market. The product price is so low and it is not legitimate to stay at this market any more. Trying to find a new market, differentiate or abound on the production. This stage will be different for multinational companies. (Figure .1)

Vernon modified a new version of product life cycle into three stages in 1974. During the process of internationalization inventor country which is basically united states introduce a new product in the market, then lose its comparative advantage through trading partners and finally it is possible be an importer of product few years later. In the introduction stage innovator company progress a technical aspect of a product which is manufactured. The company use this new product initially in home market that fill a technological gap. In this stage because only consumer of product is home market, mass production is no more possible and logic. In New product stage the price elasticity of demand is low.

Maturing product is second stage involve export new technology to foreign market with same economic level, consumer taste and demand structure in developed country. In this stage innovator company decide to establish a subsidiary abroad to come over the extra cost such as tariffs, transportation and legal issues. Over a period of time they decide to use mass production because the market is so big enough and also may deal with another alliance strategy.

Standardize product is last stage that companies try to differentiate their product. He also called this stage *senescent oligopoly* which few competitors are still in the market with low price. The product cycle will continue until the process of product standardization is utilized by all nations, including less developed countries. Finally innovator country will lose the dominant position in the market by other competitors and home country will be importer of the product.

”The PLC model is “fueled” by technology. As is well known technology is more likely to converge (e.g. close the gap between rich and poor countries) than capital” (Sachs, 2000). It assume that highly standardize product .This theory is based on invention of some product that create high income for the company such as textile, automobiles, shoes, radios, televisions and semiconductors. (Albaum, G, Duerr, E. 2008 ,73).

This approach in international trade will be guideline and support the PLC in concept in marketing. The model claims that many products go through a trade cycle, during which the United States is initially an exporter, then loses its export markets and may finally become an importer of the product. (Wells Louis T. Scjr, 1968)

2.1.3 Transaction cost analysis (TCA) approach

This model of internationalization initially was found by Coase in (1937, 1960) and developed by Williamson (1975,1985).(Zucchella, Scabini 2007 ,34)

He argued that ‘a firm will tend to expand until the cost of organizing an extra transaction within the firm will become equal to the cost of carrying out the same transaction by means of an exchange on the open market or cost of organizing in another firm. But if the firm stops its expansion at a point below the costs of marketing in the open market and at a point equal to the costs of organizing in another firm, in most cases (excluding the case of “combination”), this will imply that there is a market transaction between these two producers, each of whom could organize it at less than the actual marketing costs. (Coase 1937, p. 395).

This theory has attracted by other scholars of marketing to conduct an empirical research. (Williamson 1975, Joskov 1987, Anderson and Weitz 1992, Stump and Heide 1996, Rindfleisc and Heide 1997, 30)

According to Ronald Coase, people begin to organize their production in firms when the transaction cost of coordinating production through the market exchange, given imperfect information, is greater than within the firm.

The main reason why it is profitable to establish a firm would seem to be that there is a cost of using the price mechanism. The most obvious cost of “organizing” production through the price is that of discovering what the relevant prices are. This cost maybe reduce but it will not be eliminates by the emergence of specialists who will sell the information. The cost of negotiation and concluding a separate contract for each

exchange transaction which take place on a market must also be taken into account. We have also considered the cost of monitoring and infringement of contract⁵. (Figure 2)

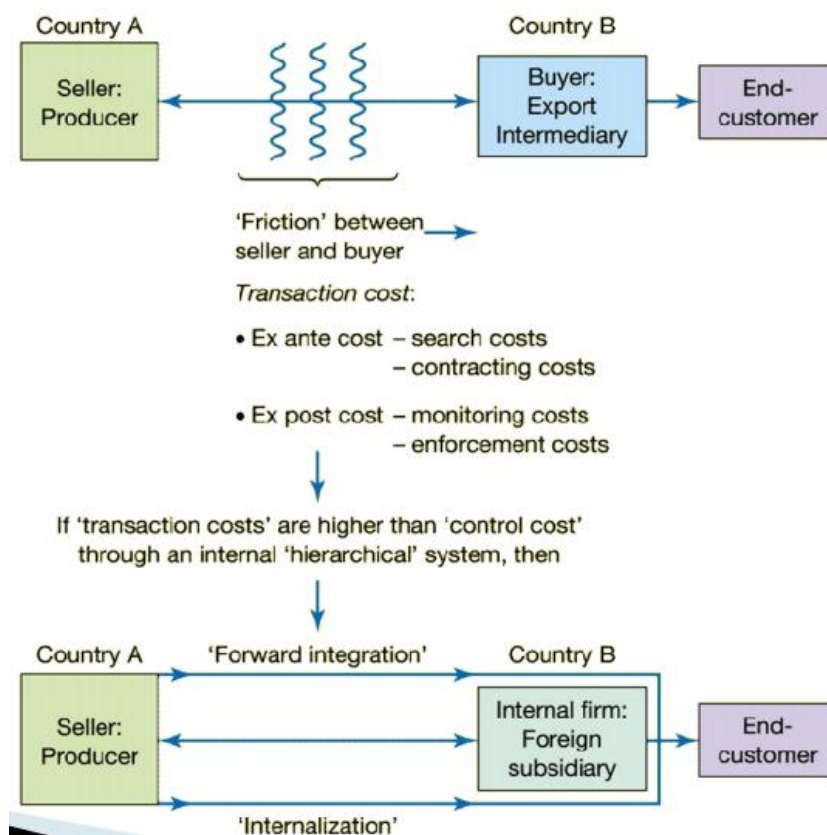


Figure 2: The principle of transaction cost analysis, global marketing Svend Hollensen 4th, p 68.

One of the Coase's (1937) initial propositions was that firms and markets are alternative *governance structures* that differ in their transaction costs. Specifically Coase propose that under certain conditions, the costs of conducting economic exchange in certain market may exceed the cost of organizing the exchange within a firm. In this context the transaction costs are “the cost of running the system” and include such ex ante costs as drafting and negotiating contracts and such as ex post costs as monitoring and enforcing agreement (Rindfleisch and Heide, 1997, 31).

⁵ For more theoretical research see The nature of the firm by r.h.coase ,*Economica*, New Series, Vol. 4, No. 16. (Nov., 1937), pp. 386-405.

These cost involve two different parts

Ex ante costs

Searching costs: involve cost of gathering information to choose and evaluate potential export intermediaries.

Contracting costs related to the costs of negotiating and writing a contract between seller (producer) and buyer (export intermediary).

Ex post costs

Monitoring costs: refers the costs that company expends for monitoring the agreement in order to be sure buyers fulfill their obligation according to contract.

Enforcement costs deal with costs that seller have to authorize when buyer refuse to execute according to contract. (Hollensen 2007, 68)

Transaction costs = ex ante costs (search + contracting costs)
+ ex post costs (monitoring + enforcement costs)

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He also divided the governance market based on the transaction cost into two parts, *externalization* and *internationalization*. In case of externalization ,market transaction definition external to the firm and the price mechanism conveys all the necessary governance information. The firm does the business though an external partner such as agent or importer.

In the case of internationalization, the international firm creates a kind of internal market (own subsidiary) in which a hierarchical governance is defined by a set of "internal" contracts. (Hollensen 2007 ,69)

During two decades transaction cost have boosted by empirical research of Williamson (1975, 1985 1996). He augmented that there is two kind of cost related to Coase initial theory. Direct costs of managing relationships and opportunity cost of making inferior governance decision. "Williamson microanalytical framework rests on their interplay between two main assumptions of human behavior (bounded behavior and opportunistic behavior). **Bounded behavior** is a hypothesis that decision makers of firms have limitation in their cognitive ability and rationality. In other words, access to limit information and lack of communication ability decrease their rationality in making decision. (Simson 1957, Rindfleisch and Heide, 1997 ,31)

The friction between buyers and seller can be called **opportunistic behavior**. Williamson (1985) defined these behaviors as "self-interest seeking with guile"- is an ultimate cause for the failure of the market and for the existence of organization. It includes misleading, infringement of contract, cheating and confusion. (Hollensen 2007,67)

Critics of Transaction Cost Analysis

TCA has been criticised for many things-for embodying a hidden ideology that distorts more that it illuminate(Perrow,1986),for ad-hoc theorizing divorced from reality(Simon,1991), for lacking generality because of ethnocentric bias(Dore 1983),for ignoring the contextual of human action and ,therefore presenting an undersocialized view of human motivation an oversocialize view of institutional control(Granovetter ,1985).(Ghoshal and Moran 1996 ,14-15)

Although a lot of empirical studies have been conducted about TCA theory in recent years but the components of the mechanism of this application is still ambiguous. For example, what exactly have been learned by empirical researchers in TCA theory? The answer is, there is no organizing and managing data based on those researches. Another important issue is the nature of this theory have developed by Williamson(1975,1985) which many of these refinement are not clear. and researcher face with a lot of unsolved question related to what extend a firm will establish a new subsidiary in foreign market.(Rindfleisch and Heide 1997 ,30)

One of the critiques to TCA theory is , the main ground of Coase hypothesis have been augmented by other scholars such as Williamson and variety of vague part with unsolved problems is still behind it.

The TCA theory that developed by Williamson ,ignore the role of innovation-related activities that are efficient in a dynamic sense that often defy the explicitness necessary of “logistical” coordination. As a fact innovation happens inside the firms normally and it is not involve of transaction parts.In Williamson formal theory distinction between opportunistic as a behaviour and as a attitude is not clear.(Ghoshal and Moran .1996)

Finally it is argue the importance of transaction cost overstated and ignore the significant role of production cost. Production cost could be involved R & D cost, manufacturing cost and marketing cost. (Hollensen 2007,70)

2.1.4 Eclectic Paradigm

The concept of the eclectic paradigm of international production was appeared at the presentation of a Nobel Symposium in Stockholm on the *International allocatoin of economic activity* by John Dunning in 1976(Dunning 2001,174).

He has developed a holistic framework that include a variety of theoretical approaches in internationalization with the aim of creating a common ground by attending agreement and disagreement opinions. He had intetion to find which factors influene the intial and growth of foreign production by firms.The word of eclectic was choosen to take other hypothesis under one umberella. Eclectic was meant to convey the idea that a full

explanation of the transactional activities of enterprises needs to draw upon several strands of economy (Dunning 1988).

Some critics argue that we can't call it a new theory because it is a combination of other theories in economic design-based approach. (Zucchella, Scabini 2007, 36)

This theory (Dunning 1980, 1981, 1988, 1992) suggests that MNEs develop their competitive O at home country and then transfer these to another countries with L (advantages) with using FDI of host country. As a result the MNE will internalize the O advantages in international market. (Rugman 2010)

The origin of eclectic approach

Earlier research shows that labour productivity of US manufacture companies were 2 to 5 times more than that UK companies. He understood that US affiliates were not productive as much as their parent companies but were more productive than their local competitors in UK. It constructs the origin of his theory that, *ownership* and *location* are two key elements of labour productivity for US companies. (Dunning 2001, 174)

later (1975) he expanded the *international* advantage to location and ownership which firms rely on or more of these elements to develop transaction abroad. Ownership specific advantages involve property rights, product, assets (tangible and intangible), innovation, brand, management skills and production management.

Location-specific advantage could include low production costs (such as labour forces, FDI, access to the market, low tariffs, incentive investment, transportation costs and psychic distance).

Finally internationalization advantage such as avoiding extra cost of negotiation and marketing research, violating the contracts, access to new market, protect the quality of final product, affective management control and avoid of buyer uncertainty.

The purpose of the eclectic paradigm is not to offer a full explanation of all kinds of international production but rather to point to a methodology and to a generic set of variables which contain the ingredients necessary for any satisfactory explanation of particular types of foreign value-added activity. (Dunning 2001)

The Key Propositions of the Eclectic Paradigm

He demonstrated that three forces will affect paradigm. "Let me now reiterate the proposition of the eclectic paradigm".

(1) The (net) competitive advantages which firms of one nationality possess over those of another nationality in supplying any particular market or set of markets. These advantages may arise either from the firm's privileged ownership of, or access to, a set of income-generating assets, or from their ability to co-ordinate these assets with other assets across national boundaries in a way that benefits them relative to their competitors, or potential competitors.

(2) The extent to which firms perceive it to be in their best interests to internalise the markets for the generation and/or the use of these assets; and by so doing add value to them.

(3) The extent to which firms choose to locate these value-adding activities outside their national boundaries. (Dunning 2001, 176)

Criticisms of eclectic Paradigm

Some critics of the eclectic approach is using a numerous explanatory variables that consequence to reduce the value and application of theory. Dunning has a long-time debate and improvement of eclectic theory during years with internationalization scholars (Buckley, Rugman and Casson) to put the OLI paradigm at the center of internationalization theory. (Eden and Dai 2010, 14)

Kiyoshi Kojima's criticism of the eclectic paradigm argues that it is purely a micro-economic phenomenon and also there is no difference between internationalization and eclectic paradigm. As far as I am aware, no one from the internalization school has sought to explain the changing propensity of countries to invest, or be invested in, over time. (Dunning 2001, 180)

One of the problems with Dunning's eclectic paradigm is that it is too eclectic (Rugman 2010). He argue that the non-asset Ownership advantage of Dunning paradigm such as

culture, language, legal, manpower could be categorized in country factors. HE goes further and explain the distinction between L and O is not clear in special situations , when a MNE access to natural resource (such as ownership of an oil, forest or mine) a host country Location advantage transfer to Ownership advantage. Dunning attend the internationalization theory deal with transaction cost as the unit of analysis whereas Buckley and Casson(1977) , Rugman (1981) , Hennart,1982) prove the internationalization theory take the firm as a unit of analysis. The FSAs are clearly at the firm level not at transaction level. (Rugman 2010).

In eclectic paradigm entry mode of internationalization is only through FDI of host country but in internationalization theory there are some other choices such as licensing, joint venture and alliance.

Dunning start with a simple and understandable view of ownership advantages which during two decades he augmented and generalized eclectic diagram to respond to critics. When international business scholars argue market imperfection in international intermediate product market was both necessary and sufficient to explain the existence of MNEs. Dunning respond the critics with dividing ownership advantages into two parts: Oa (ownership assets) and OT (ownership transactional) advantages.

Mark (1977)	Explaining international production O
Mark(1980)	Addressing internationalization theory Oa and Ot
Mark(1990)	Incorporating new forms of international business
Mark(1993)	Recognizing strategic management theory
Mark(2008)	Integrating institutional theory Oi

Table 2: The five phase of ownership advantage of OLI. (Eden and 2010, 16)

Stretching a “Big tent” so that OLI can be the reigning paradigm has both benefits and costs. The understanding of what O, L and I are and do or don’t include can be increasingly problematic. (Eden and Dai 2010, 16).

Some researchers (Narula, 2010) believe that there is no real eclectic paradigm with such big view and concept that grow through 30 years. He called the “ED-lite” of initial proposal of eclectic paradigm because of simplicity. He argues the expanding of eclectic diagram outcome of two reasons, first the changes of international business environment that came from political and economic movement in globe. Second reason is improvement of other fields that related to economic, science and management either to response to critics, or demonstrate the eclectic paradigm’s relevance to various circumstances, purpose and functions. He used the metaphor of *Coat hanger* and *Swiss Army Knife* for EP-lite and eclectic paradigm. It means that the ED-lite is simple and elegance in the other side Eclectic paradigm that improve by Dunning continual have more complexity and decrease returns because increasing number of tools make the final product unwieldy.

2.2 Behavioral internationalization theory

This trend of studies based on behavioral theory of the firms (Cyert & March, 1963) adopts a more dynamic approach that views internationalization as a process. This trend began with Aharoni’s (1966) article, which is considered one of key articles in internationalization studies (Buckley & Ghauri, 1999; Root,1994), and was followed by a number of scholars both in Europe and US who proposed internationalization models.(Ghanatabadi, Firouzeh 2005, 26)

This category is based on firm’s resource (knowledge base) and capabilities (state aspects) and on learning process.

2.2.1. Uppsala internationalization model

Johanson and Vahlne (1977) based on their empirical research and observations from Swedish firms developed a new model of internationalization that called Uppsala (U-

Model).⁶ They argued that Swedish firms often develop their international operation in small steps rather than establishing their own subsidiary with huge investment at single points in time. This model was supported by empirical research in steel firms and Swedish pulp and paper industry. They also add that the interest of export is higher with same psychic distance countries. This model was theoretically based on behavioural theory of firm (Johanson and Vahlne 1977,24).

Hörnell, Vahlne and Wiedershiem(1973) conducted a survey of first case study based on internationalization process of second largest Swedish pharmaceutical company; Pharmacia (1972). The Company was running their own organization in nine countries. In eight of these cases the development pattern was as follows. The firm received orders from the foreign market and after some time made an agreement with an agent (or sold licenses regarding some parts of the product line). After a few years Pharmacia established sales subsidiaries in seven of those countries (and in the eighth they bought a manufacturing company bearing the same name, Pharmacia had previously served as an agent). Two of the seven sales subsidiaries further increased their involvement by starting manufacturing activities. Another research in engineering firms had same result.(Johanson and Vahlne 1977 ,24).

They get the impression of Uppsala model from Aharoni (1966) study. We see internationalization rather as the consequence of a process of incremental adjustment to changing conditions of the firm and its environment. (Johanson and Vahlne 1977, 26)

Regarding to this empirical research a model of internationalization process was developed. It was focused on the gradual acquisition, integration and use of knowledge about foreign markets and operation. Consequently the commitment of foreign market will be increased incrementally based on these stages. (Figure .3)

Stage 1, no regular export activities (sporadic export), no market experience

Stage 2, export via independent representative (export modes) superficial information, channel information to the market.

⁶ Uppsala is the name of a city in Sweden that This research have conducted in business department of Uppsala university

Stage 3, establishment of foreign sale subsidiary

Stage 4, foreign production /manufacturing units. (Hollensen p.63)

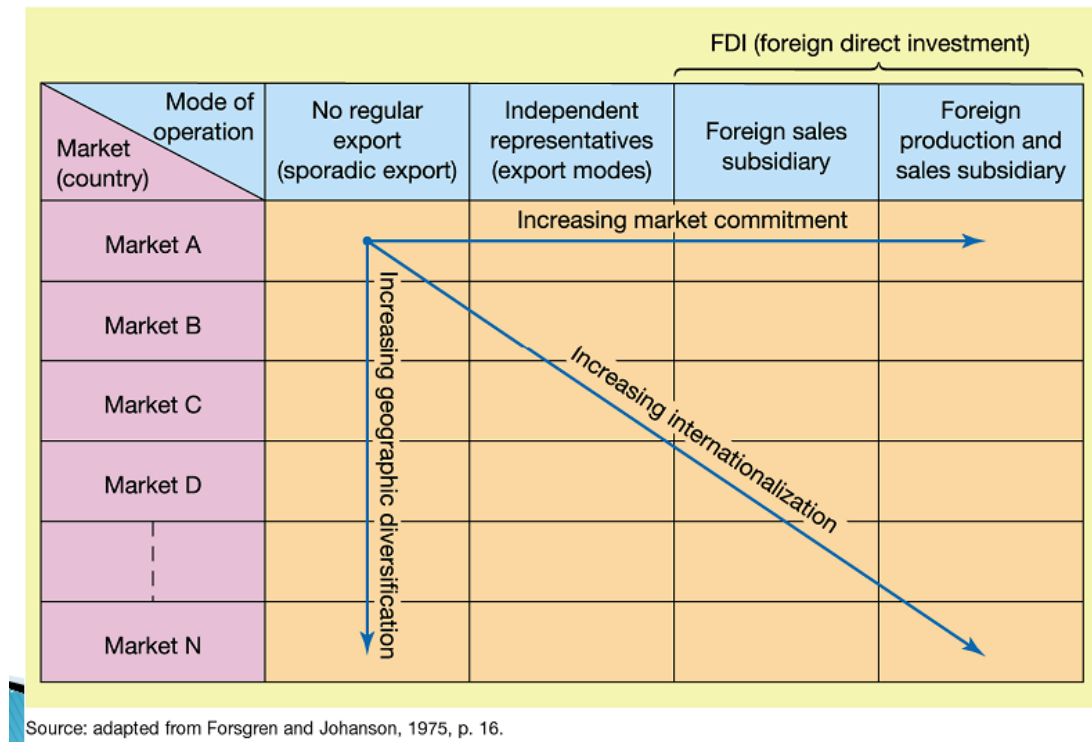


Figure 3.internationalization of the firm; an incremental (organic) approach, Hollensen 4th .p 64

State aspects are knowledge about foreign market and operations and market commitment which both based on resource committed to foreign market.

It assumes that market commitment is based on two factors, the amount of resource committed in the market(amount o investment, personnel, organization,etc) and degree of commitment.The commitment decision of firm based on different types of knowledge. In general knowledge” relates to present and future demand and supply , to competition and to channels for distribution , to payment condition and to transferability of money ,and those thing vary from country to country and from time to time”.(Carlson 1974).Market knowledge involved all information inside the firm about market such as knowledge of employees ,memory of computer and stored data and papers.

The change aspects are current activities and commitment decision. Through current activity firms get experience and it increased market commitment. The later case is decisions to commit resources to foreign operations In this model it assumes that market commitment and market knowledge affects both in commitment decision and current business activities, in the other hand those aspects reflects on market knowledge and commitment. This process is seen as a causal cycle.(Johanson and Vahlne 1977, 27-29).(figure 4)

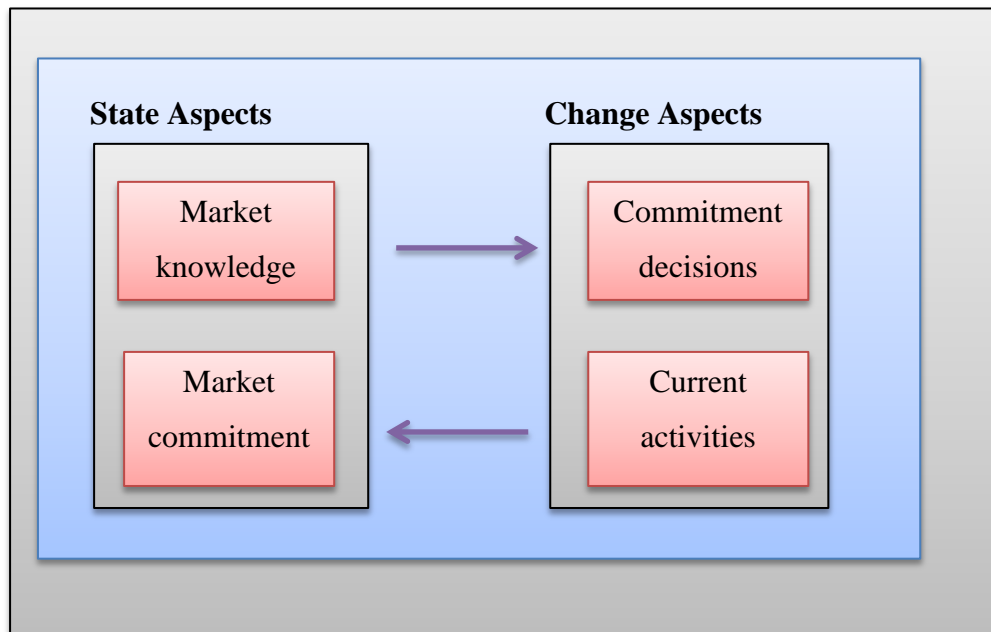


Figure 4. The Basic Mechanism of Internationalization, Source: Johanson & Vahlne, 1977, p.26

Critics of Uppsal Model

There is two kind of knowledge :objective knowldge that can be taught, and experience knowledge which can be only learned through personal experience.

It seems that market knowledge, including perceptions of market opportunities and problems, is acquired primarily through experience from current business activities in

the market. Experiential market knowledge generates business opportunities and is consequently a driving force in the internationalization process, it is also assumed to be the primary way of reducing market uncertainty (Johanson and Vahlne 1990, 12) It means when firms get more experience knowledge from their current business activities in the market, the market commitment increases with allocating more resources. This market experience is to a large extent country – specific for firms and it can not be extended to other countries.

It has been argued that the world is becoming more homogeneous consequently psychic distance (cultural, language, religious, political, etc.) will decrease. It should be acceptable for some firms to go to large markets without experience (market commitment and market knowledge). (Hollensson 2007, 66).

Studies have shown that the internationalization process model is not valid for service industries (Hollensson 2007, 65).

Another characteristic of the model is that the firm is viewed as a ‘loosely coupled system’ in which different actors have different interests and ideas for the development (Cyert and March, 1963; Weick, 1969; Pfeiffer, 1981). Thus, the model expects that the internationalization process, once it has started, will tend to proceed regardless of whether strategic decisions in that direction are made or not. (Johanson and Vahlne, 1990, 12)

The model indicates that internationalization process will be based on small steps but there are three exceptions, first large firms with surplus resources may make big steps. Second, when there is a homogeneous market with stable political and economic conditions, firms may ignore spending several years to get the experience and go directly into the market with a subsidiary. Third when firms have enough experience about a market, it should be generalized to other markets with similar conditions.

Another claim to internationalization process of this model is limitation to high technology and small countries. But according to empirical research by Wisconsin researchers (Bilkey, 1978, Bilkey and Tesar, 1977; Cavusgil, 1980, 1984), Turkish exporters (Karafakioglu, 1986), Australian firms (Barrett, 1986) and Japanese firms

(Johansson and Nonaka, 1983) about export behavior provides same picture.(Johanson and Vahlne 1990,13)

2.2.2. Born global

In recent years some of the firms didn't follow the tradition of internationalization process .The models that offer an incremental and step by step international process (The Uppsala internationalization model by Johansen and Vahlne, 1977 and the innovation-related internationalization (I-M) models, Cavusgil, 1980, Bilkey & Tesar, 1977).The conception behind the idea is a firm target the foreign market or global market in birth. These companies will be called born global (Knight and Cavusgil, 1996), Global start-ups or international new ventures (Oviatt and McDougall, 1994),

The concept of born global was introduced by McKinsey in research of Australia's High Value-Added Manufacturing Exporters. These manufacturers were exporting just two years after establishment. *These firms view the world as their marketplace from the outset and see the domestic market as a support for their international business.* (McKinsey & Co., 1993, 9)

Recent research carried out in the Nordic countries (Lindmark et al, 1994) also demonstrates the existence of Born Global. Based on the study of 328 exporters from Finland, Norway, Sweden, and Denmark it is concluded that the firms' domestic market no longer seems to be as important a "learning place" as earlier studies demonstrated. A high proportion of the exporters started their international activities just after the birth of the firm. About 20% of them did so within one year after their inception; two years later the percentage had risen to roughly 50.(see Madsen and Servais 1997,564)

Tamer Cavusgil also in another article interpret born global of McKinsey with two fundamental phenomena 1.small in beautiful and 2. Gradual internationalization is dead.

Born global are *business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries.* (Cavusgil and Knight 2004, 124)

A 'born global' can be defined as 'a firm that from its inception pursue a vision of becoming global and globalize rapidly without any preceding long term domestic or internationalization period' (Oviatt and McDougall, 1994; Gabrielsson and Kirpalani, 2004, Hollensen p.77).

Cavusgil and Knight(1997) characterized SMEs with less than 500 employees, annual sales is under \$ 100 million, technology oriented, see world as a single, developed country, borderless marketplace. These firms begin to export their product within two years of establishment and tend to export at least 25% of total production. (Persinger.S. Elif ym 2007, 74)

The born global are much more like 'later starter' and 'international among others' of network model (Johanson and Mattsson1988) both the environment and firm are highly internationalised. The late starter is most proper stage model near the concept of born global. In this stage most networks are local and there is a few international (if any) cross borders relationship with other firms. High uncertainty to enter foreign market and low knowledge of international market are other characteristic of born global. (Hollensen 2007,78)

However this remark was refused by authors of born global according to these reasons: New ventures are young age with small size and not so large resource in their adjustment. Their markets are among most volatile (not stable). Finally new venture by definition have a little or no experience in any market.

Unlike other research in economic area around multinational companies, born global have conducted flourishing new fields of international marketing for SMEs and open new windows for scholars. These smaller entrepreneurial firms tend to adopt a global focus from the outset and embark on rapid and dedicated internationalisation (McKinsey & Co., 1993).

Oviatt and McDougall argue that born global (international new venture as they called) have existed in centuries and was ignore by the shadow of giant companies and researchers. The studies in past decades released that born global firms depended seriously to create an international vision of the firm from inception , an innovative product or service marketed through strong network and managerial focuses on international sales(Ganitsky 1989 ; Jolly et al .1992; (Oviatt , Shane and McDougall, 1994). In addition, ‘born global’ firms often possess a knowledge-based competitive advantage that enables them to offer value-added products and services (McKinsey & Co, 1993).

Other research made by Brush in American’s small internationalised firms (1992) and Burrill & Almassy in North American electronic industries in (1993) indicted the emergence of born global. Their studies have found that most of them didn’t follow the traditional process of internationalization. This finding had contradiction with last theories of internationalization (U-Model and I-Model).As a conclusion there is not enough explanation for those firms start exporting to foreign market rather than domestic market (Oviatt and McDougall 1994, 48).

Although in contrast with multinational organizations, not only the significant role of foreign direct investment is diminishing in new ventures but also the firms have a proactive international strategies rather than reactive strategies by MNE. .(Oviatt and McDougall ,1994)

Based on the literature the rise of born global may be attributed to at least three important factors: (1) new market conditions, (2) technological developments in the areas of production, transportation and communication, and finally (3) more elaborate capabilities of people, including the founder/entrepreneur who starts the Born Global firm. All three factors are, however, interrelated. (Madsen and Servais 1997, 565)

MOTIVES AND CHARACTERISTICS OF BORN GLOBAL FIRM

Some factors influence the emergence of born global firms. Increasing role of niche market cause growing of demand in a mature economic for specialized or customized products. (Knight and Cavusgil 1996). Shorter product life cycle is another factor to increase born global. (Ohmae, 1990 and Oviatt and McDougall, 1997) .They can target more international markets and increase their production and sales. Other important actors affect the emergence of born global are advances in the production, transportation and communication areas, connect to global networks and alliances, and more elaborate capabilities of people, including those of the founder/entrepreneur who starts early internationalizing firms (Knight and Cavusgil, 1996, Madsen and Servais, 1997, Servais and Rasmussen, 2000).(Persinger.S. Elif ym, 75)

Oviatt and McDougall categorize four kinds of international new ventures (born global) based on the number of value chain activities and countries they are operating.

New international market

New international market makers are an age-old type of firms. Basically importers and exporters transport the goods from their home country to another nations where they are demanded to get profit. Typically interest of foreign direct investment from any country is at lowest point. The most important part of value chain are inbound logistic and outbound logistic, that most likely be internalized in this kind of firms. According to this figure there are two kinds of international new market makers. *Export/Import Start-ups* concentrate their service in a few countries which are familiar.

In the other *side multinational traders* target a lot of countries and also seeking for new opportunities through their strong networks around the world. (Oviatt and McDougall, 1994, 58).

Geographically focused start-ups

Geographically focused start-ups get the advantage of providing special service for particular region of the world through the use of foreign resource. In compare with

multinational trader, they are restricted to specific geographical area with specialized need also they have a coordinator role in value chain of inbound and outbound logistic.

They will build competitive advantage by focusing on co-ordination of value chain activities such as technological development, human resource, knowledge and production. Occasionally this advantage protected through strong network of alliance in a geographical area. (Oviatt and McDougall 1994, 58).

The co-ordination is often socially complex and difficult to imitate because of tacit nature knowledge involved. (Rasmussen and Madsen, 2002).

For example *profit magazine* is one of the Canadian magazines that transfer the western management issues and economic know-how to entrepreneurs of formerly communist countries. The founders have background of Eastern Europe and they focused on this geographical area. Their competitive advantage was their knowledge about eastern European culture and their ability to establish strong networks there. (Oviatt and McDougall 1994,58)

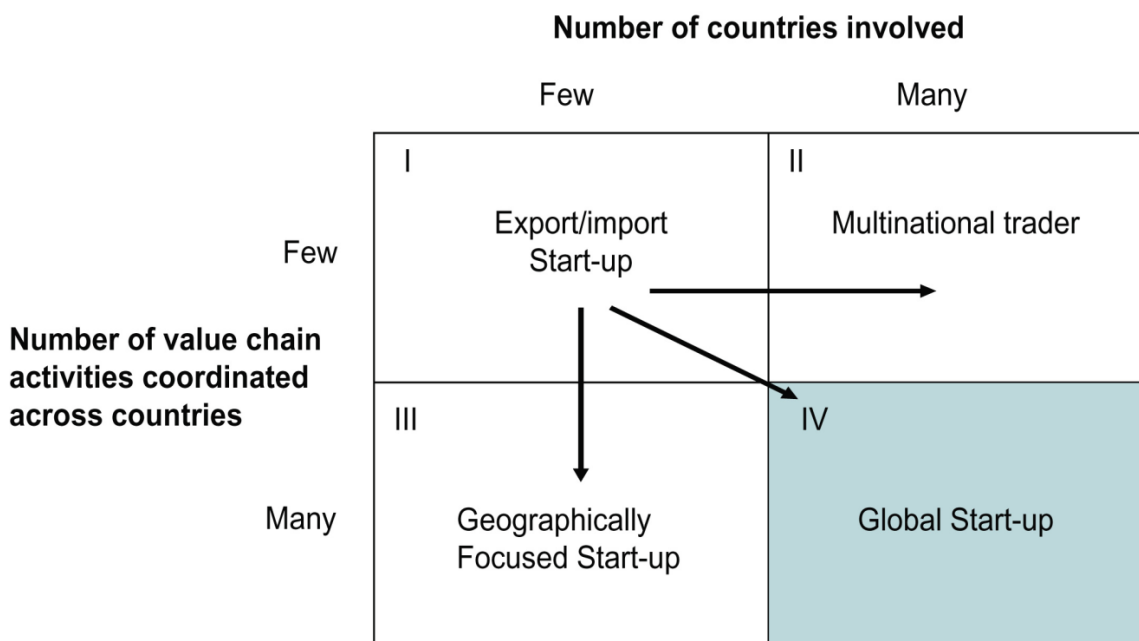


Figure 5; Toward a theory of international new ventures, Oviatt and McDougall, 1994 P, 59

Global start-up

“Before some of us have come to terms with the concept of global *markets*, along comes the global start-up” (Maims 1989). Global start-ups are the most radical new international firms. It is characterized by Strong competitive advantage, extensive coordination among organizational activities and wide scope towards the world. It is most challenges types of international new ventures because firms have to develop their skills and coordination of activity not only through the networks regional but also in geographical areas. (Oviatt and McDougall 1994, 59)

Momenta cooperation is an example of this type of firms (Oviatt and McDougall, 1991; Bahide 1991). It was founded in 1989, co-founders, Kamran Elahian, Shiraz Shivji, Beatriz Infante and Bob Groppo. A pen based Computer Company that failed after three years of its launch. The software design was in United States, hardware in Germany, manufacture in Pacific Rim and financial resource from Taiwan, Singapore, Europe and United states. (Oviatt and McDougall 1994, 59)

Why they look globally? The reason is other competitors were globally and they see rapid growth in global market.

They believed that globalization had a positive effect on increasing of born global firms around world .In international business environment two key factors facilitate the early adoption of internationalization. Globalization of the market that involve using the international resource, production and marketing across borders. Globalization associate with increasing international homogenous buyer performance. It makes the international business easier for firms. The second factor is revaluation in international technology information and communication, transportation and international logistic which reduce the transaction costs and growth of international trade. (Knight and Cavusgil 2004)

We conjecture that young firms with a strong innovation culture and a proclivity to pursue international markets tend to internationalize earlier than internationally oriented young firms that lack an innovation culture.

Born global firms are not restricted to developed countries but throughout the world. (Knight and Cavusgil 2004). Knowledge is important resource and plays a significant

role and strong advantages in international business market. The firms with strong innovation cultures pursue the early internationalization. It also facilitates the acquisition of knowledge and capabilities to sustain in foreign market.

The research (Knight and Cavusgil) conducted with managers of 33 companies in 2004. They were founded after 1985 and ventured abroad after 3 years of founding. They divide the organization culture into two types: first, international marketing orientation that emphasizes creation of value via key marketing elements for foreign customers. Secondly, international entrepreneurial orientation reflects the firm's overall innovativeness and proactiveness in the pursuit of international markets. In the face of relatively limited resources, firms take the initiative to pursue new opportunities in complex markets, typically fraught with uncertainty and risk. The most important business strategies employed by born-global firms that emerged in our investigation are global technological competence, unique products development, quality focus, and leveraging of foreign distributor competences. (p. 135). In addition to the presence of facilitating environmental factors, firms must possess specific knowledge-based internal organizational capabilities that support both early internationalization and subsequent success in foreign markets.

Born global phenomenon is a reaction of firms to three important factors: 1. new market conditions, 2. technological development in production, transportation and communication, 3. capability of founders/entrepreneurs. The firms have a tendency to specialize in products to target niche markets. Innovative products made by high technology companies could target either domestic markets or other large markets around the world. The genius of globalization creates a network across borders that facilitates the export of innovative products to the rest of the world. International financial markets smooth the surface for entrepreneurs to jump into other markets. (Madsen and Servais 1997)

The background and characteristics of the founder, such as education, experience in living in a foreign country and working in an international company, probably has a large influence on the commencement and development of Born Global. (Madsen and Servais 1997).

2.2.3 The network model

The network approach appeared in internationalization research in Uppsala. Increasing the internationalization in Swedish producers of good industries gave inspiration to researchers in 1960s. During this period the (EEC) and (EFTA) were in their formative stages. Carlson noticed the importance of firm's knowledge about international operation and foreign market). Later it have been developed by a group of Swedish researchers whose background was research on distribution systems, internationalization process of industrial firms, and industrial purchasing and marketing behavior as interaction between firms.(Hägg & Johanson 1982; Mattson 1985;Hammarkvist, Håkansson and Mattson, 1982). The industrial system consisted of firms engaged in production, distribution and use of goods and services. They called this system as a network of relationship between firms. See (Laurent and Gilles 1994, 327)

In global business environment the interdependence between firms and through industries is increasing and getting more significant. Unlike the Uppsala model that (Johanson & Vahlne 1977) consider the internationalization as a sequential learning process, in network model (Johanson & Mattsson 1988), the main authors, focusing in interaction and relationship between firms in production, sales and distributions departments. According to Johanson and Mattsson (1988) internationalization of a firm begins with the fact that internationalizing firm initially is engaged in a network which is primarily domestic. According to the network view, internationalization means that firms develop business relationships in networks in other countries. The idea is that the relationships of a firm can function as bridges to other networks. Johansson (1994) explained a firm which operates within international business relationships can use these relationships to get into networks in foreign countries. (Laine and kock , 5).

Researchgers on business network defined “network” usually as “sets of connected exchange relationships” . This connectedness of firm to other firms creates the core of the business network approach. through the firm`s relationship with market or other

actors these connectedness will extend until as a consequence the firm will become internationalised.(Chetty and Desiree 2000,79)

A considerable number of studies have been conducted in industrial marketing reveal the existence of a long-term relationship between supplier and customers in purchasing and marketing. One of the reason is that suppliers and customers need extensive knowledge about each other if they carry on an important business.

According to this view internationalization process is in three dimensions ; extension- where companies build a new relationship with partners in local network in another countries; penetration- developing relationship and increasing network commitment abroad where the company is already cooperating and finally international integration by increasing coordination within different networks.

According to Johanson and Mattson the degree of internationalization of the network affects the internationalization of the particular firm in the network which means that firms cannot be analyzed separately but must be understood in an interdependency context. The relationships may also influence the firm's choice of foreign market and entry mode.

(Brockmann and Anthony (1998) argue that in general speaking, experience gained from the foreign marketplace can translate into knowledge that can be used to resolve problems or select alternative options relating to international operations.(Hadley and Wilson 2003, 698)

Not only a firm can increase its knowledge levels through the process of 'learning by doing', but Johanson and Mattsson (1988) also remind us that an underlying tenet of industrial network theory is that the knowledge of other actors in the network can influence a firm's decision-making.(Hadley and Wilson 2003, 701)

Based on studies of Johanson and Vahlne (1977. 1990) the process model have two kind of knowledge objective ,that involve market methods and statistical tools and experiential knowledge that involve culture customer characteristic and distributive structure.

According to this model the experiential knowledge has a significant effects in reducing firm`s uncertainty and risks as a result impact of commitment of international markets.

The experiential knowledge is involved the firms knowledge in international market, managers and employees experience in international organization and also knowledge of other firms inside the network. (Johanson and Mattsson 1988)

In this model the firm`s position before the internationalization process begins divided into four stages

		Degree of internationalization of the market	
		<i>Low</i>	<i>High</i>
Degree of internationalization of the firm	<i>Low</i>	The early starter	The late starter
	<i>High</i>	The lonely international	The international among others

Figure 6 .Internationalization and network model, Johanson and L .G.Mattsson,1988,Hollenson p.73

Early starter

The firm has a few and rather unimportant relationship of suppliers, competitors and production net with other firms abroad as well as domestic market. In this situation the knowledge of the firm about foreign market is falling down. As we see in figure (6) low

level of internationalization of firm and market is also low. The studies reveal that internationalization happens in this firm through agency rather than subsidiaries because of 1.minimizing of the needs for knowledge development 2.minimisation of the demands for adjustment 3.utilisation of the positions in the market occupied by already-established firms (Johanson and Mattsson, 1988).

If the firm implement the strategies in order to get larger or increase the resource could go an upper step such as acquisition or Greenfield.

In early starter initiative of internationalization often take place by partners –distributors or users in the foreign market. There is afraid of tackle some problems to start internationalization in this kind of firms.

First there is a lack of enough resource in companies. Secondly losing the control of operation abroad in order to reduce risks and adjust of resources.

Hertz and Mattsson (1994) argued that if both the degree of internationalization of the network is low and the degree of internationalization of the firm is low, the firm can follow the traditional step-by-step model (the U-model).see (Laine and Kock ,4).

The firm`s level of internationalization status in Early Starter suggests that it possesses only weak channels with foreign networks. Second, the process model contends that knowledge can be acquired through the firm increasing its interaction with the market or, in other words, intensifying its current activities (Johanson & Vahlne, 1977, 1990)

The lonely international

Although the lonely international firms have a high degree of internationalization but in other hand firms based on low international inexperience network. It means that they lose their advantage of international operation as much as their foreign business knowledge because there is no network in their system.

Firm`s supplier, customers and competitors are less internationalized; consequently the firm doesn`t get initiative to further internationalization of other counterparts. The firm has the competences to promote internationalization through product net. (Hollensen 2007,72)

Lonely international have lower experiential knowledge in compare with international among others.

Late starter

Like early starter, the late starter has a low degree of internationalization but they have high position in the market .It is characterized with low level of experience in international market and a few direct international relationship even though the supplier, competitors and customers of the firm are in international market.

The firm may have opportunity to participate in unexpected project with suppliers or customers to *pull* to international market. In compare with other competitors later starter have lesser market knowledge. (Hollensen 2007,73)

Late starter firms have great customer adaptation ability and more specific in order to meet the need of customers. The comparison between early starter and the late starter appear in importance of timing as a basic issue in the analysis of strategies in network.

Like the Early Starter, the Late Starter has a low degree of internationalization, but is positioned in a highly internationalized market. Consequently, the Late Starter is characterised by a low level of commitment and activity in international markets, low levels of international experience and few direct international relationships (Johanson and Mattsson, 1988). It means that the late starter have only indirect contact with international networks.

The international among others

It is characterized with highly internationalized of both firms and its market. A dominant position of firms' knowledge and high degree of internationalization needs great co-ordinate activities with other firms in market. It will cause to establish a subsidiary in international market because the international knowledge is high. (Hollensen p.74)

The international manufacture with huge resource may prefer to purchase component or sub-assemblies rather than to produce it by itself.

In international among others firms have more tendencies to participate in joint venture, acquisition and emerging because they have resource and enough knowledge about market. It also firm deal with international partners and competitors who are activity in international market with open structured system.

The International among Others firm have highly internationalised macro-position that might provide with greater experience in integrating and coordinating its network positions (Johanson and Mattsson, 1988)

2.3 Motivation of internationalization

Making money is priority for any business company if we ignore the non-profit organizations. Through the profit firms will continue their life cycle, satisfy stakeholders, growth and competitor with other firms in the market.

In internationalisation of the firm the profit might be combining with other incentives such as sharing knowledge, managerial urge, tax benefits and etc. These motivations are different form a firm to another firm's base on their priority

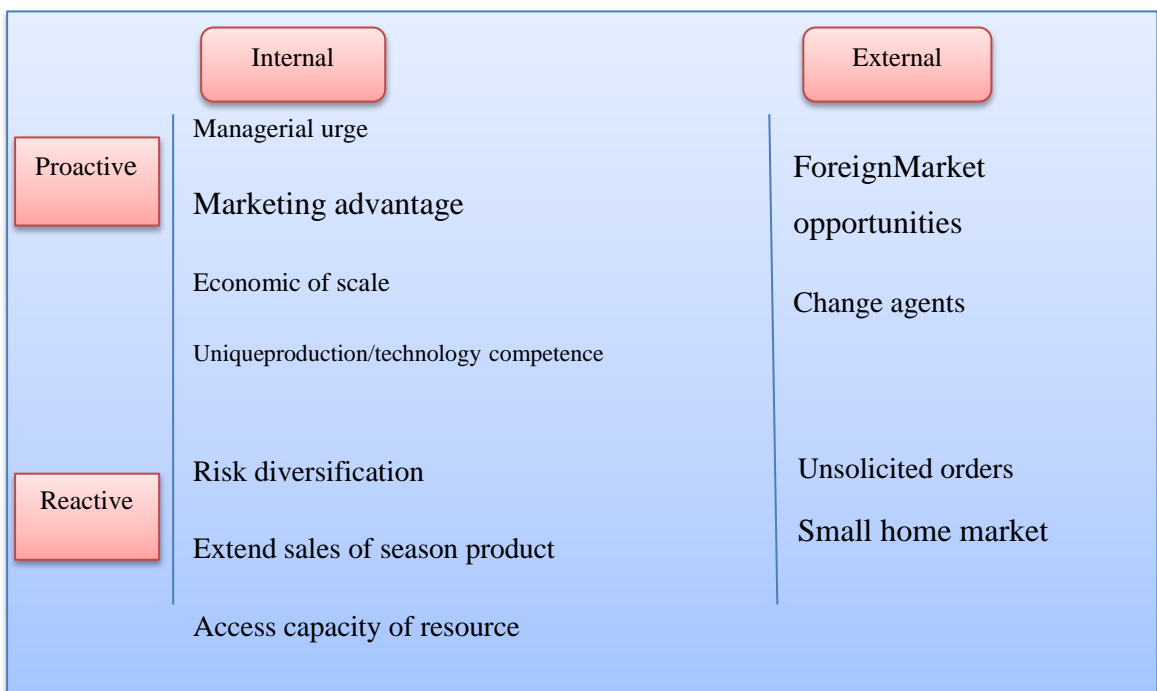


Table 4.A classification of export motives. Source: adapted from Albaum et al.(2008, p. 76)

These motivations can be categorized into proactive and reactive motives. Proactive could arouse from changing strategy of the firm in order to increase competitive advantage (e.g. special technical knowledge). The main proactive motivation for firms to go international market is profit. Sometimes managers anticipate a profitable sales in international market for firms but in reality firm face with some problems such as exchange rate and a dreams deferred. (Czinkota and Ronkainen 1998, Albaum and Duerr.2008, Hollensen 2011)

Manager`s desire, work and enthusiasm towards international marketing is another proactive motivation. They want to be a part of companies in international activities. Usually managers who born or experience of living or travelling abroad have more tendency towards international market. . (Hollensen 2011, 51).

Another important proactive motive is unique product or technological advantage or technological advantage. Firms with strong R& D parts (e.g. pharmaceutical companies) invent a new product could easily inter a global market.

Reactive motivation is the firm`s reaction to threat and pressure of other competitors inside home market. This reaction will stand from fighting of firms to survive in domestic market.

Most of exporting firms probably face with low market risk in compare with firms that only active in home market. Companies that are selling in several markets spread the risks and if there is a recession in home market they still shift the sales to other markets abroad. (Albaum and Duerr 2008, 78,)

Some industries such as textiles, clothes, sport equipment and toys have more seasonal product than others (summer vacation for truisim, winter clothes). Companies in these industries attempt to reduce the pressure of seasonal product cycle by selling them in the other markets. For example a company that produces only winter clothes should

Focus in other countries with opposite climate when they face with low sales during the summer time of domestic market.

The receipt from unsolicited inquiry for product, service, and price or distribution information is increased surprisingly in the market. Firms receive these inquiries through advertising in international journals, global exhibition and by other means. The research was evidence majority of firms start their export through passive (reactive) and unsolicited orders. (Albaum and Duerr 2008, 80)

2.3 Entry Modes

Welch and Luostarinen(1988) defined the terms of foreign operation mode means a company's way of operating in foreign markets, or the "how" part of foreign operations (Gabriel ym 2009.p 1456).Some researchers classify entry mode into different categories. For example, Anderson and Gatignon (1986) explain 17 different categories of entry modes. Hill et al. (1990) define three categories modes of entry: licensing/franchising, JVs, and wholly owned subsidiaries operations (Gabriel ym 2009).

They also argued the traditional view towards entry mode in international market is changing. In the past, firms decide either to choose export mode (direct/indirect) or set up their own subsidiary and either to give license or franchising. But nowadays the operation mode changes based on firm's objective over the time as a complete package. For example Kone is one of major players in manufacture and servicing elevator and escalators in world. The company won a contract in competition with Toshiba in Japan in 1997.Both companies agree to work together on installing the equipment and maintance. Starting this relationship took Kone further to establish a joint venture with Toshiba in China market in April 2005. We see how the long relationship of both companies changes the entry modes from a basic agreement into giving license and finally a joint venture mode of entry. (Gabriel ym 2009).

A market entry strategy involves two parts, entry mode that is used to penetrate target country and marketing plan that is used to penetrate target market. The importance of entry modes is not only to determine the degree of internationalization of the firm but also reflect to determine degree of commitment in target market. .(Albaum and Duerr

2008, 270). For example if a firm choose the indirect export instead of take the risk and establish its own subsidiary, marketing plan is completely different in consistence with company`s objectives. Therefore choose of entry mode will cause stable steps in international strategies for firms.

In international market, there are varieties of viewpoints to have been mentioned as factors influencing the choice of entry mode here are some of them. Hollensen highlight the main factors such as internal factors that involve firm`s size, international experience and product/service. Firm size indicates the resource availability (financial, human resource capital and etc.). naturally when the firm`s resources are huge the degree of internationalization is more deeper in compare with low available resource in other firms. Managers or firms experience in international market is another effective mode. Experience in I international market will reduce cost of uncertainty and increase the commitment of firm to devote resources to foreign market.

External factors that involve sociocultural distance between home country and host country ,country risk/demand uncertainty ,market size and growth, direct and indirect trade barriers, intensity of competition. Sociocultural distance involves language, cultural similarities, education, market place, level of life. For example Scandinavian countries have same sociocultural system overall. Market size and rate of growth are other important factors in determining mode of entry. Typically the larger market with stable and economic growth is more favorable for firms. (Hollensen 2007 , 298)

There is variety of foreign market entry mode for firms to choose. Each of them have special advantage and some disadvantage in compare with each other. It depends the

2.3.1 Direct export

Export modes are the most common way in starting internationalization. Sometimes firms get unsolicited order from a foreign company and start direct exporting. In a Direct export company (manufacture or exporter) sells directly a product/service to a buyer (importer) located in foreign country either through an agency or distributors. (figure7).

Firm's resource, strength and weakness to which degree commit in international market. (Ghauri and Cateora 2010).

According to Ghauri there are some other factors influencing market entry mode such as international environment: economic, cultural, legal and firm's overall strategy.

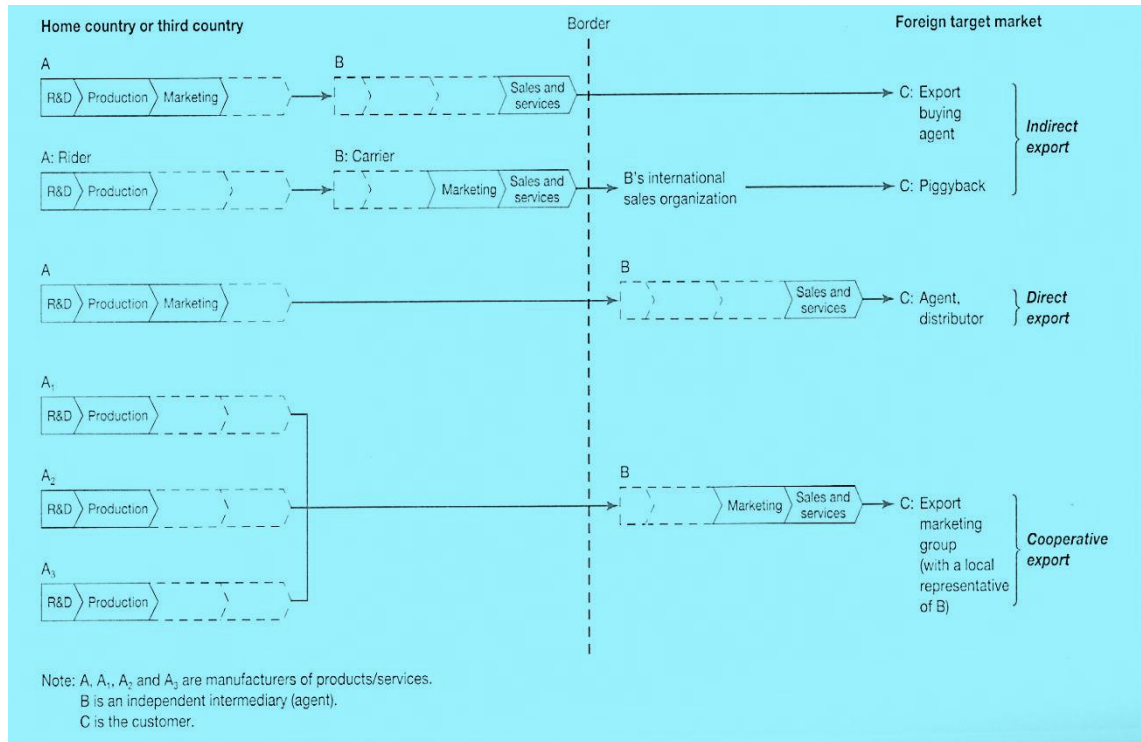


Figure 7. Export Modes, global marketing Svend Hollensen 4th, p 312.

2.3.2 Indirect export

In an indirect export mode a manufacture exports product/service through an independence organization which is located in home country. The second party either a carrier or exporter organization sell the product to foreign country. In fact in indirect export, manufacture is not really engage in international market. (Figure 11) there are five entry mode of indirect export. Export buying agent, brokers, export management company/export house, trading company and finally piggyback. (Hollensen 2007, 314)

2.3.3 Joint Venture

Another popular way for going foreign market is joint venture. It is a special type of strategic alliance that two or more firms in different countries participate together and establish a new business. This firm has new entity separated from their parent companies. Joint venture can be either a contractual non-equity like strategic alliance or an equity joint venture.

Firms are interested in joint ventures for variety of reasons such as going to new market (international market), reducing manufacturing costs, developing and diffusion technology and as a tactic to overcome legal rules and barriers. . (Hollensen 2007, 339-340).

There is another category for joint ventures. Specialization venture are organized about some functions such as marketing and manufacturing .each partner is responsible for add special value for example one firm design a product and other partner manufacture it .the other type is shared value-add ventures that each partner participate equally in value. Add activities. For example both of firms work on design part as a team together. .(Albaum and Duerr 2008, 384)

2.3.4 Licensing

Licensing is another method to enter foreign market where a company in one country (the licensor) enters into a contractual agreement with a company or person in another country (licensee) whereby the licensee is given the right to use something owned by the licensor. The licensor doesn't give complete ownership rights to licensee. The following things will be licensed. (Albaum and Duerr, 2008, 377)

- Technology ,know how, manufacturing process(patented or no patented)
- Trade market, brand name and logos
- Product or facility design
- Marketing knowledge and process

There are also some payments that consist of the contract such as initial payment, annual minimum, annual percentage and additional fees.

2.4 Definition of SMEs

The definition of SMEs is different from country to another country. It seems Iranian SMEs doesn't follow the same rules. Base on finding of my research there is three definitions for SMEs in Iran. Ministry of industry and mine describe the Small and Medium-sized enterprise based on ⁷

1. The amount of their investment in production unit 750 ,000\$
2. The employment rate maximum 50 people
3. Is not an artistic aspect
4. Whose capital is entirely Iranian

Small industries refers to firms which the total industrial workforce is less than 50 people⁸. Central bank of Iran labour force business under 100 employees as small and medium enterprises will be considered.

In 2005 the ministry of industry and mines establish a new organization called ISIP. It is a combination of small industries organization and Iran industrial's state not only to improve the industrial regions but also supporting small business (less than 50 employers). There is some objective of this organization such as

- Promoting entrepreneurship and developing human resources in small industries
- Market development and promoting business networks
- Developing and improving technological capacities of small industries
- Supporting start-ups and providing training (entrepreneurship, management and skills).⁹

⁷ <http://mimt.gov.ir/>

⁸ Small Industries & Industrial Parks Organization of Iran in July 2005 adopted by the Administrative Council has been formed. The integration of small industries in Iran and Iran Industrial Estates to come and run a public company.

The commission of European community define the small- medium size enterprise on 6 May 2003 base on the below table

Enterprise category	Staff Headcount	Turnover	Balance sheet Total
medium-sized	< 250	≤ € 50 million	≤ € 43 million
Small	< 50	≤ € 10 million	≤ € 10 million
Micro	< 10	≤ € 2 million	≤ € 2 million

Table 3.definition of SMEs European Commission, 2003

2.5 Barriers of internationalization

Internationalization of the firm from a theoretical stand point usually tries to give answers to questions about why, when, where and how firms engage themselves in international business?The traditional view of internationalization is based on economies of scale and multinational enterprise. Internationalization in small firms is facing with threat more than opportunity. Traditionally small firms are, however, often considered to be home-market oriented (Lindmark 1998). Earlier research has been concentrated on internationalization in large firms (such as TCA , eclectic daigram and PLC) and therefore internationalization in SMEs is a relatively unexamined area.

Besides the benefit of internationalization doing business in international market is more risky than the domestic market. Ghauri categorize these challenges for firms in international marketing to three different stages:

⁹ ISIPO , <http://intl.mim.gov.ir/index.php?module=content&func=viewpage&pageid=9205>

First domestic marketing controllable that involve price, product, promotion and channel of distribution. The successful manager uses those elements as strategies to target customers and increase demands of their products. Secondly uncontrollable factors domestic environment include the political forces and legal structure which is outside of control of managers in home country (e.g. in Iran travelling and doing business with Israel is forbidden). Domestic economic climate is another important home-base uncontrollable which affect the company's competitive position in foreign market .(facilities, government financial protect, tariffs, restriction against foreign investment, etc.). Secondly the other challenge is foreign uncontrollable environment that increase the uncertainty of firms. Psychic distance such cultural, language, infrastructure, political and legal forces, government stability, taxation level, etc. could be another source of problem for SMEs in internationalization.

There are a lot of barriers hindering the process of internationalization in both domestic and foreign market. (Hollensen 2007, 54)

1. General Market risks such as cultural ,competition from other firms and shipping complexity
2. Political risks such as foreign government restrictions, war, civil strife and lack of government commitment to overcome export barriers
3. Commercial risks such as exchange rate fluctuation ,financing export and channel of distribution

In a managerial point of view, challenges and problems of SMEs will be different from a country to another country. There was a research conducted by OECD-APEC about barriers of SMEs in members (Iran is also a member of this organization) release top four barriers of internationalization. (table.3)

For sure the role of government could be more specific to pass the barriers of international market in a country like Iran. one of the missing part in this research is the ignoring significant role for political risks.

Rank	–	Description of barrier
Weighted Factor		
1		Shortage of working capital to finance exports
2		Identifying foreign business opportunities
3		Limited information to locate/analyses markets
4		Inability to contact potential overseas customers
5		Obtaining reliable foreign representation
6		Lack of managerial time to deal with internationalisation
7		Inadequate quantity of and/or untrained personnel for internationalisation
8		Difficulty in matching competitors' prices
9		Lack of home government assistance/incentives
10		Excessive transportation costs

Table 3. Barriers ranked by SMEs using the top ten ranking method .Source: OECD-APEC 2007

3 METHODOLOGY

Research in common means search for a knowledge. Research is the process of getting dependable answers to important questions, using a systematic method of gathering, analyzing and interpreting evidence .It end product of business research is knowledge. (Timm and Keppler 1994 ,7).

Business research is a methodical way for collecting data and gets knowledge out of it to make a correct decision. It will reduce the risks and uncertainty in managerial decision making. (Sachdeva 2009)

There is not so much research in international business when compared with other social science fields.

Almost every research methods will be present either in qualitative or in quantitative research methodology or a combination of both. Tricia M. Kress said that “most definitions in popular methods text, qualitative research involve the investigation of the meaning of the phenomena (p.53). Kincheloe (2003) explains that qualitative researchers engage in struggle to “address those aspect of human condition that need not just accounting but understanding” (p.188). Kress define the quantitative research method with using the numerical values and statistic to identify patterns and relationship between variables (p.101). with regard these definition the quantitative research is proper for the topic. The research design will be based on cross-sectional design. The time limitation and some other restrictions such as access to date, analysis for one researcher and also subject make longitudinal design unattainable.

“According to Guba and Lincoln (1994), two approaches or methods- quantitative and qualitative- are available to researchers. The qualitative approach implies an emphasis on process and meaning that are not measured in terms of quantity, amount, intensity or frequency. it provides deeper understanding of phenomenon within its context. On the other hand the quantitative researchers emphasize the measurement and analysis of the casual relationship between variables not, processes”.¹⁰

Cochran and Dolan (1984) argued that when a phenomenon doesn't support by theoretical aspects and there is not enough theory to support it. It might be difficult to use quantitative method such as questionnaire, survey or hypotheses. In the other hand qualitative is more exploratory and quantitative analysis is confirmatory. See (Ghanatabad 2005,111)

Reliability and validity are key ways of evaluating any research. Reliability refers to the degree of consistency with which instance are assigned to the same category by different observers or by the same observers on different occasions. (Hammersley, 1992,67).

¹⁰ (Ghanatabadi, F. 2005, Internationalization of Small and Medium-Sized Enterprises in Iran)

By validity, I mean truth: interpreted as the extent to which an account accurately represents the social phenomena to which it refers. (Hammersley, 1990, 57)

Qualitative research could be involved interview, visual image, observation, videotape and audiotape. In this case study question of interview send to two firms through email.

I see a combination of quantitative research and qualitative appropriate for my thesis concerns to strong theoretical background, my interest about subject which related to my country and limitation to doing a visual research.

3.1 Research objective

I always have desire in my research to explore a subject that is new mostly to firms in my company and also thinking to reveal some fact related to funky business environment in Iran. If we suppose the theoretical aspect of internationalization blow up international marketing by Uppsala model in 1975.on that time Iran face with political anarchy and soon a revolution in 1978 academic institution and university spent low prosperity in terms of science. Soon invade by Iraq postpone not only the scientific centers and institutions but also firm who have chance to participate in international market. Those problems connect to close economic system and regulation provides a strict environment for companies to avoid internationalization.

Research purpose

Clear view of internationalization in Iranian small medium size enterprise As well as the most challenges for going to international market.

Clearly our companies chasing international market as a profitable and give the chance to grow up after 2 decades of internationalization theories.

3.2 Research design and plan

There is no single definition for research design. “A research design is a logical and systematic plan prepared for directing a research study”. (Krishnaswami and Satyaprasad, 2010) .It will illustrate a road map that contains the objective of study, methodology and how to achieve goals. “Research designs always address certain key

issues, such as who will be studied, how these people will be selected, and what information will be gathered from or about them” (Sullivan, 2001, p.22). A research design includes a blue print for collection, measurement and analysis of data. It is an overall plan based on time and research questions and a procedural outline for every research activity. (Sachdeva 2009)

There is variety of research design classification such as exploratory study, formal, monitoring, communication, descriptive, casual, cross sectional, expose factor and so on.

When the research problem is unstructured and not clear to understand easily it called exploratory research. For example when a detective face with a murder. He should find the answer of so many questions and gather of information .Finally he figure out to answer the questions and puts the pieces of puzzle together(Ghauri and Gronhaug 2010, 56).

Descriptive research is appropriate for structured and well understood problems. The researcher try to answer the questions such as who, where, what, when and how. If we go back to detective case the question such as (where the murder happens) is a descriptive research.

The casual research is also structured as well as descriptive research but the difference is `cause- and –effect` problem in latter one. The question such as why the sales are decreasing in last three months in your company might be a descriptive research. The researcher predict `cause(s) ` to find `effect(s) `.

3.3 Data collection and sample selection

Data collection is searching to answer research questions. They are raw material of research, facts, other material, present, past serving as bases for study and analysis.

(Krishnaswami and Satyaprasad 2010)

Data could be collected in variety of sources such as books, journals, magazines, questionnaire, interview, direct observation and internet base resource.

Primary data is used to collect initial materials during research process. It includes researcher's data such as interview, survey, direct observation and diaries. In this case primary data includes questionnaires and interview (which is send through email).The importance of primary data is reliability and access to original data.

Secondary data are primary source, materials and second hand version that is written by other researcher. The most important benefits of secondary data are saving in cost and time.

This research start a long journey by collecting data from books of international marketing, teacher materials course in international marketing and journals to full-fill internationalization literature .also some other books which was available for author. I have chosen the security and stock exchange of Iran as target group of research. Providing questionnaire and sending them to almost 100 companies. The survey was conducted from July to November of 2012. All companies which participate in this research are accepted in Tehran Stock Exchange Corporation

The idea was to send questionnaire among not only firms which now operating in international market but also domestic firms that manufacture their production across the country. I have desire to learn a better understand of challenges which both firms face with them.

A problem that I have to manage it was translating the question into Persian language into two ways first to be sure that they will understand the questions and secondly questions don't lose their meaning and core concept.

3.4 Data analysis and interpretation

Basically raw materials its elves does not solve any problem. The job of researcher is to analysis of data and gives his own conclusion. There are a lot of roles to interpret of quantitative date such as using excel, graphs and SPSS. The trend of managers is to have researchers make recommendations based on their findings from the data. (Cooper and Schindler 2008, 87.)

Because the questionnaire was in Persian language I have to convert the answer into English and put all data in excel, reducing data, coding and extract the main and important questions that satisfy to research objective and questions.

There are some casual problem related to this research

1. Lack of empirical research about internationalization
2. Ignoring the importance of SMEs in growth of economic in developing countries
3. Access to data

Iran is among developing countries with so much work on privatization and improve infrastructure, low labor force, rich natural resources to graph attention of business companies. There is a little chance for Iranian companies to enter global market as a born glob because of low financial budget and Research and development department.

4 INTERNATIONALIZATION PROCESS OF SME IN IRAN

This research conducted about business environment of Iran`s SMEs and barriers to international market. To get a better understanding those barriers author divide the questionnaire into two categories first that was main element of research target the firms which are operation in international market at the time of research. The second categories involve the firms which still stay in domestic market and there is no intensity for going aboard.

Target sample group was selected in securities and exchange organization of Iran. Those firms are most important firms inside the country and also clear data are available for our research. The questionnaire have send to one hundred firms an total despondence were 31 firms which still running their business in international market almost through direct export and indirect export and 33 firms that prefer to stay at domestic market environment. I will illustrate the main finding of my research to open the subject of my thesis and create a frame work of Iranian SMEs environment.

4.1 Interpereting of data for firms in domestic market

As I explain before firms participate in the questionnaire are members of security stock exchange of Iran. It is noticeable TSE put all firms in SMEs category without attending the size and turns over or number of employees. In figure 8 you see the category of firms that participate in questionnaire base on their industries. You see more than half of respondents are in pharmaceutical, cement and metal industries. Another interesting things was the number of employees .About 87% of respondents have between 250-2500 employes, it means that at least the definition of SMEs in Iran doesn't make sense in the context of European Union.

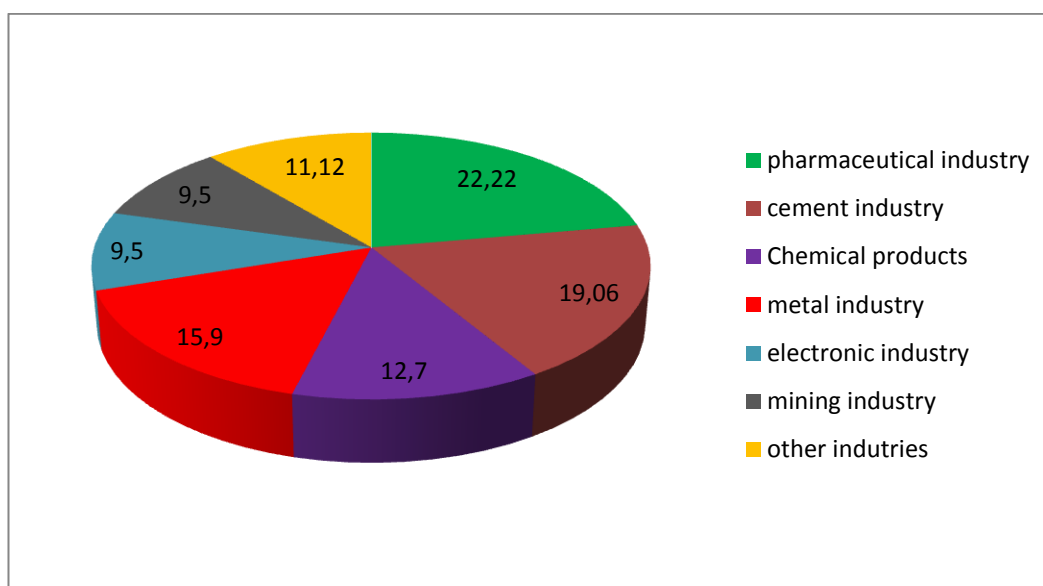


Figure 8.entrpeises participates in survey base of on their industry.

As we see in figure 9, in this graph companies in domestic market aim the arrow into the government as major responsibility for their failure to inter a foreign market. The role of government is highly significant in developing countries such as Iran. Even though more than 50% of firms believe that there is no government or private organization intention to help them when they are ready for going abroad. . It was also interesting that more than half of the firms have positive attitude towards internationalisation.

The important role of cultural diversity in international market is vanishing in this illustration. Probably these firms don't have any experience in different cultures. Our entrepreneurs didn't follow globalization with a resistance steps. The challenge of cultural issues are still superficial and not in deep excavation.

About 1/3 of respondents didn't have any information about international activity. This problem could be consequence of two main reasons:

- Lack of government intensity to make clear the process of internationalization for SMEs
- The lack of managerial attitude towards foreign market

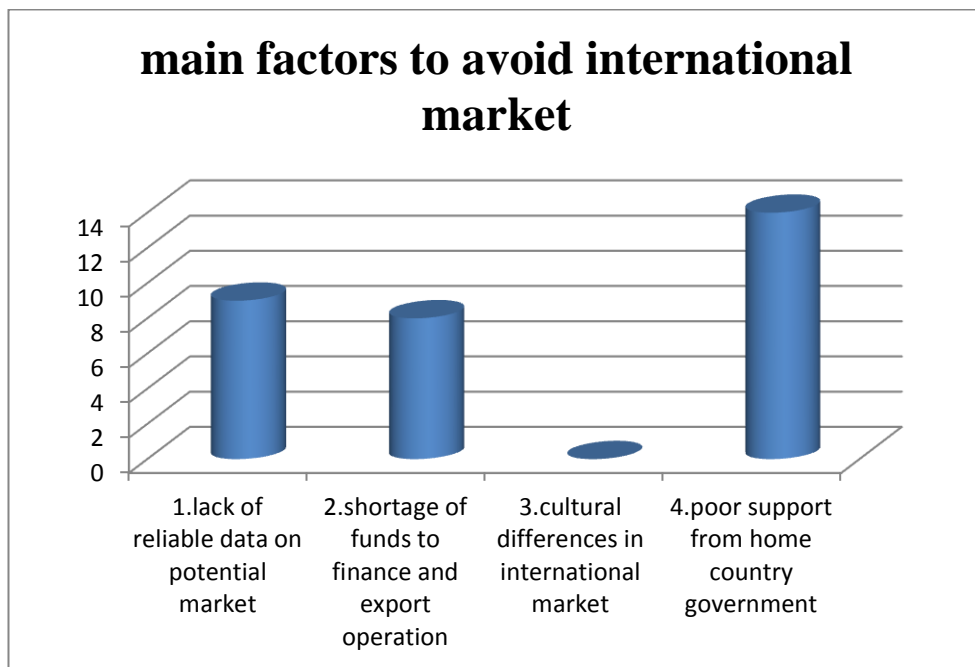


Figure 9 .The main reasons to avoid participating in international market.

It might be so many reasons for firms to stay at domestic market. Iran with huge market (76 million populations) is still enough to get the attention of home companies. In reality it is a long way for firms to adopt new market environment, customer satisfaction and risk management. It seems that in the view of entrepreneurs long time experience is most highlighted reason to stay in domestic market and ignore sophisticate foreign market with high risk. (Figure 10)

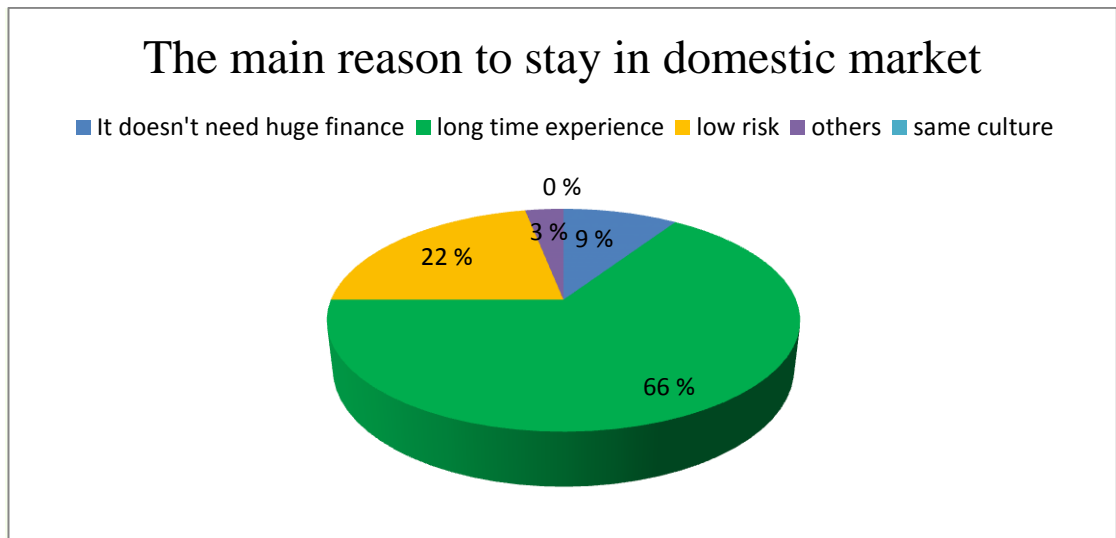


Figure 10 .The main reasons of firms to stay in domestic market rather than foreign market

4.2 Interpreting data of entrepreneurs in international market

According to ISIPO Iran have about 45,800 SMEs in different industries with variety of products until December 2012. Here is the main result of research in this group. The number of employees was significantly much higher than first group. It means the firms that participating in international market use more employers rather than firms only operate in domestic market.

Job position of respondents were categorized into five parts and majority of them selected financial manager (42%). There were highly educated with long time experience in the market .

It was predicated base on my assumption of Iran most companies which are involve the international market have been started since 2000. As we see in this scatter diagram congestion of companies are higher in compare with last two decades. During crippled economy in time of war (1980-1988) there was highly risky for companies to inter foreign market. (Figure 11)

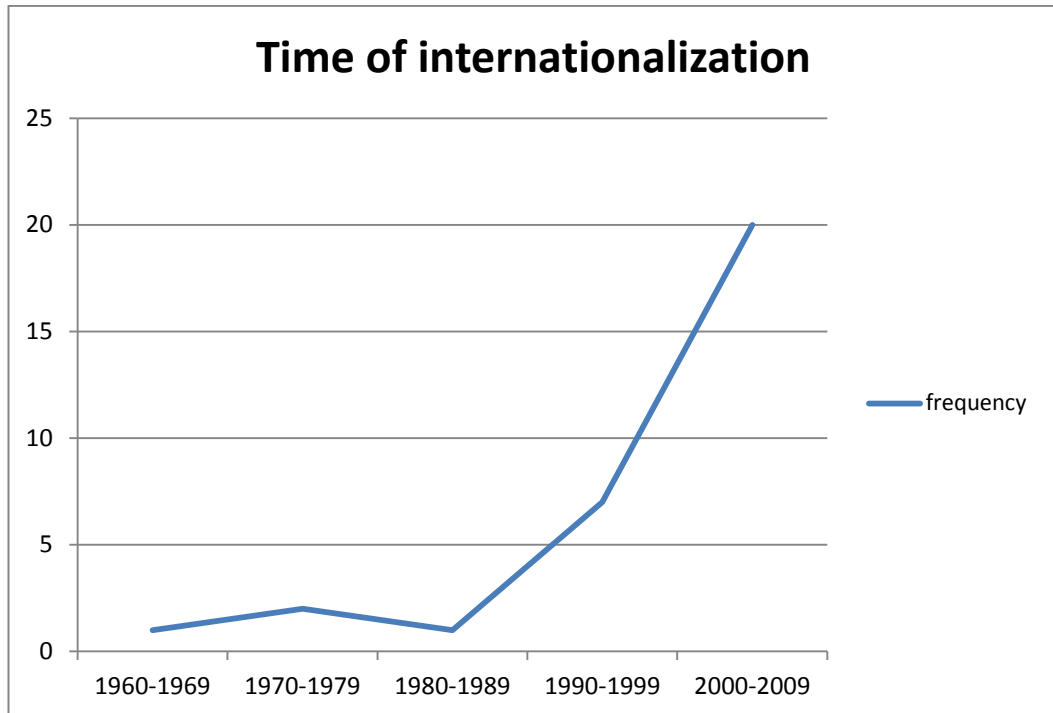


Figure 11. Time of internationalization in Iranian's SME

At starting an initial internationalization by American's multinational companies there were few firms operating in international market mostly petroleum companies at the pre-revolutionary period.

In 2002 Iranian government approve economic reforms base on market orientation. It was establish to decrease oil dependent of economy and also reduce risk of doing business to motivate foreign and domestic entrepreneurs. This reforms involved improve infrastructure , exchange rate unification, trade policy reforms, ratification of the law on foreign investment, tax reforms, and the licensing of three private banks. ¹¹(Parvin Alizadeh).

It is interesting those firms look at the middle east and Asian market as best choice compare with the other area for going to international market. The main

¹¹ <http://www.watsoninstitute.org/bjwa/archive/9.2/Iran/Alizadeh.pdf>

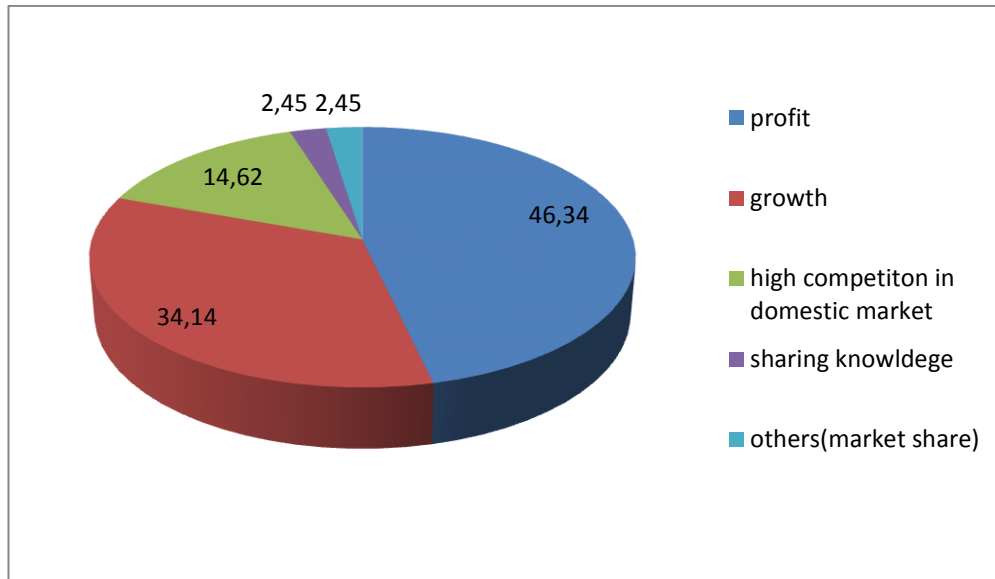


Figure 12, the main motivation of firms to participate in international market

One of the positive points of this research which increase the reliability of research highly experience and educated of respondents , maximum experience was 42 years and minimum was 2 years.(mean 18,45 years)The most attractive motivation issue or firms to go foreign market is profit and growth.(figure 12)

In this research 71 percent of participants choose direct export as entry mode. In the other hand 23percent of firms select indirect export for going overseas market. Only 6 percent of firms participate in international market by subcontracting. There is only one company participate in joint venture. It seems that the most favorable entry mode for Iranian firms is export mode. As Welch and Luostarinen (1988) defined internationalization”the process of increasing involvement in international operations” but Iranian`s firms keep steady their current relationship with customers. (Welch and Luostarinen 1988, 36)

It could be possible direct/indirect export as entry mode for firms with low risks and marketing research. In the other hand it will reveal that the process of internationalization and going further for Iranian firms is a dream. This barrier could be tackled through financial support of government and managing the possible risks. It is an ambiguous for me as a researcher why firms stop after export or sub-contracting and

didn't go further to joint venture or establishing subsidiary in abroad. It could be interesting subject for further research in future.

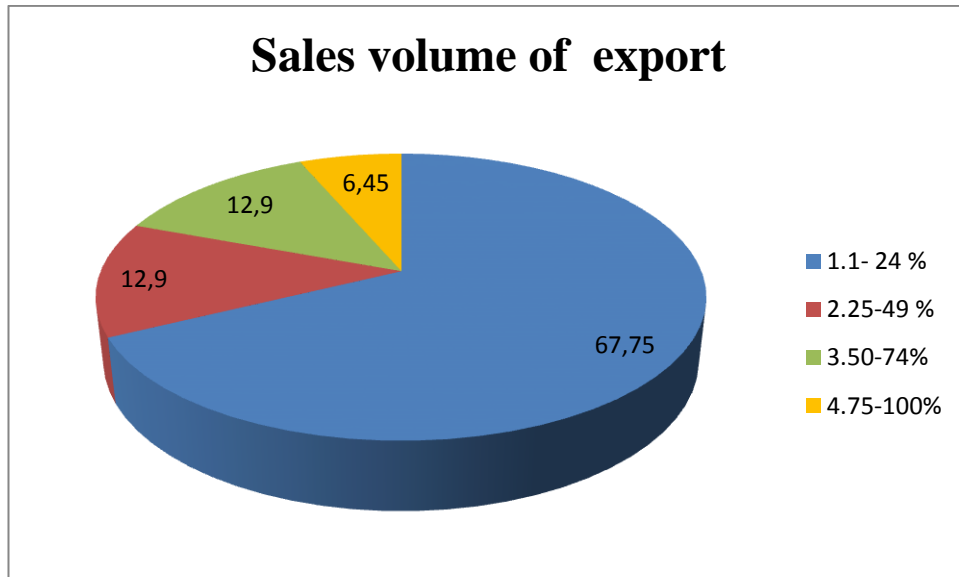


Figure13 .Sales volume of export that operate in international market

Export of non-oil products is increasing despite tough western sanctions on Iran. Government is struggling to develop non-oil products and decrease dependency of economy to sales of oil in long-term. However foreign sales is not so high in almost 68% of firms but some firms still get high turnover based on their foreign sales. (Figure 13). The target markets are mostly neighbors (Iraq, Turkey, Afghanistan, Pakistan and Dubai) and Middle East countries.

Another issue was the relationship between experience and education of respondents in persuading firms into international market. 58% of respondents had a positive view towards this statement in compare with 12 % negative view and the rest choose neutral.

Number of employees in firms operating in foreign market is higher in compare firms only doing business in domestic market.

One of the fundamental problems is flow of information and degree of reliability of data. Companies are still confused how to find accurate data marketing and ethical

partnership. Internet which is most wealth and popular resource in world but a lot of struggle to access data for Iranian users.

Based on Pearson's r economic of Iran and political issue were strongly correlated. It also proves this research that political forces as a challenge for firms to go international market will affect the economics of Iran. Obviously rising political stability in Iran will increase the growth of economy and political instability has a negative effect on the economy.

		political	Economic
political	Pearson Correlation	1	.281
	Sig. (2-tailed)		.125
	N	31	31
economic	Pearson Correlation	.281	1
	Sig. (2-tailed)	.125	
	N	31	31

Finally at the time of this research political issue is the most significant barrier for firms. Especially sanctions against Iran make a sophisticated problem in transaction of money through exported countries with safety and simplification. As we see about half of firms have been affected seriously and decrease their sales and total turnover of company consequently firms have to cut labour forces or shut down units to avoid bankruptcy. (figure 14).

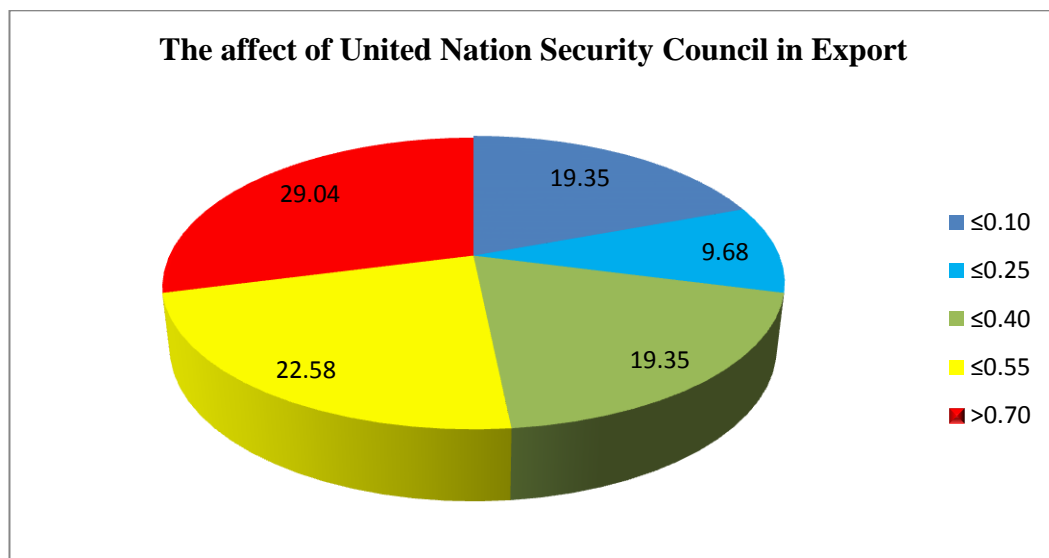


Figure 14. Graph of sanction by United Nations Security Council that affects international export of SMEs in Iran

5 CONCLUSION

The revolution of information and technology and magician of internet give small and medium-sized firms an opportunity to participate in international market and cross the lines of borders without huge financial resource. It has some proactive reaction by firms to go foreign market even though they are not interested, because there is threat of other competitors. After economic shock the e-business change the shape of marketing and managing.

We should not ignore the fact that in last two decads SMEs boost economic growth of many countries incrementally. The role of globalization, technology advances, infrastructure improvement, R&D institutions, universities and researchers create an economic hurricane that will swallow the developing countries soon or late. If fifty years ago there was only American large companies play first role of business in international marketing around the world now we will see some tiny chines firms with small budget and few products show off in international business environment.

Another side of this coin is that ,there is still some developing countries which struggling with basic human beings issues such as human rights, political instability, democracy, bureaucracy, bribery and freedom. In developing counties SMEs are still grappling with variety of problems.

Iran is one of developing countries that both SMEs and big companies sink into the marsh of political issues nowadays. Adverse effect of political issues could be seen in bankruptcy of a lot of SMEs , increasing unemployment rate , inflation more than 25%, devalue the national currency ,Iranian banks cut off from Swift system(global network of banking transaction) and etc. For small firms with small turn over it is crippling.

Iran's economic Achilles heel is increasing dependency on sales of oil . The sanctions target export of oil and consequently a large number of firms that are operating in petreloum environment face to Bankruptcy.We will see this dramatic affect in growth of econmic in Iran reportedly by IMF.Iran have a negative growth (-0.9) after two

decades.¹² The average rate of growth among oil exporters in the Middle East and North Africa, 6.6 percent.

As a result of this research , I certainly mention the political risks (sanctions against Iran), banking and finance support of government, fluctuation of exchange rate, lack of government intensity and time spending with government bureaucracy are most problems enterprises have to overcome them through process of internationalization.

The other important issue is lack of enthusiasm of firms to develop their initial relationship with overseas companies in order to go a step over direct or indirect export. There was only one company participate in joint venture.

Despite the fact that government pretend there is no influence on economic situation by implementing political sanctions but in reality so many firms damaged by this harmful disease. This research is an overall view to the process of internationalization specially focused on barriers exists on both in domestic and foreign market.

The importance of cultural barriers was ignored by respondents. Of course there is a positive view towards learning business culture and especially government provided a guidance handbook for firms to help learning foreign business environment and culture.

I suggest based on this research ,the government must establish an organization to support both financially and marketing research in order to increase motivation of firms to participate in foreign markets. Another priority is sovling political problems and develop a new international relationship based on mutual benefits and common developments with the rest of world.

Despite all of positive and negative issue in Iranian market I hope this research open a new window for further studies around international marketing environment. We should not undermined the government's interest in promoting SMEs in Iran but there is still a lot step remains to reach ideal economic situation.

¹² <http://www.imf.org/external/country/IRN/index.htm>

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Questionnaire

Entrepreneur deal with only domestic market

1. Your gender?

Male female

2. Your education

3. EXPERIENCE AT THE WORK

4. Your position in company

5. The number of people who are working in your company and specify your industry?

1. <10 2. <50 3. <100 4. <250 5.<2500

6. Do you think any opportunity exist for your company in international market?

Strongly Agree Agree Neutral Disagree Strongly Disagree

7. If you are interested in international market is there any government or private organization to help you?

Yes NO

8. How important is the knowledge of international opportunities to you?

Very Important Important Neutral Unimportant Very Unimportant

9. Does your company take the possible risks towards international activities?

Very Likely Likely Neutral Unlikely Very Unlikely

10. Which one of the following sentences avoids you to enter the international operation? lack of reliable data on potential market shortage of funds to finance and export operation cultural and language differences in international market poor support from home country government

11. What is the main reason to stay in domestic market? low risk It doesn't need huge finance
long time experience same culture in the market others.....

12. Do you have knowledge about international activities? Yes No

13. What do you think about this statement, self-reference criterion (in making decision that is, an unconscious reference to one's own cultural values, experiences and knowledge as a basis for decision?)

Very important Important Neutral Unimportant Very Unimportant

14. If your company has enough financial resource, do you want to take any risk in international market?

Yes NO

15. What are the following sentences you think is most challenge for your company in start international operation?

Shortage of working capital to finance exports Identifying foreign business opportunities

Limited information to locate/analyze markets Inability to contact potential overseas customers

Lack of managerial time, skills and knowledge.

16. Which are of the following factors you think is most important in domestic market?

Changing in political system of government changing of economic climate huge number of competitors' changing in the regulation of government

Entrepreneur deal with domestic market and foreign market

1. Your gender male female

2. Level of education

3. Work experience Years

4. Your position in company.....

5. The number of employees who are working in your company

6. What is (are) your main product, services, and specify your industry.....

7. When did you start your international operation.....

8. Approximately how many percent of your sales volume is exported?o

less than 24 % 25-49 % .50-74% 75-100%

9. Does your education affect to your decision about opportunity in international Market

Strongly agree Agree Neutral Disagree Strongly Disagree

10. Does your experience affect the internationalization of the company?

Strongly agree Agree Neutral Disagree Strongly Disagree

11. The main motivation of entrepreneur in participating international activity is

profit growth high competition in domestic market sharing knowledge other

12. How important are the following factors in foreign market to choose target country in internationalization process?

	Very Important	Important	Neutral	Unimportant	Very unimportant
1. Political / legal forces	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Cultural forces	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Economic forces	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Competitive forces	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Structure of distribution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Geography/ infrastructure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Level of technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12. Select target market basis on marketing research? Yes No

11. Which of internationalization theory is familiar for you?

Uppsala internationalization process model Transaction cost Born global the network model analysis Bradley`s five stages other.....

13. Do you select your target market basis on marketing research? Yes No

14. In order to be competitive, do you supply raw materials or new products in international market?

Yes No

15. Do you think any opportunity exist for your company in international market?

Strongly agree Agree Neutral Disagree Strongly Disagree

16. If you are interested in international market is there any government or private organization to help you?

Yes No

17. What type of international activity you are involved in? License Agreement

Alliance Franchising Joint Venture Indirect Exporting direct Exporting

others.....

18. How important the international activities are to you?

Very important Important Neutral Unimportant Very Unimportant

19. The previous studies of the firms show that the following factors in domestic market influence the international activities of the firms, what do you think?

Strongly agree Agree Neutral Disagree Strongly Disagree

1. Trade policy

2. Government economic growth
3. Monetary policy
4. Banking and finance system
5. Trade regulation
6. Taxes on international trade
7. Interest rate of bank deposits and loans
8. Government bureaucracy
9. Fluctuation of exchange rate
10. Rate of inflation

20. How important is the knowledge of international opportunities to you?

- Very important Important Neutral Unimportant Very Unimportant

21. Do you have strategic alliance with any foreign company? Yes No

22. Which of the following factors hindering internationalisation initiation (when your company wants to decide about entering international operation)? insufficient finance and insufficient knowledge

insufficient knowledge lack of foreign market connection lack of export commitment

Management emphasis on development domestic market

23. Are you risk-taking towards international activities?

- Very Likely Likely Neutral Unlikely Very Unlikely

24. What do think about this statement ,self-reference criterion(in making decision that is , an unconscious reference to one's own cultural values , experiences).

Very important Important Neutral Unimportant Very Unimportant

25. Which one(s) of the following factors prohibit your decision about extending your activities to new markets?

Inadequate/ inexperienced management/staff Lack of understanding of how to access foreign markets

political system cultural differences lack of government incentive Lack of low interest finance in home market tariffs Lack of reliable data on market potential Others.....

26. What are the following sentences you think is most challenge for your company? Shortage of working capital to finance exports Identifying foreign business opportunities Limited information to locate/analyses markets Inability to contact potential overseas customer's Lack of managerial time, skills and knowledge.

27. Which of the following barriers are most important for your company? Language and cultural differences government restriction in home and host country exchange rate fluctuations
infrastructure of home country

28. How much following risks affect to your business in international market?

	Very significant	Significant	Neutral	Insignificant	Very Insignificant
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1. Confusing foreign import regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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And procedure

2. Delay or damage in The export shipment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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3. Competition from other firms in	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Foreign market

4. Level of technology
5. Economic climate of foreign market
6. National export policy
7. Sanctions against Iran
8. Fluctuation of exchange rate in Iran

29. How much the sanctions of the United Nations Security Council influence your international business?

10% 25% 40% 55% >70%

30. We will be glad to hear about your ideas and sharing information of your experience in international market.

.....

THANK YOU FOR YOUR ANSWERS!

Interview Questions

A. General questions about your company

Name of the company.....

Product and industry.....

Number of employees

Job position

Experience at work

Education background

B. Motivation of your firm to internationalization

When you start internationalization and how?

The main motivation of the firm in international market was (were)

1. Profit
2. Growth
3. high Competition in domestic market
4. sharing knowledge
5. Others.....

C. Barriers of internationalization

What was your main problem to enter a new market?

Does the government attend to facilitate those problems?

Did you face with cultural barriers in foreign market? if yes how did you react?

Does government help you in marketing research or financial support to go international market?

What do you think about the government policy and regulation , and effect in you internationalization?

What are the following sentences you think is most challenge for your company?

Choose only one

- 1) Shortage of working capital to finance exports
- 2) Identifying foreign business opportunities
- 3) Limited information to locate/analyses market
- 4) Inability to contact potential overseas customers

What was your main problem during internationalization? (Choose only two of them)

1. Political/legal forces 2.economic forces 3.Fluctuation of exchange rate 4.Trade regulation, taxes ,tariffs

D. Entry mode

Which kind of entry mode your company involved?

Direct export, indirect export, joint venture, License Agreement, Alliance, Franchising, Others.....

Do you have a plan to go further behind your entry mode? .such as establish your subsidiary or joint venture?

How did you start exporting to a foreign country? Did you do marketing research to go international market?

Which of the following factors hindering internationalisation initiation? (When companies decide to entering international operation)?

1. Insufficient finance
2. Insufficient knowledge
3. Lack of foreign market connection
4. Lack of export commitment
5. Management emphasis on development domestic market

Do you have experience of working in international firm?

E. Political issues

Choose three most significant risks from the following list. (during internationalization)

1. Confusing foreign import regulations and procedure
- 2.Delay or damage in the export shipment

3. Competition from other firms in foreign market
4. level of technology
5. Economic climate of foreign market
6. National export policy
7. Sanctions against Iran
8. Fluctuation of exchange rate in Iran

How much sanctions of the United Nations Security Council influence your international business export?

1. up to 10%
2. up to 25%
3. up to 40%
4. up to 55%
5. more than >70%

How do you deal with sanctions and bank financing problem?

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Heading of appendix