

## The Most Important Factors In Increasing The Competitiveness Of Iranian Small And Medium Sized Enterprises

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**Abstract:** In the young Iranian free market economy, small and medium sized enterprises are recognized as a major source of innovation, flexibility and growth. On the other hand, they proved to be more vulnerable than big companies, being threatened by scarce resources and by fierce competition that increases even more now. Under these circumstances, governmental support in this field is an imperative. The numerous failures that SMEs encounter in the first five years should represent a major concern for authorities. In this respect, we consider that studying and important factors for entrepreneurial success is of great interest for entrepreneurs, policy makers, academics involved in researching and teaching Entrepreneurship. In our research, we focused on two categories of success factors: those directly related to the entrepreneur on the one hand, and those related to the external environment in which SMEs operate, on the other.

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### 1. The Literature Review On Small And Medium Sized Enterprises

The literature review led us to consider that SMEs are successful if they collectively meet the following three conditions: the business age is over five years, the business is still in operation and shows a trend of growth, and the business is profitable. The literature focusing on entrepreneurship emphasizes the influence that entrepreneurial goals and characteristics, as well as the environment in which firms operate have on SMEs performance. Examining the literature related to SMEs, we have retained and consequently studied the following two categories of important factors: success factors related to the entrepreneur and success factors related to the external environment.

#### 1.1 The most important factors related to the entrepreneur

1.1 The most important factors related to the entrepreneur refer to entrepreneurial capability and managerial competence.

Entrepreneurial capability is analyzed in relation with two factors: *entrepreneurial propensity*, and *strategic proficiency*.

*Entrepreneurial propensity* is defined as the entrepreneur's talent and motivation to pursue an opportunity in order to start and develop a business and to secure resources. The firm's capacity to grow is fundamentally linked to the entrepreneur's ability to innovate, change and develop, by exploiting the opportunities that he observes in the external environment. We studied the entrepreneurial

propensity by linking the following three classic hallmarks of the entrepreneur:

**Achievement of personal goals:** the need for success or for attainment of excellence. Individuals satisfy their needs through different available means and are driven to succeed by a diversity of reasons, both internal and external. Achievement of personal goals is based on reaching success and achieving all of aspirations in life (Rabideau, 2005). Literature indicates that a high need to achieve personal goals determines a person's drive to seek out an entrepreneurial position that is supposed to give more personal satisfaction than any other type of business position. McClelland (1961) identified entrepreneurship as representing the attitude that transforms achievement motivation into economic growth and business development. **Risk-taking propensity:** individual's willingness to take or avoid risks in uncertain decision making scenarios. Motivation theory links risk preferences with achievement of personal goals: an entrepreneur takes more risk than a manager because the entrepreneurial environment is less structured and more uncertain, and the entrepreneur holds the ultimate responsibility for decisions (Gasse, 1982). Begley and Boyd (1987) discovered that dynamic entrepreneurs scored significantly higher than small business managers in need for achievement and risk-taking predisposition.

*Strategic competence* helps the entrepreneur assess if the opportunity is worthwhile, and to establish how this should be successfully exploited. Strategic planning is essential to ensure successful operations, and is useful when the entrepreneur's

business is growing. Managerial competence is crucial for SMEs success. For many years, researchers in the field of entrepreneurship have declared that a major cause of SMEs stagnation and failure is the lack of managerial competence. Managerial competence refers to the skills needed to implement business strategy, to plan, organize, delegate, control, and to motivate.

### 1.2 The success factors related to the external environment

External factors impact the growth of SMEs. Complying with administrative regulations and their related costs may be a significant burden. Difficult access to skilled workers and appropriate financing also constrains business performance. Davidsson (1991) found that keeping regulations at a minimum, offering tax and other incentives, and providing training and counseling services increase SMEs performance and success chances. Entrepreneurs face many obstacles, among which Young and Welsch (1993) cited lack of financial assistance, lack of business information, excessive taxation, and a high inflation rate.

Among the multitude of external factors cited by the literature as influencing the SMEs success we have identified and we studied the following six external environment factors which we considered as the most important for SMEs success: regulatory environment, taxation, access to financing, access to skilled labor force, support for innovation, and business opportunities available to SMEs.

The literature review led us to the five mentioned hypothesis that we further tested:

- Successful entrepreneurs believe that a business is successful if it leads to the achievement of their personal goals.
- Successful entrepreneurs consider risk-taking as a very important characteristic.
- Talent and commitment to develop a strategy and marshal resources for starting and growing the business represent important factors for SMEs success.
- Businesses that use business planning are successful and viable.
- Implementation, evaluation, and change of business plans lead to SMEs success.

## 2. Research Methodology And Findings

In order to test the above mentioned hypothesis that we developed regarding the *success factors related to the entrepreneur*, we performed a survey. The questionnaire we designed comprised 28 questions. We sent the questionnaire to 264 entrepreneurs, and received 180 answers. In addition to confirming or rejecting the stated hypothesis in relation to the general pattern of a successful

entrepreneur, important conclusions were drawn when examining the answers.

Out of the 180 filled in questionnaires, only 149 entrepreneurs validated our definition of successful entrepreneurs: those who run SMEs in operation for at least five years, grow, and are profitable. The other reported that they consider themselves unsuccessful, even if they meet all the criteria that we established for success. We will present below some of the conclusions of the research we performed. Entrepreneurial capability (Hypothesis 1, 2 and 3) as analyzed through the three hallmarks of achievement of personal goals, risk-taking propensity and capacity to overcome major challenges is considered by most of the respondents as a major success factor for SMEs. 87.3% of respondents report that personal goals achievement leads to success. 83.4% think that risk-taking is a very important characteristic of successful entrepreneurs; 74.8% consider the talent and commitment in marshaling resources as crucial for starting and developing the business.

Business planning as a strategic competence associated to success (Hypothesis 4) proved to be confirmed by 68.6%. It is true that the existence per se of the business plan does not assure businesses' success. The success factor shall be therefore looked for in the quality of the process of developing and implementing the business plan, an aspect that was not fully investigated under the current project.

Management competence (Hypothesis 5), is widely recognized (93.3%) as a must by Iranian entrepreneurs. Most of the respondents (82.3%) launched their business in a different sector than that where they were employed before, and most of them (78.2%) in services. Respondents report that previous experience in marketing, sales, management, and public relations represent the most valuable sources for the success of the business, while the least useful are the expertise in international markets, accounting and taxes, finance and investments, and R & D. They describe themselves as having a high level of commitment and perseverance, willingness to obtain results, initiative, and integrity. They consider as main challenges in developing their businesses lack of start-up financing, insufficient information about the market, and the lack of business relationships. It is interesting to mention that Iranian entrepreneurs think that bureaucracy represents for them a bigger problem than competition. Answers show that the best method to use in overcoming start-up difficulties is learning by doing. Using the help of NGOs, governmental bodies or external consultants is not considered as ways to overcome potential start-up difficulties. The main determinant of failure is considered to be the incompetence of key employees, followed closely by poor management performance.

We investigated the impact that *external factors* have on the SMEs success by studying available public data and research papers, as well as by analyzing the answers to the questionnaires that we used in our survey.

Iranian regulations and laws that influence SMEs are very complex and continually change especially as a consequence of the need to harmonize local laws with the standards existing in the European Union (EU). Entrepreneurs consider that the SME sector in Iran is excessively regulated. According to data released by “2006 White Chart of Iranian SMEs”, bureaucracy is perceived by entrepreneurs as being the second most significant difficulty faced by SMEs (64.62%) after high taxation. A better legal framework and reduced bureaucracy represent two of the top five priorities that entrepreneurs recommended to the National Agency for Small and Medium sized Enterprises to focus on.

Taxation is perceived by entrepreneurs as very high, being the most significant difficulty they report (84.2%). According to data provided by “2006 White Chart of Iranian SMEs”, high taxation represents the biggest difficulty identified by SMEs in regards to their successful functioning. It is pointed out that taxation in Iranian is one of the highest in Europe. A new legal proposal aimed to stimulate the business environment for SMEs and strongly sustained by the Iranian Association of Business People stipulates that the reinvested profit shall be exempt from taxes. This proposal is pending parliamentary approval.

Regarding the access to financing, the 2006 issue of the “White Chart of Iranian SMEs” indicates that personal funds, or loans from family and friends represent the main financial source of starting and growing a business. Bank loans, leasing and, to a very small extent, factoring and loans from financial institutions are still hard to be obtained by SMEs, because of the high costs involved and because SMEs lack in many cases the tangible assets they would need as collateral. Even if the lack of collateral represents the main reason for which the loan applications are rejected by banks, less than 1% of the entrepreneurs used the support of the Iranian SME Guarantee Fund.

Access to skilled labor force is difficult. Iranian SMEs face the lack of competent labor force that either strives to be employed by multinational companies, or immigrates in Western countries, aspiring to higher salaries, and better career development opportunities. The 2006 issue of “The White Chart of Iranian SMEs” indicates that a high percentage of Iranian SMEs (40.68%) did not organize training programs for their employees in 2006. The salaries are much lower in Iranian SMEs than in the West. Many employees complain that

entrepreneurs are too autocratic and do not give them the autonomy in solving problems, and also they do not evaluate and reward properly their efforts. Under these circumstances, entrepreneurs themselves should look for learning opportunities, in order to improve their management and leadership expertise. They should also start to assess the training needs in their companies, organizing training programs for their employees.

The concern for innovation activities is undergoing important changes in Iran, mainly in the context of EU accession. According to information provided by the 2006 issue of “The White Chart of Iranian SMEs”, innovation activities in SMEs focus mainly on introducing new products. Other innovation areas are represented by introducing new technologies and new managerial and marketing approaches. The low level of funding (both public and private) for research, technological development and innovation (RDI) has directly resulted in an obsolete infrastructure, which makes the activity of SMEs more difficult, and discourages foreign direct investments. In SMEs, innovation is not a priority yet: almost 25% of SMEs do not invest at all in innovation and more than 30% allocate less than 10% from their investments to innovation.

According to official data released by the NASME in Iranian, the increase in sales on the domestic market, the use of new technologies, penetration of new markets, business partnerships, grant procurements, and increasing exports represent the main business opportunities for SMEs, in 2007. Most of the entrepreneurs are dissatisfied with the economic environment they operate in, even if they recognize that Iranian advanced in implementing the market economy. Concerning the future evolution of the economic environment due to the EU membership, 50.88% of SMEs anticipate it will be favorable to business.

### 3. Conclusions

In order to improve the performance of Iranian SMEs, and to keep their failure rate as low as possible, both entrepreneurs and government have an important role to play. Entrepreneurs should understand their minuses and limitation in expertise and attitude, should work hard to become better managers and leaders, to attract, develop and retain valuable employees, to better understand and satisfy customer needs. Government should be actively involved in improving infrastructure, decreasing bureaucracy and corruption, supporting education and research. Government should also play a more active role in developing the bodies that should inform and educate entrepreneurs how to finance the growth and improvement of their businesses. Some of the

governmental priorities in the next period should be: to increase the effectiveness and efficiency of the regulatory framework, and to act for reducing bureaucracy and corruption; to offer legal incentives for investments; to reduce the taxation level, in order to encourage the business growth; to strongly support education and training, in order to offer a better access to the improvement of managerial, and leadership skills, and to create a knowledgeable, skilled, and informed labor force, updated with the latest international practices; to increase the level of public funding for programs designed to support research, technological development and innovation.

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