CHAPTER – I

INTRODUCTION
1.0 Introduction

Effective glance to the world makes this fact clear that "now-adays world is the most different than past". Economic globalization, mass production and added value in the most markets and all indicate the integration of global markets, competition based on time, information sharing and knowledge efficiency with ever-increasing strength of customers indicate the integration of global markets and ever-increasing complexity of markets with dynamics of processing environment of companies, production and service institutions. Becoming familiar with this manner in today's competitive market, especially in agriculture as one of the most economic sectors which can influence the agricultural economy of a country greatly (Borimnejad, 2008).

Meanwhile the economy of the Islamic Republic of Iran (hereafter referred to as Iran) is to a very large extent determined by large public and quasi-public enterprises, controlling up to around 80% of the economy. This is especially true with regard to the businesses engaged in exploiting, processing and trading crude oil, petroleum products and natural gas, which provide some 80% of Iran’s export earnings and around 40-50% of the government’s budget. This has created a heavy dependency on this sector of the economy, and its mainly (publicly-owned) large enterprises, in spite of the fact that the great majority of businesses in Iran belong to the category of micro small and medium-sized enterprises (UNIDO, 2003).

Iran can increase its sharing in particular markets day to day with accurate, compiled and coherent planning, having high potential in other fields and having very special products. For example Iran can have proper allocation of agricultural products in the world markets. Because of climate diversity, this is obvious specially in fruit and vegetable products, agricultural sector has particular conditions in Iran and also considering the needs for necessary of the existence of accurate information for making a correct decision, so the Entrepreneurial Orientation (EO) is a behavioral construct at firm-level that is closely linked to strategic management and explains the processes, practices, and decision activities that lead to new entry in the quest of exploiting opportunities in the marketplace (Borimnejad, 2008).

Considering this subject, this study will determine the role of entrepreneurship in export of fruits and vegetables in Tehran’s SMEs.
1.1 Statement of the Problem

Small and Medium-sized Enterprises (SMEs), including micro enterprises, make a significant contribution to economic and industrial development in both developed and developing economies. They form the backbone of the private sector, make up over 90 per cent of enterprises in the world, and account for 50 to 60 per cent of employment. These shares are even higher in the manufacturing sector, and in developing economies, where such enterprises typically account for 90-95%, or more, of all industrial enterprises, 70-75% of industrial employment, and 50-60% of industrial output. SME’s have historically played an important role in contributing to economic development of many countries around the world. SME’s are key actors in the innovation system and the economy of a country. Despite their limitations in size, they make a lot of creativity in products and services. The majority of manufacturing enterprises in Iran are in the SME sector, of which approximately 75% are small businesses. More than 63% of total manpower in the industrial sector is employed by SME’s and the share of SME’s in value added amounts to approximately 30%. Globalization, the internationalization of markets, the liberalization of trade, deregulation, the knowledge economy, e-business, and new forms of organization, all of these interrelated phenomena pose new challenges to small and medium-sized enterprises (Raymond, 2000).

Most often less endowed in human, financial, and technological resources than large enterprises, SMEs nonetheless have advantages in terms of flexibility, reaction in time, and innovation capacity that make them central actors in the new economy and export. In recent years, however, SMEs have had significant success in international markets as more and smaller firms gain a competitive edge and contribute significantly to total exports. Their changing role in international trade has made them significant contributors to the economic growth and development of many countries (Birch, 1988; UNCTAD, 1998 and Weaver et al, 1998). Evidence from some of the fast growing Asian economies (Taiwan, Singapore and South Korea) suggests that many of the opportunities for economic growth have come from, among other things, encouragement of the export capabilities of SMEs (UNCTAD, 1998). In those economies, SMEs have made significant contribution to the export growth engine.
Here are some facts which show the importance of export through small and medium-sized enterprises are as follows:

- The newly appearing and developing economies’ experience of small and medium-sized enterprises.
- The fact that these enterprises have desirable goals for export development, and if they do not do better than large enterprises, do not do worse either.
- The fact that 94% of industrial units are small ones if productive unions included, it reaches to 98% (Institute for Trade Studies and Research, 2005). Due to several advantages over large enterprises, small ones are going to play an important role in generating creativity and using entrepreneurship strategy (Malekinejad, 2007).

Export plays an important role in countries’ economy through creating employment and economic growth. The governments which are not able to motivate or support their enterprises to get into global markets will find their economy at risk. General agreement is that export development which is the best way to economic development (Seringhaus, 1986).

Meanwhile Iran’s industry has encountered lack of competitiveness in international markets from long ago and oil is still not only the most important export product, but also an influential, directive factor in economic plans and changes in Iran (Rajabian, 2001) and Iran does not try to plan to get into global markets for other products. Considering saturated, internal markets, continuing this approach will cause serious problems (Institute for Trade Studies and Research, 2005). Passing one-product economy and making a leap in non-oil export- now that competitiveness is increasing in the world, and product suppliers and service providers are equipped with all new marketing strategies are not going to be easy. It needs coordination between national economy and global changes. In spite of all encouraging policies on export development, Iran has not been able to treat its backwardness. Its capacity to use relative and competitive advantages to speed economic growth has also been weakened. It is because the country has ignored the global economy’s process and has had no tendency to it (Institute for Trade Studies and Research, 2005). It is considered that Iran is using the least potentials of other products for export, especially in fruit and other agricultural products.
Agriculture is literally a matter of life and death in the developing world. Agriculture is one of the oldest income sources in Iran, roughly one-third of Iran’s total surface area is suited for farmland, the wide range of temperature fluctuation in different parts of the country and the multiplicity of climatic zones make it possible to cultivate a diverse variety of crops. Based on FAO’s data, Iran has the 1st to 10th ranking in producing 1/3 of the main 66 products in the world, with 15 of fruits and 17 of arable products. Iran possesses a good place in the world, having 15 main fruits and has the 3rd ranking after China and US, collectively with Turkey, because of its various fruits. Also, Iran is in the 1st to 10th place in agricultural export of 10 products. Knowing that the world trade of the agricultural products rely on the export and import of 35 main products and this is the fact that only 64 and 55 countries have arable products and fruits export, respectively, among the world, the role of Iranian agriculture will be clear. Therefore, generating, developing and supporting complementary and converting industries in agriculture, especially food industry at the very heart of major agricultural goods production with the cooperation of beneficiaries in the area is an essential, undeniable fact (Iran’s Entrepreneur Club, 2008).

Although Iran’s agriculture has high potential for development, but Iran has no more competitors in the world and even in some cases, Iran is the only producer without any competitor especially in food industries. Therefore, we have not reached the expected level in spite of all efforts. It should be reminded that Iran has such high potential in food industry that it could have a special status there (Porhashemi, 2012).

Entrepreneurship as a field of study is relatively young and it can help for solving agricultural problem (Cooper et al, 1997). Using entrepreneurship orientation in agricultural enterprises can create modern methods, new rules and completely different products instead of former methods of doing tasks and ways of offering products. Although effectiveness of activities is essential in global markets, they are not enough because the effectiveness of activities is no more a guarantee for superiority over the competitors. Nowadays, being in superior position needs fundamental changes in enterprises rules. These strategies can occur in supportive systems, or organizational structure, production policy, distribution and communication channels and other areas (Ahmadi and Allhyari, 2003).
1.2 Significance of the Study

Small and medium-sized enterprises could play a key role in export development for different reasons. Meanwhile Iran’s economy is clearly and extensively defined through large state and semi-state enterprises which controls over 80% of the country’s economy. However, the biggest part of Iran’s economy belongs to small and medium-sized enterprises. An analysis of the causes of Iran’s backwardness is small and medium-sized enterprises shows that so far the government’s policy has generally had a tendency to large enterprises, and economy planners and policy makers have considered small and medium-sized enterprises as marginal (Institute for Trade Studies and Research, 2005). In this marginal theories, Yen Rose, an economist, States that in flourishing economic climate providing growth opportunities for small and medium-sized enterprises is easier and more possible than developing large enterprises (Zoltan, 2005). By replacing large enterprises for small and medium-sized ones, economic focus will have negative effects on entrepreneurship values, innovation and technology changes, although trading and service activities are important for the successful functioning of the economy, the manufacturing sector and its industrial SME’s are highly important in view of generating both manufacturing value added and exports (UNIDO, 2003).

Increasing the competitiveness of the SME sector becomes a crucial issue. Without a competitive SME sector it will not be possible to accelerate job creation, which is badly needed to reverse the increasing trend of unemployment in the country. Obviously, competitiveness has direct linkages to productivity improvement, total quality management and a host of other issues, which will be dealt with in the report. Competitiveness also leads to a higher rate of manpower utilization; and hence to lower costs of production and higher profits. In addition, it increases the scope for success in export markets, which is another issue of great importance for the Iranian economy (UNIDO, 2003).

Meanwhile Iran is heavily dependent on the export of oil and gas, which account for up to 82.5% of the country’s total exports. Although non-oil exports are increasing, they are doing so at a very modest pace. Clearly, the Government of Iran sees the diversification and increase of non-oil exports as a major issue in strengthening the economy by making it less dependent on oil and gas exports.
Secondly, Iran needs to increase its non-oil exports in order to become an active partner in the WTO led process of globalization. Finally and equally important, the development of new and existing export markets is seen as a powerful tool to promote employment creation (UNIDO, 2003).

Agricultural sector in Iran has strong advantages in several fields because of climate diversity and specific geographical conditions, existence of rich natural sources, possibility for generative employment with fast efficiency, relative advantage in the production and exporting the products. This sector has allocated about 14.1% of domestic gross production, more than one fourth of the value for nonpetroleum export, one fifth of employment and more than 93% of food supply in the country in 2005. Also, considering the production, employment, preservation and substantial exploiting of natural resources, research and development, and the expansion of people's participation, it can be said that agricultural sector in Iran has the important role in the economy and country's security. Benefiting from 123,580 square kilometers of land suitable for agriculture, the agricultural sector is one of the major contributors to Iran's economy. It accounts for almost 27.8% of Iran’s GDP, 20% of the employed population, 23% of non-oil exports, 82% of domestically consumed foodstuffs and 90% of raw materials used in the food processing industry (Dordy Banki, 1991).

Although many agricultural industry units in the world have begun an intensive competition bearing in competitive markets, but Iran is losing its competition-bearing power in regional and international markets. But all these have a condition where in Iran should try to know this natural wealth and use them. In this way, it can be forecasted that food industry especially fruits and vegetables industry can provide considerable share of GDP (Yussefi and Willer, 2003).

Hence, with regard to the importance of regulating the agricultural products, which is now considered as a fundamental challenge in national economy, government has recently decided to find new markets by various researches. A market research will become as an eye opener to see which opportunities are there and can assist in market positioning as well as product range enrichment or streamlining. A new knowledge in most of the field especially in agriculture is entrepreneurship. Entrepreneurial orientation has recently been recognized as one of the most important
factors for a firm’s growth and profitability. But entrepreneurship in Iran needs to receive supports and train entrepreneurial skills to recognize opportunities and be capable to analyze the environment and its ongoing changes (Tatfi, 2011).

Finally, perhaps Iran cannot compete with developed countries but with using potential talents and abilities of present, relative, producible advantages, progressing productivity of production factors, accessing to new knowledge and skills, reaching new technology, providing correct and timely trade information to exporters, utilizing new equipments in communication and using effective entrepreneurship orientation Iran can achieve considerable share of the world market by properly planning (Institute for Trade Studies and Research, 2005).

Hence, an understanding of factors influencing entrepreneurial orientation in export of agricultural SMEs in Iran is crucial for creating the new business and encouraging the existing into more entrepreneurial activity.

1.3 Research Questions

Q1: Why do SMEs export?

Q2: What types of operational strategies are followed by SMEs operating in both domestic and export market?

Q3: Is there a significant difference between strategies followed by domestic SMEs and exporter SMEs?

Q4: Do exporter SMEs adopt a strong entrepreneurial orientation?

1.4 Objectives of the Study

The aim of the present study is to survey the role of entrepreneurship in exports of fruit and vegetable products from Tehran in Iran with following specific objectives.

1. To identify a suitable entrepreneurial orientation enabling SMEs to perform better in export of fruits and vegetables from Iran.

2. To study the present performance of export of fruit and vegetable products by SMEs in Tehran of Iran.
3. To know the current level of strategies being adopted by SMEs in production, financial, export and marketing of fruit and vegetable products.

4. To know the various problems being faced by SMEs at various levels particularly in raw materials procurement, processing, packaging and exports of fruit and vegetable products from Iran.

5. To survey the various governmental policies, programs, incentives related to SMEs and to suggest suitable recommendations, for better performance of SME’s in production and exports of fruit and vegetable products from Iran.

1.5 Definition of Concepts

In order to provide the meaning of the terms in the title of the study, the following definitions are given for the key terms, 'Entrepreneurship', 'Entrepreneurial Orientation', 'Export Performance', and 'SME'.

1.5.1 Entrepreneurship

Entrepreneurship is a dynamic process of innovation and new venture creation, and includes the assumption of the risks and rewards of the new venture (Hisrich and Peters, 1998). Entrepreneurial attitudes and behavior include: the motivation to achieve and compete; taking ownership and being accountable; being open to new information, people, practices, etc; being able to tolerate ambiguity and uncertainty; creative and flexible thinking, problem solving and decision making; the ability to see and capture opportunities; awareness of the risks attached to choices and actions; and the capacity to manage and ultimately reduce risks (Timmons adn Spinelli, 1999).

1.5.2 Entrepreneurial Orientation

Entrepreneurial Orientation refers to the strategy making processes that provide organizations with a basis for entrepreneurial decisions and actions (Lumpkin and Dess, 1996; Wiklund and Shepherd, 2003). Drawing on prior strategy making process and entrepreneurship research, measurement scales of EO have been developed and widely used, and their relationships with other variables have been examined. Thus, EO represents one of the areas of entrepreneurship research where a cumulative body of knowledge is developing. Entrepreneurial orientation describes a consistent set of related activities or processes and provides a useful framework for researching entrepreneurial activity. EO is conceptualize as a firm level strategy making process.
that firms use to enact their organizational purpose, sustain their vision, and creates competitive advantages (Wiklund and Shepherd, 2003).

1.5.3 Export Performance

Export performance is a multidimensional construct defined by Shoham (1996) as “the composite outcome of a firm’s international sales”, including three sub-dimensions: export sales, export growth and export profitability. It can be influenced by several internal (firm characteristics, management, export strategy) and external (macro and microenvironment) determinants, as highlighted by several literature reviews (Aaby and Slater, 1989; Zou and Stan, 1998; Sousa et al, 2008).

1.5.4 Definition of SMEs

There are various criteria in defining SMEs and these are directly related to the development level of countries and the structure of the industries. The most common criterion used is the number of employees (Ozkanci, 2001). SMEs are (rural) industrial and service enterprises with less than 50 employees, whereas the Ministry of Cooperatives alternatively uses the criteria of either the Ministry of Industry and Mines, or of the Statistical Office of Iran in defining SMEs.

1.6 Scope and Limitations of the Study

This study is limited to SMEs in Tehran province because Tehran has maximum number of SME’s in Iran.

One of the limitations of this study is that we cannot generalize findings to the whole country. Another limitation is the lack of comprehensive statistics about Small and Medium-Sized Enterprises which export foods in Tehran province in addition to the broaden spread of these enterprises over different parts of the vast Tehran province, the present study is confined to:

1. Tehran province: (study area)
2. Fruit and vegetable products-export: (products)
3. Small and medium sized enterprises: (study units)
4. From 2002 - 2011: (study period)
1.7 Organization of the Thesis

The final thesis consists of six chapters.

Chapter I: Introduction

The first chapter introduces the topic of research and establishes the need and importance of the present study. It states the research problem, definition of concepts, its objectives, research questions, delineates the scope and limitation of the study. It also explains the organization of the thesis briefly.

Chapter II: An Overview and Review of Literature

This chapter involves 2 sections; section A is an overview of this section, an attempt has been made to present different aspects of entrepreneurship, SME, strategies, export, agriculture and different definitions of them. Section B is review of literature on entrepreneurship, SME strategies and export barriers.

Chapter III: Profile of Area under Study

This chapter gives an overview of Iran and Tehran, background of the agriculture in Iran, situation of the agricultural sector in Iran, role of agriculture in Iran’s economy, marketing of agricultural products in Iran, export of agricultural commodities from Iran, role of export in Iran’s economy, entrepreneurship in Iran, definition of SMEs in Iran, status of SMEs in Iran, number of SMEs in Iran and Tehran, role of SMEs in value addition in Iran, The role of SMEs in foreign trade in Iran, total export from Iran, food export from Iran, fruits and vegetables export from Iran, exports from Tehran, current government policies towards SMEs in Iran and barriers to SME development in Iran.

Chapter IV: Research Methodology

In chapter four materials and methods, data collection instrument, validity of the questionnaire, reliability of the questionnaire, distribution of questionnaires, hypotheses of the study and techniques used in data analysis are presented.
Chapter V: Analysis and Interpretation of the Data

This chapter describes the data and presents an analysis of the data with reference to the research objectives. All the data collected has been analyzed and presented in the form of tables, figures and charts.

Chapter VI: Findings, Suggestions and Conclusion

This final chapter provides the summery of findings. Further, it gives suggestion to improve the use of entrepreneurship, especially in SMEs and suggestions for further research and conclusion. Bibliography of the references; English and Persian questionnaires are provided at the end.

Figure 1.1 Organization of the Thesis