

## BUSINESS SUCCESS FACTORS IN IRANIAN SMALL AND MEDIUM ENTERPRISES SECTOR (SMEs)

Bitra Rafizadeh Banadaki<sup>1</sup>, Zhang Youngan<sup>2</sup>

<sup>1</sup>Master of Business Administration (MBA), Department of Economic and Management Studies, Beijing University of Technology, Beijing; <sup>2</sup>Professor, Department of Economic and Management Studies, Beijing University of Technology, Beijing, CHINA.

Rafizadeh\_bita@yahoo.com, bjutzhya@bjut.edu.cn

### ABSTRACT

*Introduction: The importance of Small and Medium Enterprises sector is well recognized from its significant contribution to the socio-economic objectives of the country like generation of employment, output, exports and fostering entrepreneurship. Case description: One of the requirements for growth, creativity as well as entrepreneurship within societies is to study their success process. Our sample includes 230 Small and Medium Enterprises that were established during 2004 to 2016 in Fars province. Data was collected through questioners around general "manager/entrepreneur" among all categories of small and medium business. Discussion and Evaluation: The purpose of this study is to investigate factors which effect on success entrepreneurs in Small and Medium Enterprises sector. The results of this study are helpful to the policy makers to frame suitable entrepreneurship development strategies to develop entrepreneurs. Conclusions: Our findings revealed significant difference between the internal and external factors for success of the business. The study revealed that there is a significant difference between internal and external factors on the success of the business. It is concluded that there is high effect of success of units by strong believing of internal factors of the business.*

**Keywords:** Small and medium enterprises, entrepreneurship, business success

### INTRODUCTION

Small and medium sized businesses (SME) play an important role in the modern economy. In many European countries, they comprise up to 80% of the gross domestic product and employment structure. But the situation in Iran is quite different, in the same vein, governmental and non-governmental companies are primarily considered to be controlling more than 80% of the economy.

They have been monopolizing the business environment with strong financial structures, hindering small enterprises' capability from competing with huge economic corporations according to a report published by Majlis (Parliament) Research Center of Iran. Worryingly, this deteriorated the awkward conditions of such economically-ill, low-populated enterprises all in all. Today, SMEs are developing, and the government is supporting them, but they still act as auxiliary elements and have not yet established themselves as self-sufficient economic agents.

The only exception occurs in enterprises operating in online trade, IT and marketing sectors. However, in the national economy in general there are some examples of successful small and medium sized enterprises. Hence, an important task is to find them and reveal the

“secrets of their success” that give them the opportunity to remain successful in an environment which is actually not quite favorable to them. The goal of this article is to identify the business success factors in Iranian SMEs. Romar (2009) analyzed the relationship between strategic expectations and the business success of various companies. Sieger (2011) devoted his research to the estimation of long-term success of family enterprises. Jensen (2001) obtained some possible ways to resolve the contradictions in the two competing indicators of business success: cost maximization and social well-being.

Bronsteen, Buccafusco and Masur (2013) examined a new dimension of business success; this is the “well-being analysis”, considered an alternative to the “cost-benefit analysis”. Some authors paid special attention to studying the factors that influence the success of small and medium sized businesses. Among the works of those authors, particular emphasis must be made on the ones that determine the influence produced by the manager’s “beauty capital” on the success of the business.

Wang et al. (2011) applied the “motivation-abilities” approach to estimate the business success of small and medium sized vendors in China dealing with electronics production. Of particular importance, they established the effect of informal relations on the success of the Chinese companies. Berger-Walliser et al. (2011) mentioned how important precision of contractual relations is for small and medium sized businesses to be successful. They also suggested using a new form for such contracts, such as a “visualized” one. Factors of business success for SMEs such as the manager’s sex (Gottschalk and Niefert, 2011) and his or her attractiveness as well as the “beauty capital” (Pfann et al., 2006) are also discussed in great detail. Furthermore, the manager’s “emotional intelligence” (Webb, 2011) is recognized as an important factor that impacts the employees’ fidelity to the company and their involvement in the production process.

There has been a series of studies aimed at detecting national peculiarities of business success. For example, a group of researchers from the University of St. Gallen (Success Factors, 2013) studied the success factors of the SMEs in Switzerland. Among the factors that have positive effects, they mention the professional qualities of the employees, infrastructure, accessibility to financial resources, and social values as well. Negative effects are produced by factors such as the economic environment, including recession, and government control, including taxation. Chittithaworn et al. (2011) analyzed the business success factors of SMEs in Thailand and after considering specific features of the Thai economy and the results of their large-scale survey found out that the major factors were: relations with the customers, how the business was managed and cooperation (i.e. the relationship with the suppliers), access to financial and other kinds of resources and finally the external environment. On the contrary, factors such as management of innovations, after-sales service and business strategy did not produce any significant effect on the success of the business. This study did not analyse any of the factors related to human resources. It is most probable that in the Thai economy, it is not reckoned among the factors requiring any analysis due to the high degree of uniformity of the resources used there.

A group of authors (Jasra et al, 2011) introduced a detailed study of business success factors for SMEs in the national economy of Pakistan. In that country, all seven factors selected for the survey appeared to be quite important: financial resources, technological resources, entrepreneurial skills, government support, marketing strategy, business planning quality, and access to information. The authors do not mention whether they considered the human factor, including the employees’ professional and personal qualities.

However, the fact that they are missing from the list of the important factors is quite significant in and of itself: for the large Pakistani economy, where small and medium sized businesses are concentrated in light industry and metallurgy, human resources seem to represent a uniform mass. Researchers in most of the published works try to find the success of small and medium sized in factors outside the business itself: for example, it may be government support or lack of it, banks or the legislative system. In our opinion, one should pay more attention to studying the internal and external reasons for success and finding factors the business itself can control. According to the great significance of understanding business success factors on SMEs, researcher has gone through numerous research articles and dissertations relating to the research title. After examining and understanding of the research review, the researcher has determined to take up a research aim for this study which is: “To identify the business success factors in Iranian Small and Medium Enterprises sector”.

## **THEORETICAL FRAMEWORK**

### **Business Success**

Success defined in different dimensions by various researchers and scholars. In many of studies, business success defined as continue to existing the first, two or three years that the company started the business (Owoseni and Akanbi, 2011). As per the (Hornaday and Bunker, 1970), the 'successful' entrepreneur was an individual who initiated a business, building it up where no previous business had been functioning, and continuing for a period of at least five years to the present profit-making structure. Also, Kalleberg and Leicht (1991) defined a successful business as “the one which adapts more effectively and takes advantage of the opportunities offered by the business environment”. Masuo, Fong, Yanagida and Cabal (2001) found that business success is commonly defined as economic or financial measures which include return to assets, sales, profits, employees and survival rates; and no pecuniary measures, such as customer satisfaction, personal development and personal achievement. Other studies (Gatewood 1995; Perry 1988; Begley 1987) have defined success more in financial terms, linking the most common characteristics found among entrepreneurs to measures like return on investment, growth in sales, and profit every year, or to the personal income of the owner/manager of the business. Success, in general, is related to the achievement of goals and objectives in every sector of human life. In business cycle, success is a key term in the field of management, although it is not always explicitly stated. Success and failure can be interpreted as importance or indifference of management. Growth in business level has also been described as performance or success, and performance was measured by income or by profitability (ENSR 2003; Hornaday 1970) opined that even though many indices might have been considered as criteria of success, continuity in business is a persuasive quality.

Business success is defined as the ability of the business to achieve its stated objective and it is the achievement of the business with regards to its business goals. According to (Lucky 2011), business success tends to provide information on efficiency, growth, profit, size, liquidity, success/failure, market share and leverage. It supplies information about the business' growth, success/failure and most predominantly, the profitability of the business. Therefore, business success indicates that the business is profitable, effective, efficient, successful, etc. A business does not just achieve success; certain factors play significant functions. (Gatewood 1995; Perry 1988; Begley 1987) stated that success is related to financial terms, linking the most common characteristics found among entrepreneurs to measures like return of capital, growth in sales, and annual profit, or to the personal income of the owner/manager of the business.

## **Causes of Business Success**

Successful businesses tend to have certain qualities in common that aid in their success. Many successful entrepreneurs succeed only after failing several times. It has been stated that, “successful entrepreneurs don’t have failures. They have learning experiences” (Goodman 1994). Successful entrepreneurs are able to view difficulty as opportunity for change. Even some of the most well-known and successful entrepreneurs made an empire out of a failure. “Walt Disney went bankrupt three times before he made his first successful film. Henry Ford failed twice. They would never have been successful if they had given up easily” (Richardson 1994). Hence, measurement of success is multifaceted and should be monitored at many levels, including the observation and perception of the entrepreneur. Tolerance for failure is included in a set of similarities of successful entrepreneurs. Therefore, an entrepreneur must be able to fail initially in order to eventually succeed.

Numerous empirical studies on factors influencing success of business can generally be conducted from two approaches; either by focusing on a quite limited set of variables at firm level or by incorporating a broader framework that covers the external environment. Following the survey approach adopted by (Duh 2003), the primary factors explored to be significant in affecting success of business included owners’ or managers’ characteristics; enterprise characteristics and the contextual elements of business development. From a management perspective, the concept of success often refers to the enterprise’s financial performance. However, there is no universally accepted definition of success and as such business success is interpreted in numerous ways from several dimensions Foley and Green (1989). Different dimensions that are covered by the concept of success include survival, profit, sales growth and number of employees.

As noted in the literature, different factors influencing business success in SMEs. This study trying to answer the following question: what are the business success factors in Iranian SMEs?

## **Business Success in Iran**

In order to know more about the business environment of Iran, we address the annual report of World Bank in 2013. Doing Business 2013 is an annual report investigating the regulations that enhance business activity and those that constrain it. Iran with 80 billion populations is 152<sup>th</sup> out of 189 economies in the world in the ranking of year’s report, and had a significant shift within trend after several years and declined in ranking. Doing Business measures regulations affecting 11 areas of the life of a business. Ten of these areas are included in this year’s ranking on the ease of doing business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Doing Business also measures labor market regulation, which is not included in this year’s ranking. The rank of Iran in “starting a business” is 107, while in “getting credit”, it is ranked 86. The report highlights two reforms that Iran has implemented during the past year. It was able to amend the Companies act in just less than six months and made starting a business easier by eliminating the minimum capital requirement and the need to obtain a certificate to commence business operations, saving entrepreneurs an unnecessary procedure and five days’ wait time. (World Bank 2013) Also, ranking of Iran in Asia and Africa is 8<sup>th</sup> from 19 countries (World Bank 2013).

Based on a research done on causes of business success in Iranian SMEs, main causes of business success are: 1) Access to finance, 2) innovative idea, 3) Cooperation with other

entrepreneurs 4) technological schemes 5) skilled labor 6) Knowledge management (external)  
7) Reliable suppliers.

## **MATERIALS AND METHODS**

### **Objective of the Study**

Objective of this study is to investigate factors which affect on success entrepreneurs in Small and Medium Enterprises sector.

### **Sample Design**

Sample consisted 230 successful entrepreneurs. Based on Pretorius (2009) definition, a successful entrepreneur is a business owner who succeeds to overcome different challenges and problems and still can survive in difficult situation. During the study period 2004 to 2016, 3,039 SMEs have been registered in Fars province and the same has been taken as total population for the study. The researcher has adopted purposive sampling technique to take up the sample from population having different nature activities and categories of units.

### **Methods of Data Collection**

Many methods are used for research works. The study has adopted personal interview and observation method for collecting the primary data from the respondents. Structured questionnaires for collecting the data from respondents have been used. The questionnaire is drafted by using five-point Likert Scale. The five-point Likert scale was assigned in the manner (1) strongly disagree, (2) disagree, (3) neutral, (4) agree, and (5) strongly agree.

230 questionnaires were personally distributed and also collected all of them. The validity of the questionnaire used in this study was examined by previous studies, university professors and experts' and Reliability was measured by Cronbach's alpha which was 0.89 for the whole questionnaire.

### **Research Tools**

Data analysis was done on 230 completely filled questionnaires by 21th version of SPSS Software package for analyzing Statistics. According to central limit theorem, regarding high sample size, sample means have normal distribution so we can use t-test.

### **Main Hypothesis**

H1o: There is no significant difference between internal factors and external factors contributing for success of the units.

## **ANALYSIS AND FINDINGS**

The table 1 reveals the in depth details regarding A) category of entrepreneur B) gender of the entrepreneur C) marital status D) age of the entrepreneur E) educational qualification of the entrepreneur F) experience of the entrepreneur. Here it can be observed that 71.7 per cent of entrepreneurs are first generation entrepreneurs, .81 per cent of entrepreneurs are male and only .19 per cent are female, .76 per cent are married, 68.7 percent of entrepreneurs are below the age of 40 years, 64 per cent of entrepreneurs are above graduation level education and 62.2 per cent entrepreneurs have either employee or business experience. It is inferred that mostly entrepreneurs are in first generation, below the age of 40 years, above graduation level and having experience before they start their business. These businesses were in a different industry sector. Many of them were in manufacturing (39.6 per cent) as well as in services sector (30.4 per cent) and in trading sector (30.0 per cent).

Table 1(Part-I). Profile of Respondents

Demographic variables	Frequency	percentage
<b>Entrepreneur's Category</b>		
First Generation	165	71.7
Second Generation	54	23.5
Third Generation	11	4.8
<b>Gender of the Entrepreneur</b>		
Male	187	.81
Female	43	.19
<b>Marital Status</b>		
Unmarried	54	23.5
Married	176	76.5
<b>Age of the Entrepreneur</b>		
Below 30 Years	65	28.3
30 - 40 Years	93	40.4
40 - 50 Years	35	15.2
50 - 60 Years	22	9.6
60 Years & above	15	6.5
<b>Education of the Entrepreneur</b>		
No formal Education	16	7.0
10th Class/Inter	67	29.1
Graduation	128	55.7
PG or above	19	8.3
<b>Experience of the Entrepreneur</b>		
No Experience	33	14.3
Attended EDP	54	23.5
Employee/Work Experience	129	56.1
Business Experience	14	6.1
<b>Nature of the Enterprise</b>		
Manufacturing	91	39.6
Services	70	30.4
Trading	69	30.0

Source: Compiled from Primary data

### Results of Business success factors (Internal and External factors)

Table 1 reveals that the internal factors contributing for the success of business, and also indicates the weighted scores, means and standard deviations of the factors. It can be observed that the capability to adopt marketing strategy (59.46 per cent), networking with other businesses (57.50 per cent), sound financial planning (57.39 per cent) are the important factors contributing the success of the units. It is inferred that the innovative idea for development of business (45 per cent) is the least contributing factor for the success of business. Overall mean of the internal factors of entrepreneurs is 3.32. This mean is saying that there is a substantiate impact of internal factors for success of business.

**Table 2. Internal Factors Contributing for the Success of Business**

Internal Factors	DA	N	A	SA	Mean	SD	PS
Prior Work Experience	61 (26.52)	127 (55.2)	30 (13)	12 (5.2)	2.97	0.78	49.24
Networking with other Businesses	48 (20.9)	77 (33.5)	93 (40.4)	12 (5.2)	3.30	0.86	57.50
Sound finance planning	49 (21.3)	77 (33.5)	91 (39.6)	13 (5.7)	3.30	0.87	57.39
Understanding the competition	46 (20)	121 (52.6)	48 (20.9)	15 (6.5)	3.14	0.81	53.48
Capability to adopt marketing strategy	10 (4.3)	128 (55.7)	87 (37.8)	5 (2.2)	3.38	0.61	59.46
Innovative idea for development	53 (23.4)	70 (30.4)	83 (36.1)	23 (10)	2.80	0.99	45
Overall					3.32	0.95	58.04

**Source:** Primary Data Note :( Figures in parentheses indicate percentage)

Table 2 reveals that the external factors contributing for the success of business, and also indicates the weighted scores, means and standard deviations of the factors. It can be observed that the financial market environment for reasonable interest rates (47.61 per cent) is the important factor contributing the success of the business. It is inferred that all other factors and the growth in demand in domestic market especially (28.48 per cent) are the least contributing factors for the success of business. Overall mean of the external factors of entrepreneurs is 2.50. This mean is saying that there is no such impact of external factors for success of business.

**Table 3. External Factors Contributing for the Success of Business**

External Factors	SDA	DA	N	A	SA	Mean	SD	PS
Financial Market Environment for reasonable interest rates	32 (13.9)	39 (17)	104 (45.2)	52 (22.6)	3 (1.3)	2.90	1.31	47.61
Ministerial Schemes to obtain credit without complex collaterals	38 (16.5)	60 (26.1)	52 (22.6)	46 (20)	34 (14.8)	2.44	0.96	35.98
Technological Environment facilitating access to appropriate technology	37 (16.1)	91 (39.6)	71 (30.9)	26 (11.3)	5 (2.2)	2.38	0.88	34.57
Growth in demand in domestic market	36 (15.77)	94 (40.9)	78 (33.9)	20 (8.7)	2 (0.9)	2.14	1.06	28.48
Favourable tastes and performances of consumers	85 (37)	56 (24.3)	64 (27)	22 (9.6)	3 (1.3)	2.33	0.90	33.37
Sudden opportunities in international market	36 (15.7)	109 (47.4)	61 (26.5)	20 (8.7)	4 (1.7)	2.50	0.59	37.52
Overall						2.50	0.96	37.52

Table 3 analyzed the difference between internal factors and external factors contributing for success of the business. T-value test has been conducted for overall means of the internal factors and external factors. It is declared that T-value is 14.43 and the P-Value is 0.000. Reject the null hypothesis and accept the alternative hypothesis saying that there is significant difference in between the internal and external factors for success of the business. It is concluded that there is high effect of success of units by strong believing of internal factors of the business.

**Table 4. Analysis of the Factors Contributing for Success of the Business**

Factors	n	Mean	SD	T-Value	P-Value	Decision
Internal	230	3.234	0.5	14.43	0.000	Significant
External	230	2.501	0.586			

**Source:** Computed table (5% level of significance) Result: T-value: 14.43  
P-value: 0.000 (Significant - If p value < 0.05)

## DISCUSSION AND CONCLUSION

This study has been done to identify success of entrepreneurs about factors influencing business success on a sample of 230 registered SMEs in in Fars province in during 2004-2016.

The internal factors contributing in the success of business including 1) capability to adopt marketing strategy (59.46 per cent), 2) networking with other businesses (57.50 per cent), 3) sound financial planning (57.39 per cent) are the important factors contributing the success of the business. Hence, it is suggested that a well-planned and well-implemented marketing strategy helps business to present strong value propositions that build customer loyalty. Networking seems to be important both between and within firms. The percentage of SMEs which have networking with other business was high among successful SMEs and low among failed SMEs, so fostering the networking within and between the start up business is recommended. It is also suggested to small business to ensure strategic cash flows against its needed cash outflow; this is a function of sound financial management.

The external factors contributing in the success of business are 1) financial market environment for reasonable interest rates (47.61 per cent), 2) sudden opportunities in international market (37.52 per cent), 3) ministerial Schemes to obtain credit without complex collaterals (35.98 per cent), 4) technological Environment facilitating access to appropriate technology (34.57 per cent), 5) favorable tastes and performances of consumers (33.37 per cent), 6) positive demand in domestic market are external factors for success of entrepreneur (28.48 per cent). It is observed that the financial markets and reasonable interest rates (47.61 per cent) are high influencing factor than other factors. It is suggested to the government that SMEs' access to financing with low interest rates should be improved by deepening the reforms of the banking system. It appears that most of SMEs entrepreneurs and employees were positive with adoption and use of technology by their businesses; they appreciated use of technology to enhance their profit margins and increase business performance. It is also suggested that technology supporting departments to create awareness and inform the accessible and availability of suitable technology. It is also suggested to entrepreneurs to sense about the tastes and preferences of the target consumers.



The study analyzed the impact of internal and external factors contributing to the success of the business and it is revealed that there is a significant difference between internal and external factors on the success of the business. Sometimes internal factors are contributing to the success and sometimes the external factors contributing to the success of the business. It depends upon case to case.

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