

Problems and Global Challenges of Small and Medium Enterprises (SMEs) in Iran

Naz Abdulkareem Arif & Moha Asri Bin Abdullah

Abstract:

The development and prosperity of Small and Medium Enterprises (SMEs) are crucial to the development agenda of any economy in the world, be it in developed or developing countries. This is especially so for Muslim countries, most of which fall under low-income countries. Literature is replete with the roles and importance of Small and Medium enterprises in the development of any nation. These include, among others, the creation of employment, source of innovation, export generation, income generation, poverty alleviation, and the source of future medium and large enterprises. There isn't a unanimous definition of SMEs anywhere in the world, and Muslim countries are not an exception. Thus, there exist various definitions of SMEs in Muslim countries. Small and Medium Enterprises have been defined traditionally based on several indexes: number of employees; amount invested; total assets; sales turnover and production capacity. However, the definition based on the number of employees is common in most of the Muslim nations. The SMEs sectors in Iran play a very vital role in economic development and entrepreneurship growth because the SMEs sector is private. In this paper, we find that the main causes of the problems and issues of the SMEs sector are based on a lack of entrepreneurship talents and training because of the factors hindering innovation. We try to find out the role of government-based training institutes and as well as semi-government institutes in entrepreneurship development in the SMEs sector in Iran.



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1. Introduction

In recent years, the role of the economic enterprises has been increased, especially small and medium enterprises in the industrial sectors of developing. In the last two decades, with the advent of modern technologies, changes have emerged in production, communications, manufacturing capabilities, methods of production, and in the distribution and organizational structure of firms. These have generally increased the provided significant support for small enterprises and have formulated economic policies to expand and strengthen them. Not many countries can be founded without laws support small and medium enterprises, and even in some countries it seems that the national economy is based on small medium enterprises. Iran's economy significantly and extensively, is defined by large government and quasi-government corporations which control more than 80 percent of the country's economy (Johari, 2012). This particularly concerns the economic activities related to the extraction, processing and trading of crude oil, petroleum products and nature gas which provides for about 80 percent of Iran's export earnings and about 40 to 50 percent of the governmental budget. This has created a strong dependency on this sector of the economy, especially for large government-owned companies. It is nature that all economic sectors, including services, agriculture, industry, commerce and so on are effective in development of each of these variables with regard to the defined priorities.

Small and medium enterprises in different countries have many similarities, but despite this, a common definition cannot be obtained; each country according to its own requirements has provided a definition of these kinds of businesses. Most of these definition are discussed based on quantitative criteria such as the number of employees and turnover rate. According to the definition of ministry of Industries and Mines and Ministry of Agriculture of Iran small and medium enterprises are industrial and services sectors (urban and rural that have less than 50 employees. Ministry of cooperation according to different cases uses the definition Ministry of Industries and Mines and Statistical Center of Iran for these industries. The Statistical Center of Iran has classified businesses into four groups; businesses with 1-9 employees, 10-49 employees, 50-90 employees, and more than 100 employees. Although this classification is apparently similar to the definition of the Europe Union, however, the Statistical Center of Iran only considers those businesses with less than 10 employees as small and medium enterprises, and businesses with 10 or more employees as "large industrial firms" The Central Bank of Iran has another definition of what constitutes small and medium enterprises wherein they consider businesses with less than 100 employees as small and medium enterprises. In this paper, we employ synthesis of the Iranian definitions. According to various definition, apart from the number of workers per unit, usually small and medium businesses have three qualitative characteristic that give them nature different from large industries. These feature include: the unity of ownership and management, individual and family ownership, independence from other businesses (Zahiri et al., 2018).

2. Background of SMEs in Iran

Small and Medium-sized Enterprises (SMEs) play an important role in the economic developing and developed countries. Entrepreneurial opportunity can be defined as "a situation in which new goods, services, raw materials, markets and organizing methods can be introduced through the formation of new means. SMEs have been recognized as one of the instruments of growth for many nations; especially among developing countries. SMEs definition according to European Commission is represented in table 1.

Table 1: concepts of SMEs in Iran

SMEs Definition			
Enterprise	Ceilings		
Staff Headcount (number of persons expressed in annual work units)		Turnover	or Balance sheet total
Medium -sized	<250	≤€ 50 million	≤€43 million
Small	<50	≤€ 10 million	≤€10million

Source: (Taylor and Murphy, 2004)

All the studies in this context agree with the fact that SMEs have created job opportunities, technological improvement and innovation capacities along with increases in income. SMEs make a significant contribution to gross domestic product (GDP) and industrial dynamism. As mentioned previously, the definition of SMEs varies depending on nation and region. Table 2 shows the differences definition of SMEs in the category of enterprise and employment number between the European Commission, Iran and Malaysia. In Iran, SMEs (having 10-99 employees) make up only four percent of the total number of enterprises, and account for approximately 15.5 percent of national employment. Large enterprises constituting 13 percent of total enterprises contribute to 0.2 percent of national employment. There has been approximately 0.60 percent growth in employment numbers by SMEs across the board for the period 1996 to 2006. SMEs contributed 0.06 percent growth per year; in work force of more than 15 million this means that there was an increase of approximately 9,000 jobs annually. This correlates to the addition of an approximate number of 90,000 jobs over the 10 year reporting period.

Table 2: Concepts of SMEs in Selected Countries

Country	Category of enterprises	Employee numbers	Turnover	Other measures
European Commission	Small	10-50 employees	Less than €10 (13.5 USD)million turnover	Balance sheet total: Less than €10 million balance sheet total
	Medium	Fewer than 250 employees	Less than €50(67.6USD)million turnover	Balance sheet total: Less than €43million balance sheet total
Iran	Small	Less than 10*		
	Medium	Less than 50** Less than 10-100* 50-250**		
Malaysia	Small	Between 5-50 employees	Between RM250,000(75,000)and less than RM10(3USD)million	
	Medium	Between 50-150 employees	Between RM10(3USD)million and RM25(7.5USD)million	

*(CBI, 2009); ** (ISIPO, 2009)

Sources: Adapted from (Ale Ebrahim et al., 2009)

Indeed, SMEs have recorded satisfactory performance with regards to the generation of employment. The share and growth of services SMEs (0.085 annually) was even stronger than industrial SMEs (0.021 annually) (Mirbargkar, 2009). According to Table 3, there is a large gap

between these countries and Iran in industrial employment. This is due to the Iranian economic being depending on petroleum products and nature gas, which provide some 80 present of Iran's export earnings and around 40-50 present of the government budget. This has created a heavy dependency on this sector of the economy, and these mainly, large publicly owned 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. Generating employment is an overwhelmingly important issue in Iran. Each year some 800,000 jobs seekers enter the labor market, which offers only about 500,000 jobs.

Table 3: Status of Industrial SMEs in Some Countries

Country	Industrial SMEs (%)	Employment in Industrial SMEs (%)	Investment in Industrial SMEs (%)	Industrial SMEs Production (%)	Export in Industrial SMEs (%)	Allocation of loans to Industrial SMEs (%)
USA	92.2	50.4	38	38 to 41	36.2	42.7
Republic of Korea	90.4	51.2	35.7	47.9	50	48
India	91.5	80	30	56	40	15.3

Source: Adapted from (Mirbargkar, 2009)

Consequently, unemployment is increasing each year by about 300,000 people- comprising of women, youth and new graduates. As has been proven in many developing economics, the SMEs sector can be instrumental in employment generation, and can help to absorb not only the natural growth of the labor force ,but can also absorb the effect of a manpower shed from the state owed enterprises as a result of their rationalization or privatization (Mirbargkar, 2009).

3. Problems and Issues

3.1 Barriers to innovation among Iranian SMEs

The importance of innovation in organizations' competitiveness is an undeniable fact. Innovations reflect a critical way in which organizations respond to either technological or market challenges. Traditional institutional culture or institutional inertia cited as a significant barrier to innovation. A number of firm differences in barriers to innovation were related to cost, institutional constraints, human resources, organizational culture, flow of information, and government policies. The degree of employee support for changes in their firms depends on the kind of innovation implemented. While changes in the organization of work that are introduced independently of investments in new machinery are encountered by resistance. It is not always a barrier against innovation but it may retard or change the innovation plans. On the other hand, investments in new machines, production sites, etc. are supported by employee (Schaefer, 1998). The study by (Madrid-Guijarro et al., 2009) emphasized on a resource-based view of organizations. They introduced financial resources, human resources and external resources as barriers to innovation. Cost has been mentioned as one of the most important barriers to innovation. High innovation costs have a negative and significant effect on the innovation propensity. Arguments can arise between the need to invest in innovation and the risk aversion common among managers/owners(Hausman, 2005;Frenkel, 2003) . With small firms especially being subjected to such conflicts because of their limited financial resources. Understanding of economic risks associated with innovation activities would have a low degree of association with firms' experience in innovation activities(Lim and Shyamala, 2007) . The most financial theories such as transaction cost

theory and agency theory have linked risk and financial exposure; higher risk being associated with higher financial exposure and lower risk with lower financial exposure (Brigham and Ehrhardt, 2005). Transaction cost theory analyzes the fact that the intangibility and specificity combined with investment in technology, by increasing transaction costs, may decrease the firms' propensity to financing innovation with debt. Agency theory argues that the high risk of innovative activities and the existence of information asymmetries can increase problems with debt financing. An increase in debt may lead to an increase in conflicts between lenders and the firm. Several previous studies point to the negative influence of debt on innovation activity. New ideas and creative contributions from its staff then inventions will be unable to break through to the marketplace if the firms is burdened down with debt. Employee commitment and effort is required in adaption of innovation. Resistance to change which results from poor employee skills and inadequate training is viewed as an important organizational challenge by many researchers. It also argued that small business managers often lack the types of education and training that have been linked with a successful innovation strategy (Hausman, 2005). Shanteau et al. (2000) argued that Weak management support is another innovation choke point because innovation can disrupt established routines and schedules.

3.2 The barriers to SME development in Iran referring to United Nations Industrial Development Organization (UNIDO)

Firstly: market barriers, it contains existence of purchasing monopolies (monopsonies)-Stringent nature of contracts the SMEs have to conclude with LSEs -Existence of monopolized markets in various sectors -Fluctuations in supply and demand, specifically in the food industry -Government subsidization of state-owned companies, resulting in unfair competition -Lack of marketing mechanisms and resulting inability to access national and international distribution channels -Smaller volume in raw material purchases, resulting in higher prices . Secondly: financial barriers shows lack of commercial and specialized banks that would lend money to SMEs, and set similar loan criteria for all categories of firms -Smaller firms have great difficulties in offering collateral for loans -Mounting liquidity pressure on SMEs following the adoption of contractionary macro-economic policies by the government -Delays in receipt of income from sales, this leads to inability of banks to secure loans and liquidity pressure on SMEs, which drives them towards more expensive unofficial markets -Absence of joint ventures and lack of government facilities for forging joint ventures -Weak business environment for SMEs - Information barrier -Lack of access to various kinds of information, including: Marketing information (on domestic and foreign markets, price structures, packaging requirements, etc.) -Insufficient information on the financial and technological standing of SMEs to enable investors to select healthy businesses for their investment -Out of date technical and scientific information -Insufficient information on raw material suppliers and buyers . Thirdly: government policies involves Inability to create an enabling environment for SMEs and policies that is harmful to SMEs, e.g. subsidies for state-owned firms, then lack the necessary workforce or bureaucratic skills to negotiate effectively with these organizations, as well as Unequal collection of tax places a burden on firms that report their revenue status transparently and eventually encourages large-scale tax evasion, another point is presence the administrative hurdles for the collection of duties and the lack of institutions to resolve possible disputes arising from arbitrary decisions .Fourthly: legal barriers are {Complicated registration for entering into the tender business-The requirement for any start-up company to have a Board of Directors -The requirement for start-up companies to have at least two partners -Time-consuming registration procedures requiring

up to three months to register a business -Lack of specialized courts to deal with trade disputes -Obsolete trade laws -Absence of a meaningful codification system -Inappropriate legal position of shareholders/mangers -Lack of consistent and comprehensive legal framework for SMEs -Lack of differentiation between SMEs and LSEs in tax laws -Rigid and inflexible labor laws}.

4. SMEs Environment in Iran

4.1 SMEs in Retailing

The retail industry is comprised mainly of small private shops with one to five employees and is managed traditionally by cooperatives and independent retailers with minimal foreign investment operating through urban bazaars. Bazaaris play an important role in Iranian economic policy and the power structure of the country. In 1978, during the Iranian revolution, by calling a series of strikes, detractors immobilized Iran's economic and sped up the removal of the shah. Since then, they have maintained a close connection with the current regime, benefiting from profitable business contracts and tax exception in exchange for funding conservative parliamentary, presidential candidates and mosques. The Bonyad, a grouping of influential religious charity organizations accountable only to Iran's supreme leader, is a key player in retailing, controlling much of the transportation network as well as distribution outlets. During recent years, the country has seen an increasing number of private single mini-markets and supermarkets and even a few chain stores. The major chain stores are the state-owned Refah, Naft (an offshoot of the Ministry of Oil), Ghods and Sharvand, owned by the Bonyad-e Mostazafan & Janbazan. Even though no major retailer has established a store in Iran, foreign investment is likely in the near future. Migros Turk, has said that they plan to open an outlet in the Tehran very soon and the Majid Al Futtaim Group LLC84, has announced its intention to enter Iran's market. Fashion retailer Giordano Middle East already has opened a total of 13 stores, seven stores in 2003 and a six more during 2004 and is planning to expand in near future. The modernization/industrialization program, launched by the Pahlavi regime in the 1960s, was interrupted by the revolution and further by the Iran-Iraq war during 1980's. Even though Iranian consumer goods production has developed in the last three decades, in general people have maintained a preference for trade over production and demand for consumer goods is still being satisfied largely by imports. For example, the demand for almost two million television sets annually is only met at a rate of 50% by the country's 14 manufacturers. After the change in Iranian legislation in 2002, stating that foreign companies are now permitted to own more than 49 percent of Iranian companies, some investors have shown more interest and formed local partnerships for production of goods under licensee in order to avoid high import duties on finished goods. A good example of this is Haier86, which produces washing machines & refrigerators. Royal Philips Electronics is to produce 180,000 televisions set a year on the free-trade island of Qeshm through a venture with local partners and LG Group, which already has a sales subsidiary, is planning to open a manufacturing plant in Iran very soon.

4.2 SMEs in Agriculture Section

Iran's agricultural sector accounts for 19 percent of GDP, employs 33 percent of the labor force, represents 26 percent of non-oil exports89, and about 10.2 million hectares of land are cultivated throughout the country. Despite independence in some areas, Iran is one of the world's largest net importers of agricultural products, importing 20-40 percent of its annual food requirements. In contrast of what most westerners believe, only 20 percent of Iran's geographical area is desert, the rest is made of natural range land, forest, and roughly 20

percent arable land⁹⁰. The deficiency in the production is not about availability of land, but rather the shortage of water, outdated machinery, raw material and insufficient farming techniques. Many in the industry believe the problem will not be solved without the influences of the outside world to modernize the industry. Otherwise, the situation will just get worse, particularly when you consider the high growth rate of the population. Iranian agriculture problems are not limited to micro-economic factors. It does, in fact, even suffer from macro-economic issues. As part of a recent government economy policy to stabilize the high inflation and control the high prices for food and agricultural goods, the government has increased imports and caused fluctuation in supply and demand of agricultural goods. This policy has been widely criticized as it has reduced the price of agricultural goods without a significant effect on other goods and inflation. Even the policy to subsidize state owned farming companies has created unfair competition for small farmers and creates additional barrier for many of them. Those wrong policies have made domestic production unprofitable for SMEs and, as a result, many domestic farmers have been forced to reduce production, which have increased the already sky-high unemployment. Many economists are worrying about this policy's long-term effect on the nation's economy and urbanization as it can force many farmers to move to cities in order to find work.

4.3 Manufacturing and Mining SMEs

Petroleum, gas, petrochemical, steel, weaving, food processing, car, electrical and electronics industries are among the key industries in Iran. Due to outdated machinery and insufficient management, except petroleum and gas, not many other Iranian industries have been able to play a significant role in world trade and their production barely satisfies domestic demand. The handicrafts and traditional industries, such as carpets and ceramic industries, are also considered to be key local manufacturers, but even the Persian carpet, which used to be widely welcomed in western countries, has lost its share of the market to new rivals from Turkey, India and Pakistan. This is mainly due to wrong export regulation in the early 1980s, which prohibited export and damaged its comparative advantage in its production. Referring to Statistical Centre of Iran (SCI), 96.4 percent of all manufacturers are private, while only 3.6 percent belong to public sector. As the country's export is mainly dependent on its oil, that 3.6 percent public sector's companies stand for almost 76 percent of country's export. This has create great dependency of many industrials SMEs to state owned LSEs for contracts and the complicated registration for entering into the tender business with LSEs has been a huge barrier for many SMEs. As part of the government privatization plan, in October 2007, Deputy Director of the National Iranian Oil Company announced that a total of 130 oil, gas and petrochemical companies out of 144 would be privatized under a seven-year privatization program. In addition, referring to SCI of 3323 operating mines in the Iran, 90.2 percent mines are private and 9.8 percent mines are run by public sectors. A total of 55,000 workers are employed by the mining industry.

4.4 SMEs in Media and Internet

According to the Iranian Constitution, only the state has the right to own and administrate television and radio. However, with the development of satellite technology, a number of foreign and privately-owned stations from abroad broadcast Persian-language television and radio programs, available for upper and middle class Iranians. The two state-owned media outlets, the Islamic Republic News Agency (IRNA⁹⁶) and Tehran Times are the major news sources from inside of Iran and all 40-50 newspapers and magazines (private or state-owned) rely heavily to them referring to domestic news. And while companies have the right to own

and administrate printed newspapers and magazines, all the material used by them has to be controlled by Ministry of Guidance and Islamic Culture. This policy has been very harmful to SMEs in printed media and the film industry as they have to refer to Ministry of Guidance and Islamic Culture for variety of reasons and as many of them do not have enough resources and bureaucratic skill to negotiate effectively many of them has been out of the business. Due to tough control of print, many Iranians have turned to the Internet for the access of news. This has caused an enormous loss for the print industry and created great benefits for Internet providers, as user rates were raised from 250,000 in 2000 to 19 million in 2006. The Internet is considered to be the main mass communication channel for Iranian youth. Yet, despite the tremendous increase in Internet users, Iranian companies have not been able to take full advantage of it, as research from Luleå University of Technology in 2007 found that has been due to deficiencies in payment mechanisms and lack of credit cards, poor distribution logistics, poor telecommunication transmission capability and lack of training.

5. Contribution to Economic Growth and Development

The Islamic Republic of Iran has pursued a development strategy of self-reliance with some degree of success. Endowed with abundance of oil and natural gas resources, Iran did not face import constraints. Yet, it adopted an import substitution policy that allowed it to use its oil revenues to acquire foreign technologies to industrialize. Iran is a middle-income developing country, with a broad industrial base, a relatively well developed science and technology infrastructure and skilled manpower. Iran's economy is largely dependent on the primary sector. Since 1990, Iran's economic plans have emphasized a gradual move towards a market-oriented economy and development of the private sector. Recently, the reforms approved by the government are as follows: First of all, approval of the Foreign Investment Promotion and Protection Act, aimed at simplifying the inflow of foreign capital and easing of technology transfer from abroad. Then, liberalization of foreign trade through the elimination of non-tariff barriers and regulations for contract deposit. Next, Equalization and reforming the system of exchange rates, aimed at increasing transparency in the government budget and subsidies. Also, direct Tax Law reform, consisting in the reduction of corporate taxes from 54 to 25 % and personal income tax rates from 54 to 35 %. Moreover, banking System reform, through the establishment of non-banking credit institutions and private banks. The average contribution of the economic sectors to GDP (Gross Domestic Product) is reflected in the Table 4.

Table 4: Average Contribution of Economic Sectors to GDP (%)

Sector	2009
Agriculture	10.9
Industry	45.2
Services	43.9

Iran's manufacturing industry has been built up mainly through licensing of technology from abroad and in some cases through reverse engineering. State-owned enterprises which are mainly large enterprises continue to account for much of the industrial sector. Small and medium-sized enterprises make a relatively very small contribution to the national product. Large enterprises (which are mainly state-owned), by developing technologies relating to components and parts and diffusing these technologies to SMEs, can build up a strong supplier industry within the country. Several other developing countries such as India and China have followed such a strategy. SMEs create employment and are dynamic, adapting to

economic changes relatively quickly. SMEs are also observed to be more innovative than large enterprises. The experience of many countries has shown that the Small and Medium-sized enterprises (SMEs) can make a substantial contribution to industrial and economic development. Iran Small Industries and Industrial Parks Organization (ISIPO) is a developmental organization affiliated to the Ministry of Industries and Mines which established by amalgamating 'Iran Small Industries Org.' with 'Iran Industrial Estate Co.' in the second half of the year 2005, aimed at planning and developing industrial parks/areas as well as supporting small industries (less than 50 employees), promoting networks and industrial clusters and providing the consultancy services, in frame of Ministry of Industries and Mines general policies. Considering the fact that 94% of Iran industries are SMEs and regarding the vital role of SMEs in the economic growth, ISIPO applies various supports and services through the provision of developmental programs to increase the competitiveness of SMEs and provides them with infrastructures and facilities. In this regard ISIPO expands its cooperation with industrial associations, public institutions, R and D centers, universities, engineering and consultancy services companies to create the fruitful environment for utilizing and applying new technologies and to make itself knowledge oriented organization that is flexible toward international transformations. ISIPO Offers a variety of different support and services in numerous areas. These are:

First of all Services and Entrepreneurship projects, it include supporting training courses for improving the scientific and professional skills of SMEs workforce, supporting training courses for promotion of business skills of entrepreneurs, organizing and holding industrial tours, developing Engineering and Consultancy services to Entrepreneurs and SMEs and Improving business environment . Then, Technology Enhancement of SMEs consisting of IT (Information Technology) development in SMEs-Establishing IT and Software Services centers. Too, Creating Technology Parks adjacent to the Industrial Parks. Moreover, Establishing Business and Technology Service Centers. Also, supporting R&D (Research and Development) activities in SMEs. Moreover, Market Development and International Cooperation projects include: First, improving international cooperation for creating new market in the framework of bilateral and multilateral cooperation .Second, supporting access to international markets. Third, Supporting SMEs participation in the national and international fairs and exhibitions. Fourth, facilitating international relations for SMEs. Fifth, cooperating with international organizations for partnership between Iran and foreign SMEs. Sixth, organizing and facilitating business trips for SMEs .Seventh, holding and taking part in international seminars for exchanging experiences among SMEs. Lastly, ISIPO Consultancy Support works towards creating a network of more than 140 highly experienced and professional consultants in different fields such as: Management, Market Development, Innovation, R and D technology development, Productivity and Quality Improvement and Human resource.

At the end, ISIPO projects in the field of Financial Support include: Providing soft loan for investment and revocation, Guarantee Fund of SMEs, Subsidizing some part of SMEs consultancy expenses, Training, Productivity and Quality Promotion (Granting Small Industries Productivity Award), Sub-contracting Development and Industrial Clusters Development. Yet, Iranian small businesses still suffer from obstacles such as a poor macroeconomic environment of high inflation (about 20 %, with a fluctuation of 9-10 %), high interest rates, burdensome regulations, adverse labor and tax laws, lengthy and arbitrary procedures for securing bank loans, foreign currency shortages, lack of competent business development services and an overall sense of discrimination against small

enterprises. The main barriers to SME development in Iran is the lack of access to various kinds of information, such as: Marketing information (on domestic and foreign markets, price structures, packaging requirements, etc.) Then, Information on the financial and technological standing of SMEs to enable investors to select health businesses for their environment also, Technical and scientific information finally, Information on raw material suppliers and buyers. This situation is exacerbated by the dominance of the oil sector in the overall economy and of large state enterprises in industrial production. Thus, the potential for subcontracting to SMEs by the large automotive, transport, home appliances and oil industries is yet to be realized.

Iran still remains largely a natural-resource-based economy. Diversification is imperative, not only because natural resources become more accessible but also because export success in world markets increasingly demands knowledge-intensive production and innovation-based competition. The shift towards a more knowledge-based economy will require creating a national innovation system based on science and technology that would not only merely transfer ready-made technologies, but also engage in re-invention, developing new technology and diffusing them economy-wide. There is need to better link the science and technology infrastructure to the needs of the productive sector generally and in particular building up capabilities in high technology areas.

6. Globalization Threats and Challenges

The radical changes in the business environment began during the 1960-1970s. At this time there began considerable expansion of multinational corporations. Particularly of note is the reorientation of the "East Asia Tiger" in the late -1960s that targeted external markets which resulted in increased production capacity and competitive pressures. A growing number of transnational corporation seeking larger markets in which to realize economics of scale in production costs entered developing countries. In response to this pressure, the international trade environment began to change, such that after successive rounds of international trade agreements, import barriers were systematically reduced in wealthier countries. Through many developing countries remained outside this growing international specialization until after mid-1980s, due to combination of factors- the success of the Asian Tigers and external pressure to open markets-trade liberalization become increasingly wide speed. The results was a process of increasing integration and globalization (Raynard and Forstater, 2002). Globalization occurs largely as a results of conscious decision to liberalize cross-border monetary transaction, as well as transaction in goods, services, people and information. In other words, it is a concept of free flow of capital and trade in goods and services without regulation barriers among countries. As business environment continue to change more rapidly under globalization, even small and medium size companies have also changed their businesses. With enterprises becoming bigger and bigger, the legacy business system may not be flexible enough to adapt this change and the discordance between business and information system in their origination may occur (Damirchi and Rahimi, 2011).

Herein is a review of some studies focusing on different areas and gives a general view of globalization challenges faced by SMEs in Iran:

First, The challenges and opportunities for vaccine for manufacturing in Iran with regards to the World Trade Organization (WTO). The vaccine industry is one of the most important health-related industries. It can be affected by accession to the (WTO) because of probable dramatic changes in the business environment. According to (Meshkini et al., 2012), the

country's main challenges with regard to accession to the WTO are: The lack of firm internal intellectual property(IP) rules, not being recognized as pre-qualified by the World Health Organization (WHO). As well as a number of other points: The use of old equipment ,Lack of cooperation with global vaccine companies, Problems with keeping up with Current Good Manufacturing Practice(CGMP), Lack of adequate and meaningful investment in research and development (R&D),And Limitation on private sector participation in the production of vaccines . Second, smaller proportion of small industries in Iran in export of industrial goods. By knowing the advantages of small industries in the case of added value, job creation and, especially, innovation in technology of production and trade, policies should be consider in way that can increase the competitiveness power of small and medium industries on the base of recognizing export capacities of small and medium industries. Doing so, in manner that examines the competitiveness of small and medium industries with high technology for increasing the export potential is crucial. The major reasons for this are (Mirbargkar, 2009) :The fluctuation in the exchange prices which cannot be solved by changes in the price of foreign exchange. Also, the goods and products of Iran cannot compete in the universal markets, and it is not only due to their high prices, but as a results of their low quality, which are major factors for their acceptability in the market. In addition, there is no guarantee for an exporter to decrease the price of his product in order to get a large share of foreign market. In many cases, this is the case because there is a lack of demand and motivation for Iranian exporting products and goods. The increase in the piece of exchange will not influence the amount and value of export and only increases the profit of the exporter. As well as, The consumption market in Iran is very extensive and wide and most SMEs in Iran are not exposed to their foreign rivals, therefore they challenges in the process of production and required time to increase the capacity of producing export goods has led difficulties in using the advantages of depreciation of the Iranian Rial. Next, the factor hindering the innovation process Iranian SMEs. Innovation is the key to economic development in today's knowledge driven economy. World markets increasingly demand knowledge-intensive production and innovation-based competition. Iran still remains largely a nature-resource-based economy (Tatfi, 2011). The main actors in the Iranian national innovation system are government, research institutes/universities and large enterprises. Almost all of the research institutes/universities and an overwhelming majority of the large enterprises are also state-owned. The key driving force for innovation technological change is competition. Whereas, Iran's industrial sector lacks effective competition. The system of licenses and resource allocation (subsidies) ensures that there is only limited competition (and mainly based on price) in the vast majority of industries. This lack of or limited competition does motivate companies to develop new products or product features. Recognizing this, the government is gradually opening up the economy to competition, but the process is very slow. A unique feature of Iran's innovation system is the marginal role played by foreign companies. Foreign companies bring in new technologies in the form of new products, processes and management techniques. The local operations of foreign companies lead to spillover effects and diffusion of new technologies into the wider economy. They also spur competition and motivate domestic companies to upgrade their technologies and innovate in order to compete. The Government has established free zones where foreign companies can locate operations, which can create a new opportunities for FDI (Foreign Direct Investment). Finally, Globalization has been accelerated by the development of information and communication technology (ICT). Entering to the globalization is very expensive, firms should have investment in foreign countries, high level of telecommunication, IT systems, good transport system, and internet (Hogeforster, 2014). On the other hand, the Multi-National Corporation

(MNCs) and Trans National Corporation (TNCs) play a major role in globalized markets because of, globalization allows (MNCs) and (TNCs) to enter the markets by decreasing the cost of the production through using their expert knowledge, India and China are the best example for the low cost countries (Naradda Gamage et al., 2019).

7. Conclusion

Iran richly endowed with nature resources, as well as qualified scientist and engineers. This potential advantage has not yet been capitalized on in order to make the transition from oil-drive to innovation driven growth, because of the weakness in the national innovation system. The contribution of the enterprise sector to innovation activities is weak, and should be strengthened. To date, enterprise are mainly production units rather than technology developer, all innovation activities are concentrated in research institute and universities. SMEs development should not be confined only to high tech sector; rather it is important to create ties between all kinds of SMEs and university R&D centers. Innovation must take place also through new business models, new ways of organizing work and through innovation in design or marketing. Managing and applying all these different kinds of innovation is major challenge to businesses today which requires corresponding education and training. Today in Iran, there isn't single organization developing methods and tools to support innovation management for SMEs. Although there are organizations providing training, consulting, technical and other services, most of the SMEs do not have enough financial resources to benefits from them. The development of innovation SMEs requires dynamic entrepreneurs. Presently, entrepreneurship is weak in Iran .This is partly explained by the lack of opportunities, financial and technical support services, and clarity with respect to ownership private property, as well as weak intellectual property right regime. Government should address these problems, to promote and encourage entrepreneurship. It should from specialized agencies to provide seed capital and encourage banks to develop 'venture capital' activities. Such financing mechanisms will promote entrepreneurship by reducing this risks to individuals and thus, results in greater commercialization of innovation. Access to technical and scientific information plays significant role in the growth of the SMEs. Such information must be available not only to universities and R&D centers free of charge, but also to SMEs. This fundamental as education plays a major role in creating an innovation educated driven economy. It should prepare specialists with the knowledge and skills required in today's labor market. Yet, the current education system of Iran lacks these up to date teaching methods and techniques.

By promoting the creation of local enterprises, which are flexible in responding to demands from potential users and by adopting incentives for them to innovate, Iran could develop its competitive productive capacity in both capital and consumer goods. This would improve capacity for its large domestic market while aiding it in becoming an export base for manufactured goods to the Middle East and Western Asia. In general, movement in this direction would help contribute to poverty alleviation and the development of local communities in the most remote areas of the country. And more specifically, it helps to reduce unemployment.

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