



Full Length Research Paper

Factors Affecting the Business Environment in Iran as perceived by Managers of Companies in Iran

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Abstract

The purpose of this research is to identify the factors affecting the improvement of the business environment in Iran from the point of view of the managers of foreign companies. In this regard, 15 questionnaires were collected from these managers and the results were analyzed by SPSS software. The results of the research show that macroeconomic stability, access to energy, the culture of using quality goods, the cost-effectiveness of the technology, the reduction of bureaucracy and economic security are respectively the main economic, infrastructural, social, technological, legal and policy factors affecting business environment in Iran.

Keywords: Business, Iran, Affective Factors, Foreign Investment

Introduction

Business environment can now be considered as one of the most important indicators in assessing the economic situation of the countries. Through this index, one can gain a better understanding of the internal environment, economic system, economic policies, and ultimately the market position of a country. The impact of favorable business climate is evident on the increase of domestic and foreign investment attraction, employment creation and GDP growth (Bakhtiari & Shayeste 2013).

Countries are struggling to improve their business environments, especially in developing countries that are in dire need of the import of capital and technology from developed countries, so that they can develop more quickly. Iran is one of the countries that plan to accelerate the development process.

After the abolition of Iran's nuclear sanctions in 2015, inward investments to Iran have grown rapidly in the oil, gas and petrochemical sector (world investment report 2016). The table below shows the inflow of foreign direct investment to Iran and several selected countries.

Table 1: Inflow of investment in selected countries (Million Dollars)

Country	2014	2015	2016	2017
Iran	2105	2050	3272	5032
United Arab Emirate	11072	8551	9605	10374
Qatar	1040	1071	774	986
Turkey	12739	17717	12942	10864
Saudi Arabia	8012	8141	7453	1421

Source: World Investment Report 2018

Based on the Global Competitiveness Index by World Economic Forum (WEF) Iran is ranked 76 among 138 countries. The report shows that Iran ranked 19th in the world in terms of market size and 134 in terms of labor market performance. This study intends to examine the perception of managers of companies investing in Iran regarding factors affecting business environment in Iran. This research is important because policymakers can design their large policies by considering managers of foreign companies' point of view on factors affecting Iran's business environment in order to facilitate the foreign investment process in Iran. Therefore, the present study sought factors affecting the business environment in Iran as perceived by managers of Companies in Iran. Unfortunately, little research has been done in this regard. The research did not require any comments from foreign companies on the factors affecting the business environment in Iran.

Literature Review

The importance of the business environment for economic growth has attracted attention. The results of the research by Abdollahi et al (2015) show that Iran's economic growth is not favorable due to the lack of suitable business environment. Also, the present study suggests a positive and significant relationship between improving the business climate and economic growth. The inadequacy of the Iranian business environment is related to some external and internal challenges, which should be dealt by corrective policies. Tari and Alavi Manesh (2011) pointed out that in Iran's development programs more emphasize was placed on issues of controlling exchange rate fluctuation, increasing partnership with private sector, improving labors law and reducing regulatory impediments. Given the slow economic growth in the countries of the Middle East over the past decades and with the presence of opportunities, capacities, facilities, including oil resources, deteriorating business climate seems to be that one of the main obstacles to economic growth in region (Basiri & ShahHosseini 2010).

The results of the study by Afarenesh (2014) show that by improving political stability, controlling corruption, economic globalization, starting a business, supporting the investor, making contracts more binding, paying taxes and Gross domestic product, would affect the amount of foreign investment. It was also found out that weaknesses in the process of property registration, tax payments, foreign trade and the launch of new businesses have had a negative impact on the growth of the economy. (Dehghan Shabani & Shahnazi , 2011). It seems that some reforms, including reducing dependence on oil revenues, accurate accounts of the public sector and reducing corruption, have more priorities in the development programs in Iran for improving business environment (AlaviManesh & Tari 2011).

The results of a study indicated that the improvement in business environment is one of the factors that have led to the growth of the economy in this region: although this situation is in the midst of countries with severity and weaknesses. At the same time, removing bureaucratic obstacles, facilitating laws and regulations and speeding up the implementation of a business start-up are important factors that can be effective in creating an environment conducive to economic growth (Basiri & ShahHosseini 2010).

Factors affecting the accumulation of foreign direct investment include the business environment, the abundance of natural resources, good governance and economic freedom. The results indicate that improving the business environment, good governance, abundance of natural resources and economic freedom have direct relationship with the accumulation of foreign direct investment. (Salamani et al 2014).

Materials and Methods

This research was applied type research and descriptive method was used. The population of this study was 15 managers of foreign companies which were provided by Organization for Investment in Iran. The area of the study was Tehran, the capital city of Iran. The main instrument for this study was questionnaire which consisted of 7 sections (economic, infrastructural, social, technological, legal, policy making and barriers). The Likert scale was used to measure the perception of respondent. The content and face validity of questionnaire was approved by a panel of experts. Data was collected by interviewing the respondents and analyzed by using SPSS software. Mean and standard deviation (SD) was calculated.

Results

In order to prioritizing the factors, table 2, shows the respondents' views about role of economic factors affecting business environment in Iran. According to this table, the highest mean refers to economic stability (mean=4.86) and the lowest mean to labor wages (mean=3.35).

Table 2: Means of respondents' views about economic factors Affecting business environment

Economic Factors	Mean	SD
Economic stability	4.86	0.77
Market Dynamic	4.80	1.32
Attractiveness of investment	4.73	0.45
Access to financial resources	4.53	1.45
Exchange rate fluctuation	4.50	0.75
Quality of labor force	4.46	0.74
Inflation rate	4.26	1.62
Developed financial institutions	4.26	1.48
Market competitive structure	4.26	0.79
Size of economy	4.23	1.58
Tax rate	4.06	0.70
Access to labor force	3.93	0.70
Labor wages	3.35	0.92

(1=very little; 5=very much)

Table 3, displays the respondents' perception about infrastructural factors which influence the business environment. The results show that the highest means refers to access to energy (mean=4.28) and the lowest mean access to utilities (mean=3.57).

Table 3: Means of respondents' views about infrastructural factors Affecting business environment

Infrastructural Factors	Mean	SD
Access to energy	4.28	0.61
Providing access to international market	4.26	0.96
Property right	4.07	0.82
R and D facilities	3.93	0.88
Availability small and medium enterprises	3.90	0.70
Access to free trade zones	3.80	1.08
Access to utilities	3.57	1.15

(1=very little; 5=very much)

According to respondents' views about social factors which influence the business environment, it was observed that (table 4) the highest mean is related to culture of using quality products (mean=4.40) and the lowest mean social networks (mean=3.66).

Table 4: Means of respondents' views about social factors Affecting business environment

Social factors	Mean	SD
Culture of using the quality products	4.40	0.73
Entrepreneurship culture	4.23	0.83
Customer needs	4.13	0.63
Population size	4.06	0.88
Customer expectation	4.06	0.59
Customer behavior	4.00	0.81
Social networks	3.66	0.97

(1=very little; 5=very much)

As observed from table 5 below, the means of respondents' perception about technological factors which influence the business environment. According to this, cost effectiveness of technology had the highest mean (mean=4.45) and technological penetration rate the lowest mean (mean=3.80).

Table 5: means of respondents' views about technological factors Affecting business environment

Technological Factors	Mean	SD
Cost effectiveness of technology	4.45	0.52
Technological infrastructure	4.09	0.70
Access to new technologies	4.09	0.70
Technological opportunities	4.00	0.77
Availability of high technologies	4.00	0.63
Penetration rate of technology	3.80	0.63

(1=very little; 5=very much)

Table 6, shows the respondents' views about influence of legal factors affecting the business environment. As can be seen from this table, the highest mean refers to reducing bureaucracy (mean=4.08) and the lowest mean to availability of incentives (mean=4.09).

Table 6: Means of respondents' views about legal factors Affecting business environment

Legal Factors	Mean	SD
Reducing bureaucracy	4.81	0.40
Government support of businesses	4.72	0.64
Foreign Investment regulations	4.45	0.82
Intellectual property rights	4.36	0.80
Lowering trade barriers	4.36	0.67
Shareholders rights	4.27	0.78
Governance structure	4.20	0.78
Independent judicial system	4.18	0.75
Effective legal structure	4.09	0.70
Availability incentives	4.09	0.70

(1=very little; 5=very much)

Table 7, shows the respondents' views about influence of policy making factors affecting the business environment. As can be seen from this table, the highest mean refers to economic security (mean=4.81) and the lowest mean to facilitating access to credit (mean=4.18).

Table 7: Means of respondents' views about policy making factors Affecting business environment

Policy making Factors	Mean	SD
Economic security	4.81	0.40
Political stability	4.72	0.46
Trade policies	4.63	0.50
Accountability of government	4.54	0.68
Attitude of government toward private sector	4.54	0.52
Facilitating access to credit	4.18	0.87

(1=very little; 5=very much)

As may be observed in table 8, the means of respondents' perception about barriers to improving business environment indicated that corruption was considered as the main obstacles with the highest mean (mean=4.86) and high cost of implementing contracts was considered the least important barrier to improving business environment (mean=3.80).

Table 8: Means of respondents' views about barriers Affecting business environment

Barriers	Mean	SD
Corruption	4.86	0.35
Lack of clarity in FDI regulations	4.60	0.63
Government interventions	4.50	0.75
Uncertainty	4.46	0.63
Unhealthy competitions	4.20	0.67
Fluctuation in commodity prices	4.20	0.67
Shortage of financial resources	4.13	0.83
Ineffectiveness of financial sector	4.13	0.74
Weak infrastructure	4.13	0.51
Human resources limitations	4.06	0.79
High cost of implementing contracts	3.80	0.86

(1=least important; 5=most important)

Discussion

The purpose of this research is to identify the factors affecting the improvement of business environment from the perspective of some of the managers of the foreign companies in Iran. In this regard, 15 managers companies were selected and collected using a questionnaire. The results of the research were analyzed using descriptive statistics. The results of the research show that among economic factors, macroeconomic stability has been identified as the most important priority. In this regard, it is recommended that the government adhere to the issue of economic stability and the lack of changes in laws and regulations in the field of attracting foreign investment in Iran.

In the context of the infrastructure, access to energy has been chosen as the main factor. Considering this, Iran is very rich in terms of energy resources. It is suggested that in the field of prices and access to energy, a stable and consistent policy should be determined. The culture of using quality goods is determined as the main social factor. This conclusion suggests that the presence of foreign companies in Iran can be effective in improving the quality of production in the country and will provide a competitive environment for Iranian companies. It is suggested that the government facilitate presence of foreign companies in Iran and encourage them to produce quality products.

In the technological field, cost effective technology has been chosen as the most important priority from the viewpoint of the managers of foreign companies. Therefore, it is suggested that the government minimize the cost of producing and developing the technology within the country by adopting appropriate policies. The results of the research show that among the legal factors, the reduction of bureaucracy has been the most important issue, and an examination of international organizations shows that one of the reasons for the success of countries in attracting foreign investment is to control state bureaucracy. In this regard, it is suggested that the government minimize bureaucracy and reduce role of public sector in business activities in Iran. The perception of respondents

about obstacles in improving business environment corruption and lack of transparency in foreign investment laws are recognized as the main obstacles. The government needs to provide the necessary grounds for reducing corruption and one of the ways to electrize the licensing process for setting up companies in Iran.

Conclusion

The results of this study clarified the facts about the factors affecting the business environment in Iran. In this regard, it is recommended that policy makers in Iran implemented strategies mentioned, in order to pave the way for foreign investors. This leads to the development and improvement of the business environment in Iran.

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