CHAPTER IV

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INTRODUCTION

After 1900, the foreign participation in Iran emerged with the mineral and petroleum extraction. In 1908, the discovery of the petroleum by William Knox D'Arcy resulted in setting up of an Anglo-Persian Oil Company, later renamed as Anglo-Iranian Oil Company. For the first time, after the World War II, Iran launched the first National Development Plan (1949-56) that proved to be a failure on account of inadequate budgetary provision and withholding of the financial assistance by the World Bank.

With the hike in oil price in the international market, Iranian oil revenue got augmented after the Nationalization of the Oil Industry of Iran in 1951. The oil revenue in the early stage of the plan proved to be a pace-setter for the rapid industrialization that became instrumental for attracting foreign private capital and loans, which led to the Enactment of "Law for the attraction and protection of foreign investment in Iran (1955)."

Since then foreign participation/collaboration in Iran has been encouraged, with a view to utilizing foreign productive and technological resources for the development of economic infrastructure, and for strengthening competitive position of Iranian industrial goods exports. Further, the objective of this Law was to enable the country to benefit from
the favourable opportunities associated with a large international market through the foreign private enterprises, and also to place the country's economy increasingly in the mainstream of international economy change.

The net impact of the Law was visible in the short span of time with an emergence of 2 foreign firms in 1957, 20 in 1963, and as many as 162 in 1974, mainly representing the countries such as U.S.A., U.K., France and Japan.

As such the enactment of the above mentioned Law as a single force in attracting the foreign multinational enterprises to contribute in the Iranian economy prompted me to take up this study to investigate the extent of their involvement, in terms of capital participation in industrial sector. Besides, the outbreak of the Islamic Revolution of Iran in 1979, necessitated the urgency of this study to project its impact on the multinational companies in Iran. This study is important in assessing the contribution of the multinational enterprises to the industrial economy of Iran in general, and to the productive wealth and employment generation, in particular.

OBJECTIVES

The following are the principal objectives of the study.

1. To review the development of the Iranian economy in general, along with the growth of its different sectors, with reference to the inception of twentieth century.
2. To take stock of the industrial development of the Iranian economy; trace its a vital role therein, in general, and during the last decade in particular, with a view to portray the Iran's position as an industrialized or industrially developing country. An endeavour is also made to ascertain the growth in a comparative form between pre and post revolutionary period i.e., 1978 onwards.

3. To investigate the role of the multinational companies in economic development of Iran in general, and its industrial development in particular; to analyze the multinational of various countries contributing to the development of certain industrial activities and to demarcate the new activities/area to be entered into by them.

4. To exhibit the organization and management of the sample multinational companies in Iran, in terms of their production, sales, employment generation, etc., during the last decade with its break-up into pre war period (78-79 to 79-80), boundary-war period (1980-81 to 1983-84) and tanker-war period (1984-85 to 1986-87) and to recommend the measures for improvement therein.

5. To probe into the financial performances and soundness of the sample multinational companies, individually and comparatively, on the basis of their profit and loss accounts and balance sheets—and to find out the relationship between financial position and performance of them and to suggest measures to ameliorate the conditions therein.
6. To examine the Iranian Government policy, i.e. Law of 1955, towards an attraction and protection of the foreign investments in Iran in general, and multinational companies in particular. An appropriate line of action for future is proposed in this regard.

7. To study the collateral and incidental issues, if any.

SCOPE OF THE STUDY

Considering the vast and multidimensional nature of the topic like multinational companies, the scope of the study is delimited to three viewpoints;

1. Geographical:

This is to assess the role of multinational companies in Iran only. As such the working of multinationals in one country forms the subject matter of this study.

2. Temporal:

The temporal scope of the study covers broadly the progress of multinational companies from their early introduction in Iran (i.e., from early 1960's onwards) and of the sample multinational companies for the period of nine years, i.e., from the Iranian Revolution onwards. However, for the sake of comparison the period is divided into three periods viz. pre-war, boundary-war and tanker-war.
3. Operational:

The study includes the historical influx of multinational enterprises into Iran. In representative form, a sample of five multinational companies, namely, Bonyan Company, I.D.E.M. Company, Motozhen Company, Parskhodro Company, and Saneh Company--their organization and operational management comprising their operations like production, sales, employment as well as their finance are covered. In fitness of things, a review of the policy of the Iranian Government in respect of foreign investments in Iran is dealt with necessary details.

RESEARCH METHODOLOGY

In general, the research methodology of the study is an exploratory one. By and large, the study is based on the secondary data, although some information could also be sought by personal interviews with the concerned corporate senior executives and managers.

The sample of multinational companies is confined to two areas viz; TABRIZ the centre of the East-Azarbayejan province in the northwest of the country; and TEHRAN the capital head-quarter (metropolitan city) in the central Iran. The samples are selected by random sample lottery method. A 50 per cent sample of the total multinational companies is from the former (i.e., four companies) and 50 per cent of the multinational automotive companies is from the latter.
The principal sources of data/information are the books, government reports, trade magazines, and published and unpublished reports, etc. However, the emphasis has been on the information from official records, reports of surveys, records of the respondent multinational companies (with special reference to their annual reports and accounts) and occasional publications of various Iranian ministries, trade organizations and data center's libraries.

For some data pertaining to investment by foreign multinationals in Iran the following are referred to:

(a) Industrial development and renovation organization, ministry of heavy industry, Tehran.

(b) Centre for the attraction and protection of foreign investment in Iran, Ministry of Economic Affairs and Finance, Tehran.

(c) Plan and Budget Organization (PBO), Tehran.

(d) Statistical Centre of Iran, Tehran.

(e) Bank Markazi Iran (Central Bank of Iran), Tehran.

(f) Gokhale Institute of Politics and Economics, Pune.

As the study primarily is based on the time series data analysis of the sample companies, adjustments are made to codify the secondary data in the tabulated and orderly format for the
sake of interpretation, with a view to ascertain the results flowing from the different angles of analysis. Efforts are intensified to make wherever possible, the use of different standard tools/techniques; such as-

i) Trend ratio or Index method.

ii) Fixed base index method.

iii) Moving ratio (linked or chain base index)

iv) Mean and percentages known as common-size or relative shares.

In order to judge the performance and efficiency of the sample companies in comparative forms, an attempt has been made to employ the devices of ratio analysis, classifying them as follows;

i) Common-size statement.

ii) Profitability ratios.

iii) Return on Investments.

iv) Short-term, and long-term financial strength.

Furthermore, statement of sources and uses of funds are computed to find out broad trend in pooling sources and their applications. Wherever deemed fit, the charts/maps/ schedules are exhibited at appropriate places in order to make the projection bristle clear. The treatment given to the data is
comparative one, classified into pre war period (i.e., 1978-79 to 1979-80), boundary-war period (i.e., 1980-81 to 1983-84), and tanker-war period (i.e., 1984-85 to 1986-87). The computation of growth rates is made in later two periods based on the first period.

**LIMITATIONS OF THE STUDY**

Despite the endeavour made to collect authentic data, there exist certain limitations in the conduct of the study. These may broadly be enlisted as follows —

In spite of repeated efforts and insistence, adequate information was not made available. In some respects, an up-to-date record of data was found to be not maintained, that resulted in inadequate coverage of the study. For certain critical aspects of the working of the companies, the stock arguments were made by the officials that either the data were not ready and/or of confidential nature. Moreover, whatever the information was furnished, it was not consistent, uniform, and neatly recorded. Sometimes it became necessary to cope with the indifferent attitude of the officials. Nevertheless, efforts were made to avail of the data by circumstantial evidence. In some cases, the available data had to be converted or recognized to sub-serve the objectives of the study.

In a few instances, it is surprisingly noticed that on one and the same issue, there were different figures reported by the officials of the same agency. As such, cross checking and
verification has been done to satisfaction. As far as opinion poll is concerned, it must be registered that in receiving the valuable crucial suggestions from the executive cadre, I fell handicapped, for trade secret came in the way of the study.

Nevertheless, in spite of all these constraints, continuous efforts have been made and much pain taken to maintain the quality of the study, and to attain optimum possible standards.

HYPOTHESES

The study is an attempt to test the following hypotheses:

(1) Economic development and the growth of industrialization was stunted right from the inception of the revolution and by the outbreak of the Iraq-Iran war. This hypothesis proved to be valid.

(2) Abrogation of the 1955 law, as a consequence of neither east nor the west policy of the Iran's Islamic Government, suspended the favourable treatments of the MNEs and slumped the progress of the multinational from the year 1978 onwards. Vindication of this hypothesis is sought in chapter III of the present study.

(3) Most of the manufacturing companies including foreign companies in Iran suffered on account of lack of adequate raw material, spare parts, equipment, and innovative technology/techniques, since the country was
isolated during the inter-war period of almost a decade. The above mentioned factors proved to be main obstacles in the physical progress of all the sample companies, therefore the validity of this hypothesis.

(4) Profitability of the sample multinational companies deteriorated in the post-revolution period (i.e., 1979 onwards), because of the uncertainty of their future succession. In general, though this was confirmed, there was no uniform tendency among all the companies.

(5) In general, the multinational companies are known for their strong and sound financial position. Therefore they are not dependent on outside funds. This may be true of five sample multinational companies also, with a rightful claim for validity. However, the investigation is not of nature of approval of the above cited hypothesis.

In the light of the above cited design of the study and methodological framework, the presentation of the report is made under chapter scheme, as given below.

The report of this thesis has been divided into following eight chapters.

CHAPTER SCHEME

1. Introduction to the Iranian Economy:

This chapter delineates the profile of physical and demographic and economic features of Iran with historical
perspective in general, emphasizing its economic development till recent times i.e., 1986-87.

2. Industrial Development of Iran:

An attempt has been made herein to separately demonstrate the Iranian industrial economy in terms of growth of industries—both small and large sized, their number, of employment generated by them, production value and added-value in the pre and post-revolution period.

3. A Profile of Multinational Enterprises in Iran:

It contains historical review and growth of the multinational companies in Iran, right from their inception i.e., post war period of fifties—encompassing domestic investments and foreign involvement, their number and types of activities. In other words, it is an attempt to highlight the multinational companies' contribution to overall industrialization of Iranian economy.

4. Nature, Scope, Objectives, Research Methodology, etc.:

Briefly, it studies the nature, Scope, principal objectives and methodology of this research work keeping in mind its limitations and hypotheses.

5. The Organization and Operational Management of the Five Sample Multinational Companies In Iran:

It gives the organization structure and operational management of each of sample multinational company and also
comparative account of all together. The operations are production, sales and employment therein. In the wake of the context, appropriate recommendations are made therein.

6. Financial Analysis of the Five Sample Multinational Companies In Iran:

This chapter is devoted to financial analysis of each of the sample multinational companies on the one hand, and comparative study of all of them, on the other. Here an endeavour is made to scrutinize their profitability, efficiency of their management in utilization of their assets, the sources and the dispositions of the funds, as well as their financial strength along with necessary suggestions for improvement therein.

7. Iranian Government's Policy Towards Multinational Companies:

In this an attempt is made to review the policy adopted by the Iranian Government, and rules and regulations framed for the implementation of the law for the foreign capital investment in Iran with future perspective.

8. The Summary of Findings and Recommendations:

This chapter is the concluding part of the research work and contains overall summary of the findings and suggestions.