CHAPTER VIII

SUMMARY OF FINDINGS AND RECOMMENDATION
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8.1 At no point of time from 1950's onwards, the Iran's economy shall be considered without the single strategic oil product. It was the ever mounted revenue from the oil which changed Iran's way of thinking and provided it with the opportunity of planned economy. The painless source of hard currency earnings accelerated and intensified the industrialization strategy. Iran offered in many ways a fertile field for foreign business investments. The attraction of a large multinationals and providing sheltered market in the country with substantial scope for economic potentiality, besides the internationally political stability, offered a clear perspective to the external investors. These were the factors which brought the change in consumer test and accelerated the purchasing power of the individuals from early 1970's onwards.

The national income at constant prices of 1974 increased at a very high rate from 1974 to 1977, with an annual average rate of 18.8 per cent. In absolute terms, the national income reached a peak of Rls 3641 billions in 1977, a figure which was unprecedented till 1983, as the post-revolution period (1979-86)brought in a fall in national income. The slight rise in 1979 was because of the increase in the oil price. After 1984 the national income slumped reflecting the economy's extreme
vulnerability to fluctuation in volume and price of oil exports. Moreover, as a result of high rate of population growth during the post-revolution period, the per capita income of Iran actually declined by 10 per cent during the decade of 1974-84 and further by 36 per cent in 1986 (i.e., from Rls 90 thousand in 1974 to Rls 57.8 thousand in 1986).

The analysis of the contribution of the different sectors to GDP revealed that the share of the agriculture increased from 9.6% in 1974 to 10.4% in 1978 and to 17.0% in 1986. Conversely, the oil’s share in GDP inclined from 47.4% in 1974 to 30.9% in 1978 and to 12.4% in 1986. The latter may be attributed to fluctuations in the oil trade, with a regular decline in the post-revolution period. The share of industry-and-mining in GDP grew slightly from 12.7% in 1974 to 16% in 1978 and 19.6% in 1986. Generally, from 1979 to 86 the share of the industry was maintained a level of about 13%. The share of the services sector was below 50% during 1974-78, however, it ranged between 50% and 57% during 1979-86. The increase in services, mining and industry, besides the agriculture sector together go to balance the fallen share of oil sector in the GDP during the post-revolution period of 1979-86.

In services sector, the share of the trade, restaurants and hotels went up significantly after the inception of the revolution (1978). The share of transport and communications, and banking and finance decreased from 1979 onwards, mainly due to nationalization of private banks in 1979 and the enactment of
usury-free banking in 1983. Expenditure on welfare schemes declined significantly from 6.9% of the GDP in 1979 to 2.2% in 1986.

In a nutshell, all the sectors of Iran’s economy regressed in post-revolution period, war being the main factor in this set-back. However, agriculture was the only sector which fared well and raised from Rls 356.4 billions in 1979 to Rls 436.0 billions in 1982 and Rls 548.5 billions in 1986, showing a modest growth each year except 1983, when its added-value declined by 1.6% over the 1982. In post-revolution period, the annual average growth rate of added-value in agriculture was 6.3% against 3.5% in pre-revolution period of 1974-78. Industry-and-mining was growing steadily up to 1977. Thereafter, it showed a set back for three years, and then started to recover after 1981. Again the added-value of industry was hit by government’s import controls, of in 1984, aiming at reduction in the foreign exchange deficit. Nevertheless, its growth in post-revolution period was higher than that of agriculture, having an annual average growth rate of 7.2% against 5.6% in pre-revolution period. But the absolute amount of the added-value of agriculture was greater than that of industry. Value-added in oil sector showed declining trend post-revolution period, especially between 1978 to 1981, owing to the strikes in the oil industry from the commencement of the revolution and later because of the boycott by the U.S. and European countries.
Further, the sharp decrease in 1985 coincided with the increase in the intensity of war from 1984 onwards. To sum up, despite the declining share of the oil sector, from 47.4% of the GDP in 1974 to 24.6% in 1979 and 12.4% in 1986, it still plays an important role in the Iranian economy and of budget finance with about 90% of the total exports of the country.

8.2 The non-oil imports which were increasing rapidly from the third five-year plan (1962), augmented further by 25% between 1975 and 1977, which is highest annual average growth rate of 11.8% and thereafter also, till 1983, reached a peak of over 18.0 billion dollars. However, in absolute terms, the amount of imports in 1986 declined by about 48% of the 1983 level. This was the net outcome of the government’s import controls, imposed after the non-oil trade deficit touched 17.7 billion dollars. Similarly, non-oil exports jumped from 592.0 million dollars in 1979 to 812.0 million dollars in 1979 and to 916.0 million dollars in 1986; a record throughout the study period. However, the share of the non-oil exports in the total value of the trade was marginal one throughout the period from 1975 to 1986.

8.3 Prices of imported products increased less than the prices of exported products in the pre-revolution period, indicating an improvement in Iran's terms of trade in the years of OPEC oil price hikes. In the post-revolution period with stagnating international oil prices, this improvement was less.
By 1986, however, the prices of imports rose faster than the prices of exports. This change in terms of trade was undoubtedly a major factor in the post-revolution price inflation, coupled with the impact of war.

In the pre-revolution period, the era of 1974 to 1978 was characterized by rapidly rising imports and a rising share of consumer goods in total imports. Positively, the free influx of imported goods helped to check the rising rate of inflation in spite of increasing purchasing power of the masses. This, of course, did not apply in the case of housing. In the post-revolution period, prices increased rapidly in those areas where the government did not intervene. The government managed to keep down the rate of increase of house-prices for some years by a series of legal measures, but later on, when new construction failed to keep pace with the demand for housing, prices in this sphere again exploded. The price-increase in health-care and education were controlled, while food price increased but was somewhat alleviated by import of food stuffs. Nevertheless, the consumer prices of food as compared to the wholesale prices, were slightly faster during the pre-revolution period of 1974-78 with an annual average growth rate of 14.1% as against the 12.2% in the post-revolution period of 1979-84. Furthermore, in post-revolution period, by contrast, the wholesale food price inflation rate was 20.6%, or higher than the consumer prices of food (19.5%) in pre-revolution period. The difference is accounted for by food subsidies.
However, the inflation in varying degree has been a problem in the Iranian economy. The annual rate of growth in consumer price index in the pre-revolution period was 15.2%, whereas in post-revolution period the same was 18.7 per cent.

8.4 In brief, it may be said that the major problem of the Iranian economy today is the excessive dependence on oil income which fluctuates sharply. These fluctuations have caused the national income to stagnate and the low per capita income in view of the rapidly rising population. Also, it contributed to accelerating inflation, a problem which was brought under some control by deflationary measures adopted between 1982 and 1985, but the situation worsened afterwards.

Another problem is posed by the continuing flow of migration from rural to urban areas, which aggravates the severity of housing and other shortages in the cities. The main cause of the migration is the wide gap between rural and urban incomes. This gap was estimated at a factor of 3 in 1977 by independent scholars; no corresponding estimate for the post-revolution period is available, though conditions in the agricultural sector have undoubtedly improved after 1979.

8.5 Analysis of the industrial sector in Iran over the period of 1974 to 1986 has pointed out that the economy had considerable difficulties in consolidating the gains in industrialization made in the earlier decade. The performance of the different groups of the LSI revealed that, the chemical
industries, had the largest share of production value in years before and during the Iranian revolution. Later, the engineering group was struggling to hold the leading position, but it ran into obvious difficulties, due to change in government's policy as well as import of inputs and infrastructural weaknesses. The electricity supply ran into serious problems from 1983-84, as a result of which the performance of the industries was hampered.

8.6 A feature of Iranian industrialization was its heavy dependence on imported inputs and components and the lack of domestic inter linkages within the industrial sector. There are manifold factors which put constraints on sectoral integration. On the demand side, the major factor was the reliance of Iranian import substitution industrialization on the domestic assembling production of durable consumer goods obtaining through the foreign multinational companies, which did not use domestic resources as raw materials and skilled labour. This was a look forward to seek participation of multinationals and the shift from traditional techniques and activities to modern capital-intensive which brought two major changes in the economy. Firstly, the massive rural-urban migration of labour could not be absorbed in the capital-intensive manufacturing sector. Therefore, disguised unemployment in the rural areas turned into unemployed or casual construction and service labour in the urban areas. Secondly, the set-back within the traditional sector was the effect of the lack of protection and its little integration with the modern sector.
The production of LSI, in terms of value, grew at an annual average rate of 19.1% from 1974 to 1977, then fell by 9.2% in 1978 and by 2.9% in 1979 over their preceding years. Between 1979 and 1984 it grew at an annual average growth rate of 21.6%, then in 1985 and 1986 it declined by 3.4% and 5.7%, respectively. What is more, while these figures themselves show the unstable growth performance, the fluctuation was worse in the case of engineering and other modern groups, which can be traced to the withdrawal of multinational companies after the year 1979, active in such fields, and the boycott by the western countries. The traditional industries such as foods and textiles groups grew more steadily. Moreover, the growth in the value-added was not fast in the modern and technologically advanced industrial groups, but in group VI which is dominated by the cement industry, and group II which indicates textiles and carpet weaving. The small-scale industries contributed more to employment generation and less to value-added in comparison to LSI.

8.7 In a nutshell, the problems created by continuous flow of population from rural to urban areas continued in the post-revolution period though the performance of the agriculture improved substantially after 1979. Infrastructure also continued to be a problem. This was specially so in the case of electricity supply and of modern commercial and communication services. However, the growth of industrialization was stagnated from 1979 onwards. The future improvement in the industrial set-
up depends on the political desire for self-reliance and comprehensive development. Iran has the experience that, the injection of oil revenue will not by itself bring about structural changes in the industrial set-up. Self-sustained growth is an evolutionary process, for which the life-span of oil revenues must be extended to ensure a continual flow of foreign exchange. The policy package for the future industrial development should be diverted to strengthen the basic and intermediate industries to give linkage among the different industrial sectors. For this purpose the transfer of technology through the multinational enterprises shall ease the industrial development since they have easy accessibility for the modern technologies. Possibly, this will lead to export-oriented industries, particularly in mineral based products and provides the opportunity for foreign exchange earnings.

B.8 Apart from the oil concessions granted to the Britain and Russian during the late 19th and early 20th centuries, the presence of the multinationals in Iran emerged after the nationalization of oil industry (1951) of Iran. It was when the NIOC entered into various agreements with the oil multinationals, mainly from the countries of U.S.A. Britain, France and Holland. Thereafter, the mounted oil revenues, provided a substantial supply of foreign exchange which has made possible a high rate of savings. In such a situation the lack of industrial base to meet the increasing demand for the product, provided exceptionally favourable development potentialities.
Indeed, capital resources or more generally non-human resources; as distinguished from human resources, technology, technical know-how and etc., have been relatively abundant in Iran. To fill in these gaps and to overcome the lacks, the law of 1955 was enacted for attracting and safeguarding the foreign private investments, in which the repatriation of accrued profits and interest by MNEs from Iran was guaranteed, and the adoption of the Laissez-faire by the government, ultimately proved to be the important means which successfully enhanced the progress of the MNEs in industrial sectors of Iran. Nevertheless, the IMDBI was established in 1959 with the prime objective of extending the medium and long-term credit facilities to the private investors,—with the equal status to foreign and domestic investors.—besides the supply of material and technical assistance, geared up the progress of MNEs in Iran.

8.9 The rapid expansion of aggregate demand and increased purchasing power, together with the ready availability of foreign exchange resources for the imports, including machinery and equipment, have provided the important constituents for the industrialization in Iran, by seeking the contribution of the foreign multinational enterprises. Therefore, the role of the multinational enterprises in Iran was broadened and they played an important part in the development of the country's industrial base. The so-called manufacturing multinational establishments with their relatively modern techniques of production and high intensive degree of capital have been mainly
responsible for the bulk of industrial growth and transformation of the Iran's modern manufacturing sector.

The contribution of the multinational enterprises, however, has been mainly in the form of introducing new products, specially a wide range of consumers' durable and semi-durable. On the other hand, the employment generation and technological transfer of the operations of the multinational enterprises in Iran have been rather minimal.

8.10 Since, the multinational enterprises in Iran for the most part, produce finished products, and undertook the final stages of their production in Iran, mainly in the form of assembly operations, so that, only a relatively small share of the total value added of their production attributed to the Iranian economy. Moreover, the direct and extraneous benefits of the operations of the multinational enterprises, via their labour training programs, have also been limited due to the capital intensive nature of such multinational enterprises.

However, it cannot be argued that the contribution of the multinational enterprises to the Iranian economy has been negative. By utilizing technologies, product diversification, capital investments and managerial resources the multinational enterprises have, indeed, succeeded in playing an important part in the development of Iran's modern manufacturing sector, and widened the range of products available to the consumers.
8.11 Reference to the inferences drawn in the chapter III, further depicted that until late 1950's the progress of the MNEs in Iran had been rather slow. There onwards the notable rise in the number of the foreign participant firms and volume of their equity capital investments augmented rapidly from 18 firms with Rls 459.0 millions in 1962, to 162 firms with Rls 21947.0 millions in 1974, mainly, representing the countries such as U.S.A., U.K., France, in particular and Japan and others in general. Since, the MNEs of Japan were the late participants in the Iran's economy, in 1969 their huge investments in the new field such as petrochemicals, the by-product of the petroleum, gave them an important role in the Iran's industrial development. After 1979, the contribution of the MNEs in Iran fell to 120 firms with Rls 15725.0 millions in 1986.

The multinationals of the U.S. origin, was leading among the participants from the other countries until the year 1973. There onwards the Japanese collaborators accounting for 61.5% of the total foreign investments in 1974, 34.6% in 1978 and 61.3% in 1983, surpassed the traditional rivals of the U.S. MNEs. During the period until 1974, the electronic-and-electric industry with the maximum number of 37 firms, and petrochemicals with the maximum foreign equity capital of Rls 4775.0 millions had attained leading positions among all other activities. Further, a conspicuous increase in the foreign capital of the MNEs, particularly with large investment in petrochemical, and generally, in metallurgical, chemical, electric and electronic
industries during the late 1970's confirmed their engagement in the activities with relatively sophisticated technology, advance know-how, and capital-intensive. Nevertheless, the overwhelming import of foreign equity capital by the MNEs into Iran during the period earlier to 1978, foretold their active and progressive participation in the Iran's state of affairs.

8.12 After the commencement of the Islamic Revolution (1978) and suspension of the 1955 Law and abolition of the former Iranian Government's policies besides, the approval of the bills for nationalization and undertaking of the various economic sectors, such as, oil industry, banks and some of the manufacturing industries, the progress of MNEs operating in Iran was hampered. This was due to the uncertainty created for their perpetual succession. As a result of above factors the activities of MNEs slumped in comparison with the pre-revolution period, and the overall position of the MNEs underwent a drastic change. The adverse growth therein was also the consequence of other factors viz, unsettled period of the Iranian Revolution, Iraq-Iran war, boycott of Iran by U.S. and European countries, uncertain political relation with western countries and economic instability. In 1986, the extent of the decline in the MNEs was 26% in terms of number and 28.3% in the volume of their investments, in the year 1974. However, in 1986 the MNEs from W. Germany by 20 firms or 16.7% of the total MNEs in Iran, with Rls 3427.0 millions or 21.8% of the total foreign equity capital was leading. The MNEs from U.S. by 8
firms or 4.4% with Rls 180.0 millions or 1.1% declined to its lowest position during about three decades. The MNEs of chemical-and-chemicals products industry had lost their priority in 1986 over the 1983 and the MNEs in metallurgical industry by 29 firms or 24.2% with Rls 5783.0 millions or 36.8% was holding the leading position.

8.13 The foreign ownership of the MNEs, in an average of all the industries, also declined from 31.6% in 1983 to 29.5% in 1986. Nevertheless, the multinationals in petrochemicals enjoyed a maximum ownership of 50 per cent. Among the various countries, the multinationals from Denmark with 36% was holding the highest ownership. However, in a rare cases such as, chemical-and-chemical products (Pharmaceutical) the foreign ownership had extended to 100 per cent. In general, comparatively the large foreign investments in the industries with the sophisticated technology requirement such as, petrochemical, metallurgical, transport equipment, electric-and-electronic, and chemical, denoted the priorities they had in the industrial economy of Iran. These industries are the producers of the semi-durable and capital goods which were in accordance with the policies of the Government after 1978, in which the emphasis was on transfer of technology and advancement of the technological know-how in the Iranian industry. The main characteristic of the MNEs in Iran was their exclusive involvement with the advanced countries, as they participated in the 80 firms out of the total 120 MNEs in the year 1986.
8.14 The activities of the multinational enterprises could be properly determined, taking into consideration the goal of the strategy for economic development in general, and industrialization policy, in particular. It is convinced that in the pre-revolution period the progress of the MNEs in Iran, however, was in accordance with the set policy of the former Government, before 1978. In post-revolution period the descending growth of the MNEs and their departure from Iran due to the creation of unhealthy situation, was definitely responsible for the set-back to the industrial growth of the country. In this regard, in view of the country's exhausting oil revenue and technologically backward position, the Government has to adopt a certain policy, by reviewing and reconciling in the 1955 Law and enforcement of the same Law to call up the desertion of the foreign private investors' contribution, specially for the industrial products with the export promotion that could be internationally competitive. Again for this, an effective co-ordination is required between the strategies and policies designed for the country's industrial and foreign trade sectors. Hence, the approach should be comprehensive to optimum utilization of the resources available to the Iranian economy under the context of the choice of products and production technology, as well as the improvements in the efficiency of production which in long-run could maximize the net contribution of the investment projects to Iran's industrialization and economic development process. With such considerations there shall be moderation in the conduct of agreements with the
foreign participators. Undoubtedly, the multinational enterprises must become fully aware of Iran's developmental priorities and objectives, and they must also understand in what way their activities can fit into the Iranian development strategy, which means, the profit earning should not be the mere task of the multinational enterprises in Iran. Still the Iranian Government may also increase the extent of their ownership to the maximum minority of 49% in the activities they are involved. Therefore, there shall be a friendly climate creation for better and mutual interest of the private foreign investors and the country.

In addition, as the petrochemicals in particular and the chemical products in general are the by-products of the petroleum industry, the Government may give first priority to such fields of activity with the contribution of the multinational enterprises, which have comparatively more added value, as the main source of input for the production is available in Iran itself.

8.15 The analysis of the operational organization of the five sample multinational companies; viz. Bonyan, I.D.E.M, Motozhen, Parskhodro and Saneh companies, respectively, a collaborators of the AB Volvo of Sweden and Dorman Electric of Britain, Dimeler Benz of W. Germany, Westinghouse of U.S.A., General Motors Corporation of U.S.A., and Lister Ltd. of Britain -- revealed that in the post-revolution period the performance of all the companies, with varying degrees, was under the squeezing pressure of the monopolistic character of their collaborator-
multinationals. This means that the multinationals through the
means of strict C.K.D. supply controlled and hampered the
overall performance of almost all the foregoing companies in
Iran. This ill-treatment and unsatisfactory cooperation of MNEs
can well be attributed to the unfavourable attitude of the
Iranian Government towards the MNEs after the inception of the
Revolution. The abrogation of the 1955 Law and adoption of
strict measures for repatriation of the profit in the form of
hard currency, in particular, foretold these as determining
factors for regressive activities. Hence, the participant-MNEs
did not assist their host companies as they lost their
certainties for their lasting consequncon.

In general, since the MNEs in question were the
suppliers of the technology, machineries, tools, equipments and
assembling parts, the trade and economic boycott of Iran by the
U.S. and European countries, the home countries of the MNEs, after
the year 1979, was another factor in the adverse progress of
the transaction of these companies. The devastating Iraq-Iran
war further deteriorated their position by bringing - in the
abnormalities such as, irregular supply of power, inadequate
foreign currency, non-availability of parts for assemblage in
domestic market and inability to procure them from the foreign
sources, etc.

Strictly speaking, the analytical approach to the
performance of the selected MNEs for the period of nine years
i.e. from 1978-79 to 1986-87, with break up period of pre
war, boundary-war, and tanker-war, indicated that their overall
production had increasing trend over a period of time. However, this was not true in case of Parskhodro Company, since there was a decline by 59% during the boundary-war and by 8% during the tanker-war period. The Saneh Company by an increase of 245% in the boundary-war period and 330% in the tanker-war period over the pre-war period, had a conspicuous rise among the companies. In spite of the rise in the production of the companies, it is found that the outflow of their finished products was under the adverse influence of either short supply of assembling C.K.D parts and lack of adequate parts, equipments and machineries. However, though the outbreak of war evidenced with the progress in the quantity of production in the four sample companies, we strongly believe that this rise was modest due to the unfair situation created by the war in procuring the requirements to the further intensification of production. Nevertheless, in the pre-war period the inception of revolution shut off the extent of production. In the course of investigation it is inferred that the challenges before the managers to increase the production were a matter of circumstances, but this was at the cost of huge operational expenses which ultimately caused unsound profitability position in almost all the companies. Hence, they would have taken steps to reduce the cost of production by optimum utilization of men, machine and materials.

8.16 Sales operation of the sample companies found to be the derived function of their product availability. The marketing functions of all the companies were smooth throughout
the study period. There was an exception in case of 'other type of motor', a product of the Saneh Company, due to the availability of equivalent motor in the market with the competitive price. The extent of the rise in the number and value of the product sales in the tanker-war over the pre-war period, respectively, were 98.8% and 200% in the Bonyan Company; 64% and 163.8% in the I.D.E.M. Company; 95.2% and 316.8% in the Motozhen Company; 365.6% and 484.8% in the Saneh Company. The sales of the Parskhodro Company in boundary-war period declined by 60% in terms of number and 16% in terms of value. However, in the tanker-war period in spite of decline by 7.3% in terms of number, the company had an increase of 146.1% in terms of value, over the pre-war period. Dissimilarity in the growth of the number and value of the sales among the companies was on account of the variation in the price of their product sales. The Motozhen Company had lowest selling price per unit of electro-motors; and the Bonyan Company in the pre-war period and the Parskhodro Company in the rest of the periods were having the highest selling price per unit of their product sales. The aggregate selling price of the products shut up in the boundary-war period. In the tanker-war period the obligatory price control policy of the Government halted the extent of the rise in the selling prices. The general price index of the products of the sample companies rose by 172% in the boundary-war and by 177% in the tanker-war period, over the pre-war period.
The prominent sources of revenue in the sample companies were; Volvo-Panta engines in the Bonyan Company; Type 335 engines in the I.D.E.M Company; Fractional Electro-Motors in the Motozhen Company; Jeeps in the Parskhodro Company; and Lister Motors in the Saneh Company. In the pre war and tanker-war periods the Parskhodro and Bonyan companies and in the boundary-war period the I.D.E.M and Motozhen companies, respectively were having the highest and the lowest sales revenue among the sample companies.

8.17 Unlike the other sample companies, the employment generation of the Parskhodro Company decreased by 4.7% over the pre war period. This was the remedial step taken by the company to reduce its operational expenses, as the company was unable to have the optimum utilization of its plant capacity due to the shortage in the assembling parts. Among the companies the employment generation of the Motozhen Company by 764% and had a largest growth over the pre war period.

It is found that, while in the Bonyan company the number of officers had fallen against the rise in the number of workers, in the rest of the companies the officers had higher growth than their workers. This is due to the capital intensive nature of the multinational companies which are the producers of the assembling products. However, the general indices of the employment opportunity of the sample companies revealed an increase of 174% in the boundary-war period, and 297% in the tanker-war period, over the pre war period. In spite of
this rise the physical production per employee of almost all the companies lowered over the same period. This was the result of the short supply of parts and the poor maintenance of the machineries and equipments besides the short supply of power.

8.18 The above inferences may broadly be summarized: that the operational management activity of the sample multinational companies was not satisfactory. This was the result of the long run war and inadequate assembling components. However, along with all these situations, taking into view the profitability of the concerns, the management of the companies would have taken precautionary measures for optimum utilization of men and machines. This would have been possible by decreasing the administrative employees to curtail the expenses. The limited materials would have been scheduled to pass through the production lines with utilizing the less number of machineries to minimize the overhead expenses.

The foregoing companies did not have a centre for research and development to update their products and innovations. Such centres help expand the good will of the companies and provide the standard quality maintenance and give opportunity to export their products to the competitive market, which finally result in acquiring a part of their foreign currency requirements. Establishment of such centres can be affected through the reconciliation of the agreements by multinational companies in which a certain part of the manufactured goods is either to be assured for export or to be
purchased for the export purpose by the participant collaborators, which ultimately leads to update the technical know-how to maintain the internationally required standard of the manufactured goods.

8.19 Analysis of the profitability of the sample companies inferred that in the pre-war period, the percentages of total operating assets of the I.D.E.M., Motozhen and Sanneh companies in relation to their sales exceeded one hundred. As a result of these factors, the aforesaid companies suffered operational losses. The Bonyan, Motozhen, and Sanneh companies benefited from the surplus of the non-operational income over the non-operational expenses. Nevertheless, the I.D.E.M. and Motozhen companies had negative EBIT. Further, due to the large percentage of financial burden, all the companies suffered net losses, the extent of which was 14.8% (maximum) in the I.D.E.M. Company and 6.3% (minimum) in the Sanneh Company. However, the Sanneh Company suffered net losses, when its ROI by 3.1% was highest among the companies.

In the boundary-war period, all the companies decreased in their total operational expenses. The Parskhodro Company due to the excess non-operational expenses and large financial burden, suffered net losses by 19.3%. The improvement in the performance of all other companies resulted in net profit earnings. The Bonyan Company with highest ROI of 19.3% had maximum net profit of 12.2%, which was followed by the Sanneh,
Motozhen and I.D.E.M. companies, respectively, by 10.2%, 9.4% and 0.5 per cent.

In the tanker-war period, the profitability of the Bonyan, Parskhodro and Saneh companies, as a result of excess non-operational expenses was weakened. Excepting the Saneh Company with a notable ROI of 7.4% and net profit ratio of 4.9%; in the rest of the companies larger percentages of financial burden than their EBIT, resulted in net losses. However, unlike the previous period, the Bonyan Company suffered the largest losses by 6.7% when its ROI was also negative. The Parskhodro Company improved its profitability position, but, still as a consequence of inadequate ROI, it had a negative net profit ratio of (-)0.5%. In short, except the Parskhodro Company the profitability of the companies after the improvement in the boundary-war period, deteriorated in the tanker-war period.

8.20 The common factors for the low profitability of the companies are mentioned below:

1. The high cost of production; which is a result of expensive C.K.D. parts, short supply of power and idle capacity of the production plant. It is advised that the required C.K.D.'s, parts, equipments, etc., should be attained from multi-sources. This will ease the procurement of assemblage parts and provide option for low price. It would be desirable to have the installation of power generator in the companies, to overcome the irregular power supply.
2. The high operational expenses; this was the consequence of comparatively high ratio of administrative officials to labours. The training programmes to handle the work load shall increase the efficiency of the clerical staff and decrease the operational expenses.

3. The high non-operational expenses; on account of risky business. Precautionary steps have to be taken by the managers, through the pre-planning for the abnormal situations, with proper co-ordination among the various units of the companies. This shall decrease the cost of risk. However, the companies should avoid indulging in high risk business.

4. The high financial burden; due to the greater degree of reliance on outsiders funds. The companies should reconstruct their capital structure by issuing shares to increase the owners' equity and decreasing the borrowing funds, as the heavy interest charges were the main drawback of the profitability of the companies.

5. The low rate of return; because of inability to have full utilization of employed assets. It is suggested that the concerns should enhance their efficiency and increase their earning capacity through the economic productivity of funds and owners equity. The interaction of faster whirling of inventories and full utilization of operating assets could mount the profit earnings of the companies.
8.21 The study in the net-working capital gap of the companies revealed that in the pre-war period the Motozhen and Parskhodro companies because of the overwhelming current liabilities than their current assets, had deficit of net-working capital. The I.D.E.M Company with Rls 444 million had a largest net-working capital, followed by the Saneh Company which also had favourable working capital turnover ratio and inventory to working capital ratio. Moreover, its turnover of inventories by 1.9 times was satisfactory than the rest of the companies. The Parskhodro Company with a highest net-working capital had a remarkable debtor's turnover ratio of 30 times among the companies.

In the boundary-war period, the I.D.E.M and Parskhodro companies suffered from a deficit of net-working capital. The Bonyan Company with the highest working capital gap had better working capital turnover ratio and inventory to working capital ratio. The Saneh Company with the inventory turnover ratio of 1.8 times and debtor's turnover ratio of 94.8 times had favourable period of operating cycle than the rest of the companies.

In the tanker-war period, the working capital position of almost all the companies deteriorated and the I.D.E.M., Motozhen and Parskhodro companies on account of heavy short-term obligations had a deficit of net-working capital. The Bonyan Company with Rls 130 millions had a highest working capital, whereas, the Saneh Company with Rls 89 millions comparatively, had
a better working capital turnover ratio and inventory to working capital ratio. Though the inventory turnover ratio of the I.D.E.M Company by 1.3 times was the highest among the companies, the Saneh Company by inventory turnover ratio of 1.1 times and debtor's turnover ratio of 33.5 times had a better operating cycle period.

8.22 In the pre-war period, the main sources of almost all the companies were the non-current affairs. Nevertheless, in the Motozhen and Parskhodro companies a decrease in the net-working capital constituted respectively 47% and 33% of the total funds. The main proportion of the total generated funds was applied for the non-current purposes. In the I.D.E.M, Motozhen and Parskhodro companies, respectively, funds to the extent of 13.7%, 46.3% and 62.6% were applied to overcome the accumulated losses.

In the boundary-war period, the non-current affairs were the main sources of the Bonyan, Motozhen and Saneh companies, whereas, in the I.D.E.M and Parskhodro companies the current affairs were the main sources of funds. Denying the Bonyan Company in which the funds to the extent of 60% applied to increase the net-working capital, the rest of companies applied their main proportion of generated funds to the non-current purposes.

In the tanker-war period, while the Bonyan Company acquired 83% of its total generated funds from the decrease in
net working capital, in the rest of the companies a major portion of the total funds was obtained from the non-current sources. Majority of the total procured funds of all the companies were applied for non-current purposes, of which, 55% in the Bonyan Company, 34% in the I.D.E.M Company and 62% in the Parskhodro Company were disposed to wipe off the deficits.

8.23 In the pre-war period, the short-term financial position of all the companies was not sound. However, the Saneh Company with a current ratio of 1.6 times and quick ratio of 1.15 times had better position than the others. In addition, the Saneh Company by debt equity ratio of 47% and debt to total assets ratio of 58.5% had better long-term financial position from the creditor's point of view. Nevertheless, the profit earnings of the Company could not recover the financial burden fully. The long-term financial position of the Motozhen and Parskhodro companies were the worst as they had negative net worth, and the proportion of the total outsider's funds were more than their total assets. In general, all the companies did not benefit from the employment of the outsiders' funds, as the interest charges could not be recovered.

In the boundary-war period, the short-term financial position of the companies did not improve and therefor, was not sound. However, comparatively, the Bonyan Company with a current ratio of 1.4 times had a better solvency position followed by Saneh Company with 1.2 times. The Motozhen Company with a liquid ratio of 0.54 time had a better liquidity position
followed by Saneh Company with 0.5 time. The Parskhodro Company with current ratio of 0.7 time and quick ratio of 0.2 time had a worst short-term financial strength. From the creditor's point of view, the Bonyan Company by debt equity ratio of 19.1% and debt to total assets ratio of 72.4% had favourable long-term financial strength, which was also favourable from the shareholders point of view as the interest coverage ratio of company was 7.5 times which was followed by the Saneh Company. The Parskhodro Company by negative net worth and losses, besides the higher ratio of debt to total assets, had a worst position among the companies.

In the tanker-war period, the financial health of all the concerns had deteriorated further. Among the companies, the Saneh Company by current ratio of 1.05 times had better solvency position and was followed by Bonyan Company with 1.03 times. The quick ratio of the Motozhen Company by 0.4 time was better than the others. From the long term creditors point of view, the Bonyan Company by debt equity ratio of 53% had a favourable position. However, the Company by debt to total assets ratio of 91% did not benefit from the employment of the borrowed funds. The Saneh Company by debt equity ratio of 122.8% and debt to total assets ratio of 80% benefited from the trading on equity and had a favourable position from the shareholders point of view, as the interest coverage ratio of the Company was 3.7 times. The Parskhodro Company by negative net worth and highest debt to total assets ratio of 116.5%, had a worst long
term financial strength and its marginal earnings could not meet the financial burden properly.

8.24 In general, the performance of the companies were under the adverse influence of the following:

1. Deficit of net-working capital, as a result of higher short-term obligations. It is inferred that, a large portion of the Company's funds were blockaded in the inventories, the amount of which was higher than the amount of net-working capital, resulting in the unhealthy liquidity position. It is suggested that these funds should be released through the faster whirling of the inventories to enable the companies to meet their short-term obligations adequately.

2. In rare cases the short-term funds were utilized to enhance the long-term assets. This is an unfair practice and should be avoided, as their high rate of interest hampers Company's profitability and financial strength.

3. In general, often the Company's dependence on long-term borrowings increased at a higher rate than the owner's equity and in some cases it is inferred that the companies' overall obligations were larger than their employed assets. In addition, they did not mostly benefit from the practice of excess borrowed funds. However, this inference is not an approval of the hypothesis mentioned in the chapter four. Hence, it is suggested that all the sample companies should reform their capital structure, by increasing the owner's
equity through the issue of shares, thereby decreasing the fixed financial expenses. They should also reconsider their capability to handle the outsider's funds efficiently and with profitability. This also will lead to regain the confidence of the creditors and will help to obtain the required funds with easy terms and conditions.

8.25 The main policies favouring the activities of the MNEs were the Law about the rights of the private property and enactment of the 1955 Law, with safeguard of foreign investments in Iran and protection for the repatriation of capital and their interest. These were assured and brought about the foreign participation in the Iranian economy. In fact the Law was a backbone in setting further favourable policies with regard to foreign private investments.

The growth of the foreign private sector in the industries, and especially of the big and capital-intensive companies, had been facilitated by the financial assistance rendered by the domestic institutions like IMDBI and IBRD. Further, to ease and promote the attraction of foreign investors and approve their proposals under the appropriate foreign beneficiaries Law, Centre For The Attraction And Protection Of Foreign Investments was set up. The objectives of this centre was to; (i) collect the basic economic, financial and legal data of the foreign private investors, (ii) function as an intermediary between Iran and foreign entrepreneurs, and (iii) provision of guidance to potential foreign investors through the bureaucratic jungles of Tehran.
Later, the adoption of the Laissez-faire in 1961 with the import substitution industrialization strategy, successfully sought the confidence of foreign investors. In respect of the ownership of equity capital the foreign investors were allowed by a maximum minority share of 49 per cent. However, as a result of the above policies, the increasing size of companies by itself was not necessarily an index of growing concentration in ownership of the companies. This phenomena was conducive to more concentration of control of economic power, by a large inflow of foreign investment and technical know-how through the joint ventures. Furthermore, the policy of 1973 restrained the foreign equity ownership to 20-35 per cent of the total equity capital. As a result of this decrease, there was some evidence of increasing dispersal in the influx of the foreign entrepreneurs.

8.26 After the Islamic Revolution and the sudden abrogation of the above foreign favoured policies and discard of political and economic relation with the western countries, there exists a set-back in the growth of the multinational enterprises in Iran. From the point of view of industrialization strategy this was an unfortunate phenomena and which pushed the Iran's industrial economy into a dilemma, since Iran was industrially backward and for more than three decades excessively relied on foreign technology, know-how, machinery, assembling components, etc.
Thus, by referring to the above inferences and taking into view the lack of technology, besides an inadequate technical background to push a head with the hope for the industrialization, the followings suggestions are made to cope with the situation;

1. The Government should provide clear-cut guide lines for the foreign private enterprises, through a perspective plan and identify as to where foreign investments are necessary; where the technical collaboration with foreign assistance is needed; where foreign investments and technical assistance/consultancy are considered necessary and the areas for key projects.

2. MNEs in Iran are the producers of the assembling products with less value-added, hence, the Government shall put emphasis on the intermediate and basic industries, thereby raising the value-added to the Iranian economy and provide the inputs to the production process of other industries, besides creating employment opportunity.

3. Development of the joint-stock companies for technological advancement. This shall lead to the concentration of economic power in the hands of particular giant corporation or nationality. It should be kept in mind that the offered equity ownership to the individual Company in a particular field of industry shall not be implemented to influence the political and economic conditions of the country.
4. As the equity ownership and profit-sharing in the companies with the foreign private investments plays an important role in their active and progressive presentation, and encourages undertaking research programmes and innovation in the production, therefore, offering the maximum minority ownership besides equal profit sharings this shall be an encouraging factor for attracting the MNEs in the required fields of activities. However, repatriation of acquired profit from Iran shall involve, in part, the goods produced by themselves.

5. Duration of co-operation shall not be strictly limited because there is a long way for the Iranian industry to reach to the self sufficiency and have an industrially sustained economy.

Though the recommendations cited above are not comprehensive due to the limited yardsticks to judge the extent of the contribution by the MNEs in the Iran's state of affairs elaborately, yet, the implication of the above suggestions shall result in attraction of the MNEs into the Iranian economy. It is hoped that the future of the industry will be bright and it will flourish to give Iran a sound economy.