

## Absorbing Foreign Investment in a Developing Country: an Application of Balanced Scorecard Model Case Study: Iran

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**Abstract:** Capital accumulation is one of the principle prerequisite in economical growth process. Theoretically capital injection is done through this idea, and the economists believe that capital is the engine of economy growth. Financial provision for capital is possible through two ways of internal resources and external resources. In twenty year vision and the absorption law and supporting foreign investment, the fifth laws of economy development and also cultural and social development in Iran for absorbing the foreign investment, suitable regulations have been devised for improving the business environment, and this case leads to suitable growth in absorbing foreign investment in recent years. But due to high potential and rich natural resources such as petrol and gas, expected economy growth in fifth program, there is an urgent necessity for absorbing foreign investment. Different econometric models have been processed in different studies for identifying the effective factors on investment and developing the investment, but the balanced Scorecard pattern has not been used. In this article, we try to suggest necessary measures and programs for development and absorbing foreign investment by using this method and designing suitable strategy and action plan, using SWOT method and also preparing action plan, that it has big effect on absorbing foreign investment and suitable development in country investment. [Mohammad Doudangi, Amir Mansour Tehranchian, and Masoud Behravesh. Absorbing Foreign Investment in a Developing Country: an Application of Balanced Scorecard Model Case Study: Iran. Journal of American Science 2011;7(5):901-906]. (ISSN: 1545-1003). <http://www.americanscience.org>.

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**Key words:** Absorbing Foreign Investment, Balanced Scorecard Model (BSc).

### 1. Introduction

Capital accumulation in terms of theory is one of the principle prerequisite in economy growth. Theoretically, capital flow is done through this idea that, capital is the engine of economy growth. Financial provision for capital is possible through two ways of internal resources (savings and governmental resources) and foreign resources (foreign debts and foreign capital absorption). In twenty year vision of Iran for achieving the first economy level, science and technology in area, the booming growth of economy has been emphasized, for this reason it is necessary to pay attention to foreign and internal investment resources. Also suitable preparations have been expected, with attention to laws and regulations in Iran and the fifth program Law of economy development for as the action plan of absorbing and supporting and developing foreign and internal investment, improving the business environment. the complete performing of whole politics of 44 basic of principle law for supporting private sector, increasing the efficiency of production factors (work, capital and

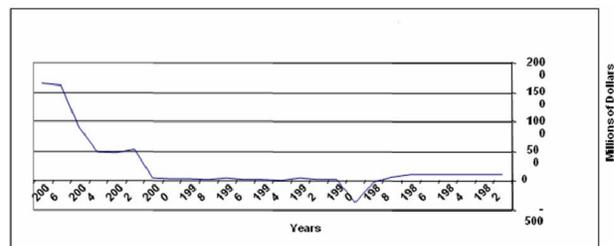
energy), increasing the rate of open economy (goods and capital), and it is expected that we have growth in foreign and internal investment by hardworking and taking way the internal and external barriers or problems. In the field of effective factors of internal and external investment in Iran, many studies have been done, and in many studies measurements pattern have been used, but by examining that has been done, the balanced Scorecard has not been used for identifying the strategy and problems and also presenting action plan for absorbing and developing investment. This article tries to present specified suggestion for investment development by using new methods and the Balanced Scorecard Model (BSC), and this method will have some problems since it is a new method, that we try to solve these problems by helping of professors and researchers.

### 2. A Short Brief of Foreign and Internal Investment Trend in Iran

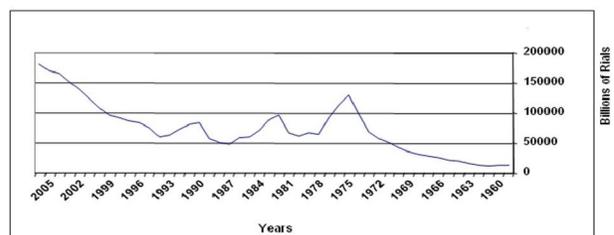
In investigation of net investment trend( net capital accumulation)in Iran and the investment trend and based on data issued by Central Bank (CBI,2010)

of Islamic republic of Iran the net capital (to stable price of 1997) in 1974 has been 388864 billion Rial that by growth rate of annually 4/65 percent has reached to 1745489 billion Rial. The rate of net capital growth shows that, the increase or decrease of capital has direct connection with price of petrol income, in such a way that in 1974 the exporting of petrol by Arabic countries was stopped, the petrol incomes of Iran have been increased 4 times more than before and this trend continued till the Islamic revolution in Iran, and the rate of net capital growth has been in high level and in 1988 and 1990 the petrol price decreased ,the rate of net capital growth has even been negative. In other years, this rate of growth had positive average growth of 2 to 4 percent in a year and in recent years (from 2001 to 2007) due to suitable petrol price the government special attention to support the private sector and also giving bank facilities for performing employment plans and supporting investment for rate of unemployment, we can expect increasing rate of growth in net capital. By changing the Rial value to dollar's value and due to high rate of fluctuation for dollar price in recent years, we observe instability in growth rate trend and the amount of net capital, in such a way that the amount has been decreased from 5718 billion dollars in 1974 to 186.5 billion dollars in 2007, that this trend does not have adaptation with ability of buying investment which has been done and the analyzing of capital trend should be done base on Rial value. Also the statistics show that, trend of gross fixed capital formation in respect to constant prices (1997), in 1960 the gross fixed capital formation has been 12123 billion Rials in 2007, with the growth average rate of 5,9 percent has reached to 181029 billion Rial, which during 47 years the amount of gross investment 150 times increased, that this variant has been effected by petrol price fluctuation and petrol income and the positive or negative shocks of petrol the same as net capital variant. Regarding to changing the Rial investment to dollar and with attention to dollar rate of fluctuation, it is clear that the gross fixed capital establishment in 1960 from 159,5 Billion Dollars has reached to 19,3 billion dollars that, this decrease in dollar investment is due to dollar rate increase from 76 Rial to 9357 Rial (for each dollar)in 2007. The foreign direct investment absorption trend (FDIinflows) in Iran also show that the foreign absorbed investment from 105 million dollars in 1982 has reached to 1658 million dollar in 2007, which has had average annual 11, 7 percent during the studied period, which is not a big amount in regard to the whole investment in Iran and there is a big capability is country for absorbing foreign investment.

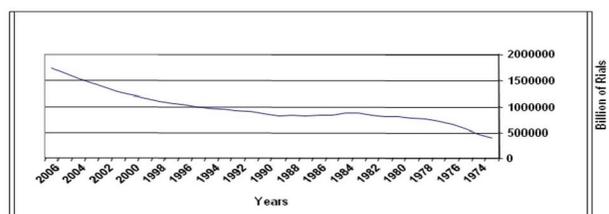
<http://www.americanscience.org>



**Figure 1.** Trends of Net Capital Stock (at constant price 1979) in Iran



**Figure2.** Trends of Gross fixed Capital formation (at constant price 1979) in Iran



**Figure3.** Trends of FDIinflows in Iran

### 3. A Brief Explanation about BSC Model

The Balanced Scorecard model was recommended Kaplan from Harvard University for the first time, and this model tries to present a method to reach the processed vision through processing suitable vision and choosing the major directions to achieve the vision in different levels and presenting action plan to achieve the goals. The balanced assessment model is a technique for changing the strategy to action, in other words the above model is a technique for making the goals operative, and also the strategies and mission of organization not just for controlling and its criteria is not used for the past functions, but these criteria are devices for determining the strategy of the organization, that by coordinating the activities in different levels of organization makes it possible to achieve the organizational goals. This method has seven steps of actions which are briefly in the following:

- **First step:** processing the vision and choosing the main directions for achieving the

vision which should be done by SWOT methods based on analyzing and assimilation the weakness and strength points, the opportunities and threats.

- **Second step:** Specifying the important perspectives which are the result of analyzing and assimilation of critical success factors.
- **Third step:** drawing the strategy map specifies the goals for every vision
- **Fourth step:** We should determine the critical success factors for every goal.
- **Fifth step:** Setting up performance measurement for every critical success factors.
- **Sixth step:** determining the numerical targets
- **Seventh step:** for achieving the numerical targets we should prepare action plan

It has to be mention that, we should follow different steps which in not possible to present in this article.

**4. Applying the Balanced Scorecard for Developing the Foreign Investment in Iran**

For applying the pattern, the seven step levels in tables are organized which needs to process the vision for this case, and by emphasizing in different laws, we can consider supporting the foreign investment as the significant vision for government and for gaining this goal, significant measures have been done by Iran government or it is doing, also in this way there are many opportunities and threats, weakness and strength, which are mentioned in table, and they are achieved through studies and viewpoint of expert in this field. Since the topic is very expansive, we try to mention some of the most important points.

**Table1. Build the vision and Set up the strategies**

External environment analysis	Build the Vision		Internal resources Analysis
1-The economy and political sanction against Iran 2-Negative propaganda against Iran 3-economic and trade counselor in Iran embassy 4-high risk of country in risk category 5-lack of cooperation by world bank and IMF to Iran 6- Iran's strategic position in the region 7-competitor countries for absorbing investment. 8-Low motivation for foreign investors in Iran 9-The economy crises of world and its effects 10-The capital input and output flow in the world 11-increasing world price of petrol 12-electronic trade improvement 13-investment variation and changing to other kind of investment 14-high cost price in big capitalistic countries 15-possibility to transfer modern technology beside capital 16-different tariffs and bilateral agreement and different dimensions among countries 17-security threats and terrorism actions in the world 18- lack of multinational companies activity in Iran 19-conflicts and low securities areas 20-Economic recession in many countries	<p style="text-align: center;">Supporting and absorbing foreign investment</p> <p style="text-align: center;">(Strength)</p> 1- Free and economy areas 2- Having industrial zones 3- Having investing organization and defining investment opportunities 4- Having suitable regulation for supporting investment 5- To be fresh and virgin country to accept new project 6- High profitability of investment designs 7- Rich petrol resources 8- cheap labor force 9- economy stability 10- suitable motives for investment	<p style="text-align: center;">(Weakness)</p> 1- Delay in issuing warrant in executive offices 2- not suitable business space 3- Negative idea of people and some governors to foreign investors 4- Lack of substructures in some areas 5- The fluctuation of stock price and inflation rate 6- dominant governmental economy 7- problems related to job law 8- the number of centers for making decision 9- high interest rate of banks 10- Lack of entrusting for provinces to solve problems	1-Free and economy areas 2-Having industrial zones 3-Having investing organization and defining investment opportunities 4-Having suitable regulation for supporting investment 5-To be fresh and virgin country to accept new project 6-High profitability of investment designs 7-Delay in issuing warrant in executive offices 8-not suitable business space 9-Negative idea of people and some governors to foreign investors 10-Lack of substructures in some areas 11-Rich petrol resources. 12-cheap labor force 13-The fluctuation of stock price and inflation rate 14-economy stability 15-suitable motives for investment 16-dominant governmental economy 17-problems related to job law 18-the number of centers for making decision 19-high interest rate of banks 20-Lack of entrusting for provinces to solve problems.
	<p style="text-align: center;">(opportunities)</p> 1- economic and trade counselor in Iran embassy 2-Iran's strategic position in the region 3- The economy crises of world and its effects 4- The capital input and output flow in the world 5- increasing world price of petrol 6- electronic trade improvement 7- investment variation and changing to other kind of investment 8- high cost price in big capitalistic countries 9- possibility to transfer modern technology beside capital 10- Economic recession in many countries		<p style="text-align: center;">(threats)</p> 1- The economy and political sanction against Iran 2- Negative propaganda against Iran 3- high risk of country in risk category 4- lack of cooperation by world bank and IMF to Iran 5- Competitor countries for absorbing investment. 6- Low motivation for foreign investors in Iran 7- different tariffs and bilateral agreement and different dimensions among countries 8- security threats and terrorism actions in the world 9- lack of multinational companies activity in Iran 10- conflicts and low securities areas
	<p style="text-align: center;"><b>Set up the strategies</b></p> - absorbing foreign investment - improving business space - neutralizing the economy and political sanction		

**Table2. Define the important perspectives**

<b>The important perspectives which are effective through main direction(reason)</b>		
<p><b>The major vision and directions (mean):</b>                      -Supporting the foreign investment                      -improving the business environment                      -neutralizing the economy and political sanctions</p>	<ol style="list-style-type: none"> <li>1- Decreasing the useless bureaucracy</li> <li>2- suitable activities in international Level for neutralizing the sanctions</li> <li>3- Changing the negative viewpoint of foreign</li> <li>4- improving the business environment in IRAN</li> <li>5- Suitable interaction with different countries</li> <li>6- Improving suitable situation for absorbing capital</li> <li>7- providing necessary substructures for absorbing capital</li> <li>8- high advertizing on international levels for introducing opportunities and investment packages</li> <li>9- suitable advertizing for introducing the security on international level</li> <li>10- developing free economy areas</li> <li>11- cultural activities for changing people view to foreign investment</li> <li>12- controlling inflation rate</li> <li>13- Supporting economy and trade section of embassies</li> <li>14- decreasing the risk level in international level</li> <li>15- supporting the responsible official in investment</li> <li>16- creating informing sites</li> <li>17- Supporting economy for neutralizing economy and political</li> <li>18- supporting and Strengthening capital institutes</li> <li>19- Extend guarantees and insurance for foreign and domestic investors</li> <li>20- Introducing appropriate incentives for investors</li> </ol>	<p><b>Optional visions (by obeying succession order):</b></p> <ol style="list-style-type: none"> <li>1- developing investment and absorbing investment</li> <li>2- improving the business environment in IRAN</li> <li>3- Supporting economy for neutralizing economy and political</li> <li>4- Introducing suitable motives for investment</li> <li>5- changing the negative view of foreign investors to Iran</li> </ol>
<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: 0 auto;"> <p>The connection between the cause and effect should be checked through identifying why (reasons) from bottom to top and (flow) top to bottom</p> </div>		

Due to following the planed step levels in Balanced Scorecard (BSC) and with attention to fifth program assumptions of the economical and cultural development and the 44 major policies which was submitted to support the private sector and absorbing the investment, also supporting foreign investment and designed perspective, goals, the condition of Iran in the category for business environment, Some executive designs and programs that can be effective for reaching to goals and perspective in a five year program, are as follows. It has to be mentioning that, these executive programs are recommended as a part of programs and by expanding the tables in every step, there is a possibility for other recommendations.

1-Laws and regulation reformation for decreasing the time for giving the warrant for business activities and executing investment designs such as: entrusting suitably to provinces fir omitting useless levels in

receiving warrant and decreasing the number of inquiry and decreasing the time for answering the inquiry, determining a custodian institution and the warrant owner for issuing warrant, to active united trading and investing window in provinces and investment organization for issuing warrant in one place along with executive custodian offices, mechanizing demand inquiry and issuing warrant for preventing from wasting the investor's time, reforming the work and insurance and trading laws and...

2-Continuous observation on suitable execution of 44 laws basic for supporting the private sector and making government small.

3-Finding the problems of governmental institution offer for transferring to private section and solving the problems in these units.

4-Supporting the private sector for company with foreign investors to execute the investing designs.

- 5-allocating some percentage of credits from governmental executive for supporting the credit of custodian investment
- 6-Verifying the foreign investment which has been done in country
- 7-Providing a part of substructure costs from foreign investment
- 8- Creating order and security in money markets for preventing from fluctuation of inflection rate and foreign rate and foreign exchange rate in internal markets.
- 9- Mechanizing of companies registering process by decreasing the executive time of registering of companies and defining the maximum amount of time for registering the companies.
- 10- Setting up the comprehensive electronic system for registering the properties and movable properties.
- 11- Confirming and executing of protecting ownership rights and intellectual
- 12- Executing the value added tax in all economical sections and transpiercing the laws and regulations.
- 13- Suitable decreasing of tariffs for goods and services import charges with suitable support of internal goods production.
- 14- Simplifying the input and output process of goods and making the tariffs logical for decreasing the good smuggling amount.
- 15- Simplifying and competing the presenting of facilities for business activities of private sector.
- 16- Simplifying in giving activity warrant to bank and insurance, the financial institution of private sector and foreign sector for increasing the competition for suitable presenting of services
- 17- Decreasing the time of issuing the goods imports and exports, transpiercing the laws and regulations, simplifying and convenient in trade with structural reformation in customs.
- 18- Supporting and developing the free areas of economy for absorbing the internal investors and foreign ones, and Iranian out of Iran.
- 19- Creating industrial cluster for supporting production units and establishing the production chain.
- 20- Providing executive program for justice supporting of investment.
- 21- Giving suitable subsidy by government to investors for investment and creating employment.
- 22- Preparing investment packages by providing necessary substructures for performing the investment designs and defining of motives for investors.
- 23- Simplifying firms closure process and informing the institution bankruptcy.
- 24- Setting up information sites for introducing investment opportunities.

- 25- Holding Special seminars and meetings for absorbing investors presenting investment packages in and of country
- 26- Active attending of Iran in international constitutions for combating with economical and political sanctions.
- 27- Drawing up cooperative economical and commercial parallel contracts with countries of goal for decreasing the effects of sanctions.
- 28- Decreasing the expenses of investment designs execution in every step of the performing design from issuing the warrant step to revenue step (from permit stage to operation license stage)
- 29- Organizing the stock and negotiable paper market and making possibility for entering the foreign investors to stock.
- 30- Simplifying the process for transferring the governmental institution to private section.

## 6. Conclusion

In the 20 years perspective or vision and law for absorbing and supporting the investors and the fifth development program law of Iran(2011 to 2015),Due to significance of investment ,for absorbing foreign investors and improving the business environment, suitable laws have been devised, and this case led to suitable growth in absorbing foreign investment ,that in this article we try to use balanced credit foreign investment, that in this article we try to use balanced Scorecard and following the executive levels, having suitable goals and vision, collecting capability and facilities, limitation, opportunities and threats (SWOT) and suggesting the designs and executive program, it is tried to recommend a method for absorbing investment, improving the business environment and decreasing the degree in international category , and it is expected that by performing these suggest we reach high level of foreign and internal investment. We have to mention that, with attention to sanctions against Iran, and negative propagandas and showing Iran situation very unsecure and unstable, there is high percent of profiles, many neutralizing measures are necessary for these activities so that Foreign investors are motivated for activity in the country and the statistic trend of investment in country show and prove this case, but the absorbing ability from resources in Iran is more than the present trend.

## 5. The Action Plans and Programs (The Seventh Step)

**Table3.** Determining the perspectives, critical factors, indexes, numerical targets in five year program (2011 to 2015)

perspectives title(the second step)	goals(the third step)	The critical success(the fourth step)	indexes(the fifth step)	The numerical targets(brief 6 step)
<b>perspective 1</b> developing investment and absorbing investment	-Suitable performing of privatization policy -Supporting the executive offices related to investment	-The problems of companies that are transferring -Complexity of laws and regulation in the privatization trend	-absorbing rate of foreign investment -Time of transferring the institution to private sector	9.7 percent growth annually (ideal state of 20 billion dollars in year) 6 month for transfer
<b>perspective 2</b> improving the business environment	-creating united trade and investment window -increasing the open economy rate	-Laws and regulations that are restricted for creating united window -Barriers for investment	improving the business environment of Iran in the world	decreasing the Iran degree from 129 to 100
<b>perspective3</b> supporting the economy for neutralizing sanction	-creating stable politic -Increasing the production	-The economy and political sanction -The competition strength of productive companies which are lower than foreign companies	-economy growth	8 percent of annually
<b>perspective4</b> Introducing suitable motives for investment	-Introduction the investment opportunities -Decreasing the cost for performing investment	-Lack of cooperation between responsible offices in introducing the investment opportunities -The tariffs , and imposed expenses on production	-Time of issuing the primary and last warrant for business	The first warrant to 10days and the last warrant to 30 days
<b>perspective5</b> changing negative view of foreign investors to Iran(in term of investment)	-transparency and informing -Increasing domestic and foreign investors confidence	-Negative propaganda against Iran -Negative belief in regards to Iran from different countries	-The rate of absorbing foreign investment -non petrol exports	annual growth of 9.7 percent (ideal state 20 billion dollars every year)

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