

# Entrepreneurship and SMEs Business Environment in Iran

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## Abstract

*The SMEs sectors in Iran play a very vital role in economic development and entrepreneurship growth, because the SMEs sector is totally private. In this paper, we find that the main causes of the weakness and disability of the SMEs sector are based on a lack of entrepreneurship talents and training. We try to find out the role of government-based training institutes and as well as semi-government institutes in entrepreneurship development in the SMEs sector in Iran, especially in recent years (1997-2001).*

*It is recommended that all training activities of government and semi-government training institutions be turned especially toward the needs of the SMEs market and to transfer these training facilities to private sector.*

**Keywords:** *Nascent Entrepreneur, Business, Small Business, Entrepreneurship Training, Industrial Estate, SMEs = Small and Medium Enterprises, Honarestan=Vocational School, Kar va Danesh= Working and Knowledge School, IMI=Industrial Magement Institute.*

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## **1. Introduction**

The study and analysis of an organizational environment is a crucial part of any strategic planning process, as environment presents both business threats and opportunities. The business environment of SMEs may be conceived of as conditions having an impact on their goals and performances, but lying beyond the domain of their control. These conditions, in present organizational societies, are generally the result of action taken by other organizations; like creditors, suppliers, competitors, governments, unions and others. In other words, today's business environment is basically institutional. This is to a large extent true for the environment of SMEs in Iran, too. This paper addresses some of these institutional elements. These elements, in theory, may consist of innumerable elements, but for practical purposes they have been unlimited to contain only those to which small firms in Iran are most sensitive and that could partly define their fate. The aspects of the SMEs business environment covered in this chapter include geographical concentrations of SMEs, training-research and consulting institutions, the banking network, SMEs representative organizations, and finally institutions fostering transparency and accountability.

## **2. Concentrations of SMEs**

Concentration of SMEs can take many forms, from a simple co-existence in one industrial estate to more advanced forms of organized "collectives", such as science parks and clusters. Concentration in all forms and varieties adds important dimensions to the SMEs environment. In the most simple and static form found in industrial estates, concentration can contribute to operational efficiency through sharing the costs of logistics and infrastructure, issues of particular importance for developing economies. To a degree, it can also become a source of innovation and productivity through promotion of social learning. In the more dynamic and sophisticated forms, like clusters, in which a web of internal and external support and learning linkages supplements physical concentration, concentration may become a true source of synergy and collective comparative advantage (Porter 1996). This section presents the result of the search for SMEs concentrations in Iran. The structure of presentation follows the relative prevalence of the patterns found.

### Industrial Estates

The concept of the industrial estate as a vehicle of economic and urban development has long attracted the attention of national and regional planners in Iran. The first industrial district projects were launched about half century ago, but the massive expansion of estates is a recent development (Iran Industrial Estate Corporation, 2001). Creation of industrial estates in Iran has not followed a single pattern and purpose. In the case of large cities, the concern for environmental protection and the scarcity of land within the close proximity of urban centers has been a prime concern. Estates located in the vicinity of smaller cities or near rural areas have been mostly found with the purpose of providing equal distribution of resources for local developments, rather than aspects of land scarcity or clean industrial performance (Ghani-Zadeh, 1997). Measured by the physical progress of estate development projects, the industrial estate development policy in Iran could be considered a relatively successful experience. The achievements are shown in tables (1) and (2).

In earlier days the institution of the industrial estate (known as industrial districts) was conceptually seen as an instrument for the concentration of small industries (generally small workshops) but later, the facilities were opened to all industrial firms, irrespective of their size. Small and medium-sized firms, however, continued to dominate the population of the estates. Unpublished data obtained from Industrial Estate Corporation sources indicates that about 90% of firms located or to be stationed in estates are small firms employing, less than 50 personals (IEC, 2001).

**Table 1: Selected Industrial Estates Statistics (August 2001)**

Some industrial estate statistics	Numbers
Estates approved by government	302
Active estates	240
Contracts concluded for allocation of premises	21,811
Operating industrial enterprises	6,005
Number of industrial jobs created	130,042

Source: Iran Industrial Estates Corporation (Iran IEC)

**Table 2: Composition of Industrial Firms Stationed in Industrial States**

Industry	No.of Enterprises	Industry	No.of Enterprises
Metal Work	1561	Electronic and Electric	230
Chemical	1506	Cellulose	342
Food	1139	Service	131
Textile	689	Others	77
Non-metal Minerals	695	Total No. of Firms	6667
		Total No. of Employees	139747

Source: Iran IEC last update Feb. 2002

Industrial companies which opt for stationing in industrial estates can benefit from "one-stop shopping", from permit to the provision of basic infrastructure and utility services(IEC, 2001).

The existing estates are all of the "composite type", housing a wide variety of unrelated industries. But there is a small number of "functional" estates allocated to single or related industries. "Charmshahrs" (leather estates), one of which is located near Tehran, are examples of the latter category. But in the absence of technical and managerial support networks, the full potentials of concentration have not yet been exploited. The positive impacts of concentration on the performance of state-located enterprises are not known yet, partly because of the newness of the experience. In theory the geographical proximity of firms should have enabled and encouraged them to benefit from resource sharing and other collective efforts in areas of mutual concern and interest. In practice, however, such achievements have been isolated incidents.

To be certain, the creation of industrial estates has not contributed to the emergence of any industrial cluster -a competitive-cooperative collective- that could have resulted as the most important outcome of concentration. Perhaps the composite nature of estates may have had an adverse effect on cluster formation. In addition to that shortcoming,

critics maintain that in some cases the locations of estates are poorly selected as they are too far away from urban business centers.

The estate authorities, though, appreciate receiving critical comments so as to learn from experience. There is a growing tendency toward the partial involvement of the private sector in the development of new industrial estates, the results of which could be the emergence of smaller estates closer to urban centers. Also new projects are underway to use functional estates as bedrocks for development of industrial clusters and/or science- technology park institutions. A short account of these initiatives will be presented in sections dealing with cluster and techno-parks(IEC, 2001 and SIO, 2000).

### **3. Training Institutions and Programs**

#### **3.1. Public Vocational Education and Training Programs**

Iranian public vocational-technical education, below the traditional university level (BA/BS degrees) consists of four programs. One of these programs is a two-year package standing halfway between high school and university education. It is offered by a new type of university system more oriented toward practical, but science-based, knowledge and leads to an Associate of Arts and/or Science degree (AA). Two others are high school level institutions under the jurisdiction of the Education Ministry. The fourth one is a web of public and private non-degree vocational institutions administered by the Labour Ministry.

#### **3.2. Vocational and Technical Education at (AA) Level**

Technical education has a rather long and controversial history in Iran. This level of technical education used to be a curriculum offered by "technology institutes" affiliated with the Ministry of Education. That mission has now been transferred to the foregoing university system. As a result, the program has been considerably expanded. Recent data on the number of AA students in technical areas is rather impressive and demonstrate a steady increase.(SIO, 1999).Small industry observers should welcome this trend, as the present education and skill composition of SMEs sand industry in general indicates a gap in the middle of the industrial manpower pyramid. See tables (3) and (4).

**Table 3: Skill Composition of Direct Labour of Industrial Enterprises with Over Ten Employees. (Unskilled Excluded)**

Categories	Skilled Labour	Technicians	Engineers	Total Labour
SMEs Direct Labour	58,100	4,580	4,300	197,900
Industry Direct Labour	293,735	33,759	28,126	882,200

Source: Statistical office of Iran

**Table 4: Education Composition of SMEs and All Industrial Manpower (Unskilled Excluded)**

Categories	HS Diploma	AA	BA	MA	PhD
SMEs (10-49) All Employees	34,047	4,655	7,830	811	219
SMEs (10-49) Direct Labour	20,013	2,932	3,826	360	102
Industry All Employees	194,296	28,990	50,549	4,773	1,496
Industry Direct Labour	121,090	20,193	24,812	1,939	712
<b>Total</b>	<b>369,446</b>	<b>56,770</b>	<b>87,017</b>	<b>7,883</b>	<b>2,529</b>

Source: Statistical office of Iran

The low AA/BA ratios in SMEs and industry manpower are, indeed, striking. They indicate a shortage of AA qualified technicians. This

shortage has long been a subject of debate in Iranian manpower planning circles.

The main source of SMEs technical know-how in Iran, particularly for the more traditional firms, has historically been trial and error with the personal experience and "learning by watching". But with employment of new and more sophisticated technologies, there is now a need for technicians whose skills are more "science-based" than experiential "perse". These technicians should have a good grasp of scientific basics and be able to effectively communicate with professional engineers and assist them with the practical aspects of sophisticated engineering jobs. It is expected that the new practice-oriented university system would address this need.

Information about the quality of AA graduates is scarce, perhaps too early to assess. But it is evident that accelerated growth in quantities leaves little time and other resources for qualitative improvements. There is a need to evaluate the role of AA technical programs for SMEs performance improvement.

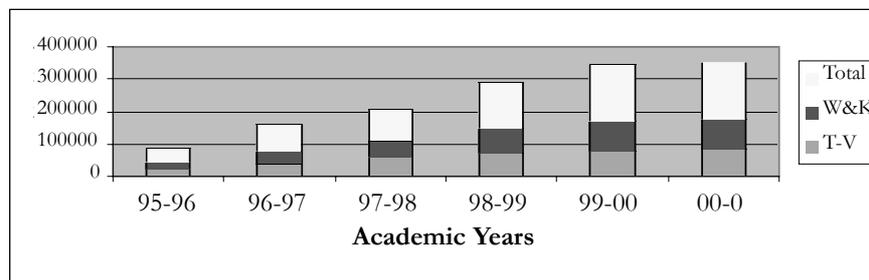
### **3.3. Vocational and Technical Education by the Ministry of Education**

The Education Ministry runs two vocational programs carried out through two different institutions, namely: "technical-vocational schools" (Honarestan) and "work and knowledge" schools (Kar va Danesh). Honarestans have a longer history, dating back to the early years of modernization of Iran's school system -some 70 years ago. Kar va Danesh schools have been established very recently. Both schools offer a high-school diploma. Their difference, however, lies in the balance of general-technical education and the job market they are aiming at. A honarestan education is more production-line oriented, aiming at the supply of readily employable technicians for manufacturing firms. Kar va Danesh schools offer a blend of general education and software technical packages, suited for the job market in the service industries.

Both of these schools suffer from a chronic shortage of qualified instructors and other educational resources as well as physical facilities. Because of these shortages they have not been able to attract talented students in spite of their economic importance. Apart from the quality

of education, the quantity of their products will be inadequate; certainly, if ever SMEs development takes off at a massive scale. Figure (1) represents a six-year trend in the annual number of graduates of these schools.

Based on the following figures:



**Figure 1: Six-Year Trend in the Number of Graduates of Vocational Schools**

Source: Statistical Yearbook of Iran 2000

- SMEs share in total industrial employment, currently 44.3% ,
- Total annual graduates: 82,831 for Honarestans, and 93,246 for Kar va Danesh, and SMEs numbers of around 55,000 (SIO, 2000).

The per-capita, per-annum, share of SMEs from these graduates amounts to (0.67 person) from Honarestan and (0.75 person) from Kar va Danesh, respectively. In other words, should the graduates of these two schools seek employment opportunity only in industrial enterprises, there will be, two Honarestan graduates available for three small industrial enterprises. The corresponding figure for kar va Danesh graduates will be three graduates for four enterprises. These ratios might be lower for enterprises located in regions with lower concentration of these schools, as they are not evenly distributed throughout the country.

The overall five-year trend of high school technical graduates, as above statistics suggest, is quantitatively positive. But as mentioned above, earlier, drastic increase in numbers is most likely to be coupled with a drop in the quality performance of schools. The quality of technical education at this level, too, should be the subject of continuous monitoring and scrutiny by the SMEs developers.

### 3.4. Management and Entrepreneurship Training Centers Programs

This study could not locate any SMEs specific management or entrepreneurship development center or program in the country. There are, however, a number of organizations that, to varying degrees, partly serve SMEs management training needs.

This section gives a global introduction to these organizations. The list of institutions collected for this study is neither exhaustive nor subject-specific, as there are many overlaps. A good number of these institutions, including university centers, are concurrently involved with all aspects of management studies, including training, research and consulting. The pioneering Industrial Management Institute is an example. Hence, in many instances it was difficult to draw a functional demarcation line between them.

Except in a single case, none of the institutes examined offer any particular regular course in entrepreneurship. The single exception is a newly founded graduate school of management at Sharif Technical University. Included in the curricula of this school is an elective entrepreneurship concentration area, but the package has not been offered as yet. There seems to be an absolute shortage of entrepreneurship faculty in the country.

The management-entrepreneurship education and training centers identified includes the following categories:

A total of 88 schools of management and industrial engineering in the University system, of which 26 schools belong to the public University system, 58 schools to Azad Islamic university and 6 are independent management schools and or centers. Almost all of the foregoing centers offer degree equivalent courses, in addition to formal degree programs. Some of these schools have short-term in-service courses in their training baskets.

A total of 24 non-university centers of general management studies offering non-degree and short-term courses, including 9 institutes stationed in Tehran and 15 in other cities;

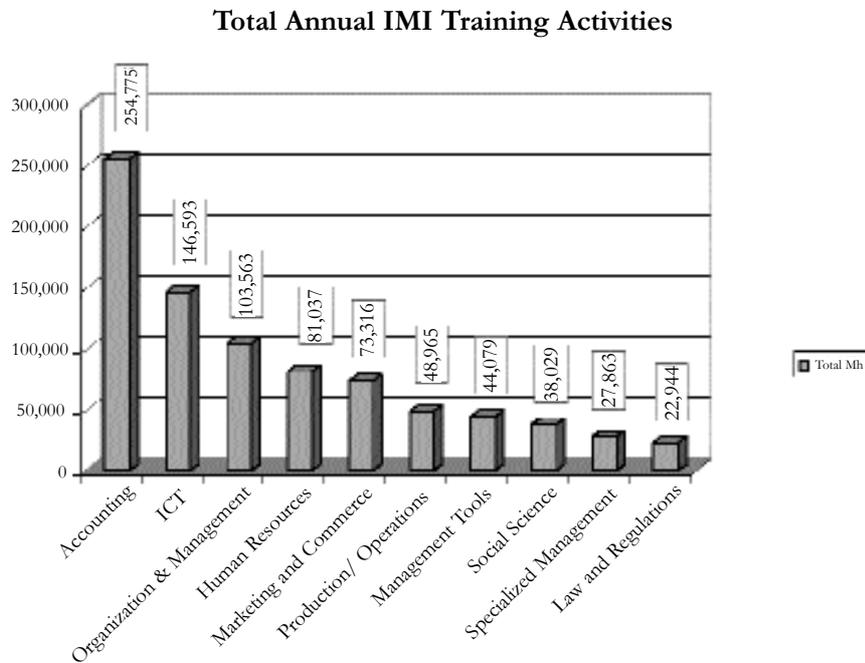
A group of 9 institutes offering quality management courses, all located in Tehran;

A group of 16 institutes offering information and communication technologies (ICT), also located in Tehran.

### **3.5. Effectiveness of Management Training for SMEs**

A few research reports, consisting mostly of BA/MA student theses, regarding the quality of present management training in the country do exist. But no credible study about the effectiveness of such training for SMEs could be located. The effectiveness of the existing, non-differentiated, management training partly used by SMEs can be viewed in terms of availability, affordability and suitability of the services. To search for some measures of these effectiveness criteria, this study examined the reactions of a sample group of SMEs managers and staff, participating in the training programs of the Industrial Management Institute (IMI) of Iran. The purpose of this study was not a performance evaluation of IMI. The choice of the sample from the client of IMI was guided by the following facts and considerations.

IMI is the largest institute of its kind in the country; with an annual volume of 700,000 man-hour training activities. Each week around 1000 members of industrial enterprises work force, including SMEs managers and staff attend IMI programs.



**Figure 2: Areas of IMI training activities and number of annual training man-hours in each area.**

Source: Direct Survey.

IMI does not offer any SMEs specific courses, but it has a uniquely flexible approach to management training allowing SMEs to benefit from the courses too. It is in fact a "supermarket of management training courses" that can satisfy a wide spectrum of diverse management training needs. Exhibit two that is a product of a direct survey demonstrates the range of IMI training activities.

It has affiliate training centers (representatives) in seven SMEs concentrated provincial capitals.

Two samples survey of course participants were conducted in which two questionnaire were applied to: a) learn about the composition of the participants and b) to seek their views on the effectiveness of management training and consulting services, with which they have had

experience, either at IMI or any other institute in the country. In addition to these surveys a comprehensive statistical analysis was performed to find about the subject, type and magnitude of IMI training activities.<sup>12</sup>

What follows next represents a summary report of both surveys. They include some of the salient findings that are relevant to the objective of the present study:

**Table 5: Share of Representatives of SMEs in IMI Training Programs**

Sources	Small Firms	Medium Sized	Large Firms	Job-Seekers
Week-Long (Large Sample)	21%	24%	39%	16%
Large Sample (Job-Seekers Excluded)	25%	28.6%	46.4%	Not Accounted for
Small Sample	22%	30%	47%	Not Accounted for
IMI Training Client Roster	25%	35%	40%	Not Accounted for
Industrial Firms	43%	56%		Not Accounted for

Source: Direct Survey

The findings show that as we move from smaller to larger firms the extent of using the management training services available in Tehran decreases. This finding is consistent with the participation rate of firms as indicated by IMI client roster.

The findings also indicate that there are no meaningful differences

12- The survey carried out using a sample of some 700 IMI client attending training courses during the week of 1380(2001). Supplementary data were collected from IMI roster of client firms.

between the respondent's reactions to issues of availability, costs and content suitability of courses. Respondents generally shared an overall positive view of management training and consulting services in the country. This is an interesting finding that merits close attention. It suggests that with some new institution building efforts and mobilisation of additional resources, the existing institutes could be fruitfully employed for the benefit of enhancing SMEs productivity.

In conclusion, the SMEs' views about the services rendered by the management training institutions, in general, as found in the sample search, are positive. They feel that training centers are accessible, their programs useful and diverse enough to choose from and the charges are not unbearable. In spite of this positive outlook, the fact remains that SMEs are underrepresented in training programs, whereas the general economic performance measure of SMEs (e.g., their value added share) indicates a real need for advanced managerial know-how and skills. Although the sample may not be fully representative, the indication is clear and it merits an in-depth study by SMEs authorities. In comparing consulting services with training, it is noteworthy that SMEs' views are different; that will be examined in the consulting section of this chapter.

### **3.6. Entrepreneurship Development Activities**

The concept of entrepreneurship as an approach to business venture and / or national economic development has only recently found some currency in the country. Attention to the concept in government circles mainly began about five years ago, when IMI initiated two research projects on the subject. One of these projects introduced the role of entrepreneurship in national economic development, through a comparative study of the national engagements with small industries and entrepreneurship development efforts. The other project demonstrated the importance of entrepreneurship for the survival and prosperity of industrial firms. These projects and additional publicity through IMI's management journal "Tadbir" have served as an impetus for manifestly growing interests in the concept by other centers. Nonetheless, no systematic effort by the government for the nationwide countrywide promotion of entrepreneurship has been made as yet. The present status of

entrepreneurship education, training and research in the country can best be described as piece-meal and sporadic. What follows next are brief references to these efforts:

*Sharif Technology University MBA Entrepreneurship Concentration Area:* This university has made the first move to include entrepreneurship education in Iranian universities. Although the move has come very late, it should be welcomed. The related "Sharif School of Management" has also undertaken a number of entrepreneurship research projects for the Ministry of Industry and for this purpose it has mobilized a group of young researchers among MBA students.

The immediate problem of this university and other centers that wish to follow suit is the development of research and teaching skills in this new area.<sup>13</sup> There is a severe shortage of qualified faculty and other local research staff. It is noteworthy that this shortage is worldwide, an important point to be considered in taking remedial action.

*The University of Tebran* has established the first Entrepreneurship Department in school of management, which is<sup>15</sup> first professional Department to cover Entrepreneurship course Ms and Ph.D level.<sup>14</sup>

*Ministry of Industry entrepreneurship theses and dissertations awards:* Two financial awards had been announced for thesis and dissertation focused on small business and entrepreneurship. But these awards were not attractive and the project practically came to an end.

*IMI entrepreneurship research projects<sup>16</sup>:* Following the pioneering moves, IMI has continued its entrepreneurship promotion activities by encouraging MBA students to write their thesis on the subject. So far, four entrepreneurship-focused theses have been published. Students who have prepared these are now part of a small nuclear group of researchers at Amirkabir University undertaking similar projects.

*Amirkabir Technology University entrepreneurship education research projects:* This university, too, is presently involved with some research in entrepreneurship education and training sponsored by the SMIE Authority. They have been able to shape a small group of researchers, some of whom are IMI graduates<sup>17</sup>.

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13- Sharif University website. Look for entrepreneurship faculty.

14- New established Dept in Year 2005.

15- Interview with SIO Training and Entrepreneurship Division manager .

16- IMI EMBA Office.

17- Interview with SIO Training and Entrepreneurship Division Manager.

*Industrial Development and Renovation Organization (IDRO) entrepreneurship initiatives:* IDRO is a state-owned industrial conglomerate that controls most of the heavy industries of the country (except steel industry). IDRO's missions have been recently revised and expanded to cover the implementation of an ambitious national industrial renovation plan. In this new mission, the promotion of entrepreneurship in industry has found a particular place. An IDRO provided fund and organization is now assigned for this purpose<sup>18</sup>.

*Ministry of Science and Technology entrepreneurship education activities:* Pursuant to the provisions of the Third Five-Year National Economic Plan, which started in March 2000, a budget has been allocated to promote entrepreneurship in state-run universities. A group of thirteen schools have already been engaged with the issue, but at present, other than Sharif and Amirkabir, only three other universities, in the cities of Mashad, Isfahan and Shiraz, have become actively involved<sup>19</sup>.

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