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### Designing a model for improving business environment in the City of Tehran

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## Developing a Model to Improve Business Environment in Tehran

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**Abstract:** Improving the environment in which businesses operate is important to business success. In particular, improving the environment reduces transaction costs and improves the competitiveness of businesses. The business environment of the city has unique characteristics that need to be understood and analyzed in various aspects. This research aims to design a model for improving the business environment in the city of Tehran using exploratory approach to identify the components and dimensions of the model. For this purpose, firstly explicit knowledge exists in the literature is reviewed and then a qualitative research methodology is employed to explore the implicit knowledge of experts obtained through interviews with 22 experts. After documenting the data obtained from the interviews, a three stage coding method is used to analyze the collected information and data using Atlas Ti. In the end, by combining the findings from the literature and the findings from the analysis of the interviews, a model is designed for improving the business environment in Tehran. It is worth noting that this model has identified and classified environment factors affecting the improvement of the business environment at the four levels of organizational, micro, macro, and international. Urban environment components include physical infrastructure, non-physical infrastructure, laws and regulations, institutions, local-participatory governance, policy for citizenship, institutional co-operation, urban-level competition development, private-public partnerships, organising businesses in the interior and exterior of the city, identification and development of opportunities, implication of new knowledge and technology, sustainable income for urban development, urban spatial development, transaction costs and tax support. The components of the micro-environment include suppliers, the labor market, credit market, the media and the customer. The components of the macroeconomic environment are demographic (immigration management), environmental, legal, political, technological, economic and social factors, and ultimately the components of the international environment include cultural, political, technological, and innovation components and law factors.

**Keywords:** Improvement of Business Environment, Designing Model, Qualitative Method, Coding approach, City of Tehran.

**JEL Classification:** D73, D78, G18, L38, C83.

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## 1- Introduction

The environment in which businesses operate can affect their success or failure. In particular, improving the business environment reduces transaction costs and improves the competitiveness of businesses. The environment has unique characteristics, which requires understanding these features as well as the affecting factors.

The role of local governments is to reduce the processes and legal mechanisms facing businesses in the environment to minimize transaction costs. The core of these processes is to reduce the red lines. However, the imposition of unnecessary and bureaucratic processes affects all business activities including national and international businesses, entrepreneurial businesses and new business ventures. This is because small businesses have fewer employees to track and carry out these processes and fix red lines (Vesna et al., 2014). The municipality, as a local authority in the field of legal duties and role-playing in the urban environment can affect businesses in different life cycle. Therefore, in the face of businesses with these conditions in the urban environment, the findings of literature confirm that the performance of municipalities in this process is generally weak (Stankovic et al. 2013). Therefore, the evaluation of this institution is necessary to identify the main policy areas in order to improve the business environment of cities.

Considering the role of the municipality of Tehran as a sole local institution, this research seeks to identify policy areas for improving the urban business environment in the city of Tehran. In particular, improving the business environment can reduce the cost of trade, improve the competitiveness of businesses and provide the ground for the growth and

development of the city of Tehran. The main question of the research is what are the policy areas for improving the business environment in Tehran? To answer this question, a model is designed for improving the business environment in the city. For this purpose, the concept of the business environment and the literature is first reviewed and discussed. In order to explain better the status quo, the contextual structure as well as factors affecting business environment are reviewed and then, the required information and data are collected through interview with experts. The analysis stage consists of open, axial, and selective coding. The Atlas Ti software is used to analyze the information and data. In order to achieve the purpose of the research, a model is designed for improving the business environment in the city of Tehran by synthesizing the findings of literature review as well as the findings of the field studies analysis.

## 2- Literature Review

### *a) Foreign Researches*

According to Schou-Zibell & Madhur (2010), examined six licensing and credit agents to start a business, find and manage work, ensure investor protection, contract enforcement, pay taxes, trade across borders, and identify the requirements for closing a business in six emerging economies - the People's Republic of China, Indonesia, Malaysia, the Philippines, Thailand and Vietnam. The results showed that policy makers need structural reforms to improve productivity and competitiveness, minimize unnecessary regulatory barriers to business activity, use private incentives and market order, equalize across sectors and create competition for institutional capacity building.

Richter (2006) proposed effective factors on the business environment in a study conducted in Quincy Town. He organized factors influencing the municipalities on the urban business environment in two categories. They comprise municipalities' factors as well as the factors in the national area. Factors related to municipalities are in fact the factors associated with local business in the urban environment from the municipal perspective. They include fifteen factors. These factors include issues such as transparency in the tax system, business authorization, as well as infrastructure debates in business start-ups.

In a study, Gibbson et al., (2015) investigated 40 different cities in nine policy domains in a framework with direct and indirect effects improving entrepreneurial activities. These policies include regulatory, supportive, customer-related policies, hosting policies, communications policies, investment, strategy and digital governance. The study stipulates that this research has been carried out in urban areas and policy areas have been taken into account. Nevertheless, the dimensions of policy areas in different parts of the world for national, regional and urban levels will be significantly different from the background of the study conducted.

Papillay et al., (2015) have identified the areas in which the municipality improves the urban business environment at the center of a province (ANB) in Indonesia. They are as follows: promoting innovation, providing training to strengthen human resources, providing financial support, supporting marketing strategies, and allowing business partnerships together.

The results of a study in Germany on attracting investment in a region and country show that attracting investment

depends on the attracting of the talent and knowledge. In addition, the development of opportunities, the reduction of human resources and tax policy on companies are effective in attracting capital (Cite as River, 2018).

#### *a) Iranian Researches*

Moradi (2017), in the field of environment, first proposed a definition of the environment where refers to those factors that surround a system. The factors affecting the activities of a system can be attributed to a set of factors outside the system as well as within the system. Therefore, business environments are a set of internal and external factors that affect businesses. His findings show that the key pillars of improving the business environment in Iran comprise improving the efficiency of institutions, providing the ground for the growth and development of knowledge, developing technology and innovation, improving market efficiency and stabilizing the macro environment.

Barati et al., (2014) use SWOT technique and quantitative strategic planning matrix. Based on the findings of the field study, they recommended some measures to improve Mashhad's business environment. Their findings confirm that the support of economic activists in the field of tourism, deregulation, and improvement of administrative bureaucracy and the integration of organizational management are the most important factors in improving the business environment in Mashhad.

Mokhtari Hashi et al., (2016) consider the key role of improving the business environment in the country. They concluded that it is impossible to solve the problems in Tehran without solving the problems of all regions of the country. Therefore, the

government focuses on the ten key indicators of ease of doing business to improve the macro environment of the country. Moreover, they point out that the central role of the country's major macroeconomic problems is immigration to Tehran.

Bakhtiyari & Shayesteh (2012) examined the relationship between improving the business climate in Iran compared to other countries in the world and economic growth. For this purpose, panel data method was used during the period of 2005-2011. The research findings showed that the improvement of the business environment has a positive and significant relationship with economic growth in the studied countries.

### 3- Theoretical Background

The theoretical discussion of the business environment goes back to Duncan's studies. Duncan (1972) divides the environment into internal and external environments and discusses their impact on business activities. He investigated internal factors such as organizational culture, manpower, task forces and functions in organizational units as well as organizational-level components. Davis and Bloomstrom (1975) define the business environment as a set of situations and events affecting a business (Vokoun & Daza Aramayo, 2017). According to the findings of this study, in general, the business environment associated with the factors of the external environment. Business environment is influenced by economic, social, geographic, technological, political, legal, labor policies as well as competitive status of business in market. Of course, with the development of business environment literature and research in this field, nowadays, the

importance of internal factors has been more and more discussed; factors such as organizational resources, technological capabilities, financial and marketing capabilities, and other functional factors of an organization (Vokoun & Daza Aramayo, 2017). All of these factors may have a direct or indirect impact on the organization or system performance.

To understand the phenomenon, business environment considers a set of policies, regulatory bodies, and regulatory provisions that regulates business activities. Stern (2002) introduces business environment in the form of a place. According to his research; policies, institutions and behavioral environment represent the returns and risks of investing in a specific environment and place and this can establish a basis for analyzing the local business environment. White (2004) identifies key factors in the local environment affecting business activities such as government and policy frameworks, strategies and policy makers, regulatory frameworks, organizational frameworks, organizational capacities, access to infrastructures, access to financing and financing costs, services and social conditions, cultural factors and support services in the form of an effective factors empowering the local business environment.

McFarland et al., (2010) believe that local institutions play a leading role in designing and implementing policies and regulations to empower entrepreneurship and small business development. They point out that most local governments are unaware of the effects of their own efforts, or they are unaware of their effective and key activities. Because in most cases, local government regulations create unintended institutional barriers that are detrimental to businesses and

limit their activities. Rogers (2011) introduces six factors affecting local business development environment. They include discourse and government-business relations, infrastructure, regulatory environment, land and property rights, government support, and quality of life. Each of which has sub-measures. Although there are differences between the concept of the business environment and the development of the local economy, in general, both approaches overlap in external factors affecting business activities.

Another aspect in which the business environment of the city can be explained and shows also the role of local institutions is the concept of Business Improvement Districts (BIDs). BIDs are defined by self-appraisal, which are created by the government initiative and managed by the owners of assets and businesses and are authorized by the government in the selected geographical areas of a city and countryside (Morcol et al., 2017). In order to understand the function of BIDs and its role in urban areas and its complex nature, it is required to have an explanation of the vision of network governance. To this end, the Salamon's New Governance Framework (2002) is a good tool for discussing BIDs. The Salamon framework has five key guidelines and policy areas including the use of specific tools for analyzing BIDs, the existence of a network between departments and organizations, identifying the scope of activities of private and public participation, management based on the negotiation and persuasion of stakeholders in BIDs and the existence of empowering skills for managers.

Morcool & Wolf (2010) point out that the most important feature of BIDs is its role in the urban governance network. Milford and Peron (2000) and Cattel

(2002) observe that in the processes of governance, governments are not the only determining factor for public goals (Kettl, 2015). Other actors, such as private and nonprofit organizations play an essential role in defining the goals of public policy, and they also shape behavior and action and this is especially true for BIDs. Regarding the literature review's findings, there is different size and context for using BIDs approach. However, it is impossible to create clear and universal features for BIDs and it is desirable to consider the local municipalities' characteristics and context in order to design a unique BIDs. It is necessity to pay attention to municipalities, in addition to discussing BIDs. One can use their institutional capacities in improving the urban business environment (Škof & Bradaschia, 2010).

The impact of entrepreneurship on entrepreneurship, as mentioned earlier in the importance of explaining the urban business environment, is to create a business environment favorable to increasing entrepreneurial activity can be one of the key issues for local governments such as municipalities. The dimensions that local institutions can improve the business environment include rules and regulations, policies formulated interactions with national institutions as well as businesses themselves (McFarland, 2010).

Considering the theoretical and empirical findings of the literature review in the national business environment as well as the urban business environment, municipalities as local institutions can play an extraordinary role in enhancing business activities and urban economic development. In order to understand this role and provide more appropriate mechanisms, it is necessary to examine

the institution from a comprehensive view, both within and outside the organization as well as the role that this organization can play in the business environment of a city. In this study, the framework proposed by Moradi (2017) explained the role of the municipal institution in improving the urban business environment. The theoretical foundation of the model introduced by Moradi is designed based on the system theory to analyze business environment. Moreover, the model synthesized and developed the models of Duncan (1972), Morrison (2006) and Worthington and Britton (2015) by considering the contextual and philosophical foundations dominated in Iran. This model is able to analyze business environment comprehensively. In this model, the environment is divided into the dimensions of the internal environment and the external environment. External environment includes micro, macro and international environments. The internal environment covers factors such as management, organizational culture, organization structure, organizational motivation that influences the performance of an organization. Although these factors are centered on the environment of organization and organization aims to manage and control directly those factors; they are indirectly affected by external factors in the macro and international levels.

Business microenvironment encompasses factors such as market structure, the number of competitors and all agents involving in the supply chain. This environment is also known in the literature as immediate or operating environment, since microenvironment forces have a direct impact on business activity through external factors. The microenvironment

covers a set of factors that is closer to the macro environment and affects the business activities of the impact straight away. The macro environment is known in literature as “the general environment” or “the remote environment.” Macro environment factors include those factors that are less controlled by businesses or they are even given to businesses in comparison to micro and internal environment factors. When a business has less control over effective factors, the success of the organization will depend on its degree of compliance with environment’s factors in national and international levels. It is worth noting that the macro (national) and international factors are among the factors that businesses do not have much impact on and affecting as external factors for businesses.

#### *Review of Context*

The context is reviewed focusing mainly on the institution, business activities and their environment. It is important to consider the laws and regulations of national and local institutions in improving the business environment. These laws and regulations are generally approved by parliament or government that empowers national and local institutions including municipalities in order to manage and influence business activities. Moreover, there are approvals in the Islamic Council of Tehran in five-year Development Plan of the city shaping some parts of the business environment. The laws and regulations can be reviewed according to the two dimensions of execution and the approach of operation.

The organizational structure of Tehran municipality can be divided into four levels. The first level focuses on the top decision making as well as policymaking

level. This includes the Islamic Council of Tehran. This council approves proposals and bills proposed by specialized commissions working under the council. This council approves all regulations that have to be implemented by municipality of Tehran. The second level is named top managers of municipality of Tehran, which includes the mayor, and the deputies of the mayor, which play an important role in determining the strategies and policies of the municipality of Tehran. The municipality's managers include mayor and nine deputies are classified as "top management." The third level covers the level of organizations and companies. Each of the top ten institutions manages and monitors organizations and companies under their supervision. These organizations and companies form the third level of analysis in this study. Many of the municipality's activities are carried out through these organizations and companies. Some of these organizations and companies have only headquarters activities, but others are in the operational levels, in addition to conducting their staff activities. The fourth level is related to the functional area of the twenty-two districts of Tehran, since the area of Tehran is divided into twenty-two regions and each region has a regional municipality. The regional municipality has actually all parts of the municipality of Tehran in the district. Moreover, each municipality of Tehran has a regional deputy that serves citizens in the region in smaller.

The survey of statistical evidence suggests that the population of Tehran and, consequently, the employment of

this city in the second half of the 1380s experienced a negative growth. The population of Tehran in 2011 was 7236553. This is because in the years 1385 and 1996, the city's population was 7803883 and 6758845, respectively.

Based on the census statistics, wholesale and retail sales; repair of motor vehicles and motorcycles had 441,015 employees in 2011, which is ranked the highest employment in Tehran. Subsequently, industrial production (construction) and administration of public affairs and defense, compulsory social security are ranked second and third respectively with 419039 and 276017 employees in 2011. Transportation and warehousing with 229021 jobs are ranked the fourth. Another important point is that the total population employed in Tehran in 2011 is 81.4% men and 18.6% women. Therefore, the labor market is dominated by men employment.

To examine the context further, the statistics of the ease of doing business index is considered. The report of this index is published annually by the World Bank. The selected statistics are reported in Table 1 over the 2015-2018. According to the latest figures, in 2018, Iran ranked 124th among 190 countries in this index. In spite of Iran's efforts to improve this index, Iran's rank has fallen 4<sup>th</sup> in comparison with previous year, 2017. The lowest rank of Iran among sub-index is 160, which related to sub-index of bankruptcy resolution and the highest rank is 25, which related to the number of construction permits.



**Table1. Results of the overall index and sub-index of ease of doing business in Iran: 2015-2018**

Row	Index/Sub-Index	2015		2016		2017		2018	
		Rank	Index	Rank	Index	Rank	Index	Rank	Index
	Index	119	56.74	118	57.44	120	57.26	124	56.48
1	Starting a Business	82	85.68	87	85.73	102	85.06	97	85.16
2	Dealing with Construction Permits	98	67.41	69	71.38	27	78.50	25	78.07
3	Getting Electricity	94	65.45	88	69.17	94	69.15	99	68.43
4	Registering Property	89	63.51	91	63.50	86	64.17	87	64.16
5	Getting Credit	90	45.00	97	45.00	101	45.00	90	50.00
6	Protecting Minority Investors	149	40.00	150	40.00	165	35.00	170	33.33
7	Paying Taxes	122	66.78	123	66.78	100	69.79	150	56.57
8	Trading across Borders	166	39.38	167	39.38	170	40.66	166	46.11
9	Enforcing Contracts	62	61.85	62	61.85	70	60.00	80	59.70
10	Resolving Insolvency	137	32.38	140	31.57	156	25.25	160	23.93

Source: (World Bank, 2015, 2016, 2017 and 2018)

According to the objective of the study, one of the main sub-indices of the dealing with construction permits is related to the area of the Tehran municipality. Detailed information on the fifteen

construction permits required to build a unit is summarized in Table 2 in 2018. This information is calculated and reported only based on the information collected from Tehran.

**Table2. Detailed information on the fifteen construction permits required to build a unit in Tehran**

Row	Permissions	Costs (Rial)	Time (Days)	Description
1.	Request for permission to select the area	0	1-2	From the municipality
2.	Visit the requested unit	2991380	1	By the municipal authority
3.	Get regional license approval	8453900	10	Electronically
4.	Request for permission to build	10625000	30	Electronically
5.	Hire an independent supervisor for the construction period	0	1	By the municipal authority
6.	Visit requested unit: 1	0	1	By the municipal authority
7.	Visit the unit requested: 2	0	1	By the municipal authority
8.	Visit the unit requested: 3	0	1	By the municipal authority
9.	Visit the unit requested: 4	0	1	By the municipal authority
10.	Visit the unit requested: 5	0	1	By the municipal authority
11.	Request to complete the building	0	1	From the municipality
12.	The final visit	0	1	By the municipal authority
13.	Get sewage connection	44857000	49	Tehran Water and Wastewater Company
14.	Get water license	74019000	21	Tehran Water and Wastewater Company
15.	Get a license to complete the building	3472602	1	From the municipality

Source: (World Bank, 2018)

According to Article 4 of the Law on “the continuous improvement of the business environment”, the Chamber of

Commerce, Industries, Mining and Agriculture is responsible for the preparation of the National Monitoring

Index for the business environment of Iran on a seasonal basis since 1395. The summer report of 2017 is the fourth report that the institution has provided and published. This index is calculated using the 70 components and 42 statistical units at the provincial level of the country. The index computes the business environment in Iran and ranks in the range of 0 to 10 (zero in the best situation and 10 worst situations). The findings of the summer 2012 report indicate that the rate is 5.77, which is somewhat worse than last season (comparing spring 2017 with 5.69). The report issued in the summer 2017 shows that among the components, the country was faced with difficulty in financing from banks, instability and unpredictability of prices (raw materials and products) and unfair practices of audit and tax receipts, respectively. Among the agricultural, industry and services sectors; the sub-index of services in the urban areas was 5.58 in the spring of 1396, which increased to 5.71 in the summer of 2017. This suggests that there is a relative deterioration of the business environment in service sector.

It is noteworthy that the above three components (the difficulty of financing, the uncertainty and the unpredictability of unfair audits and receipts of taxes), are ranked the worst first three in the service sector, respectively. Moreover, instability of business policies, regulations and procedures, and strict procedures in labor and insurance departments for manpower management are ranked the next worst components in the service sector, respectively. Considering the above statistics, it can be said that the situation in the national business environment is not appropriate for developing businesses. Majority of these situations can be attributed to the

institutional performance of the country.

It can be concluded that the municipality of Tehran has major responsibility in the form of a set of laws and regulations that shapes business environment in the city. Therefore, the municipality plays a significant role in the urban development. Moreover, institutional responsibilities of municipality such as formulating the urban development strategies and policies play a leading role in achieving sustainable urban development in the city of Tehran. In the area of municipal governance, the role of the five determinants is significant. These five factors are capacity, authority and law, resources, territory, and scope of duties and mayor will.

#### **4- Research Methodology**

According to the objective of this research, which focuses on the identification of policies for improving the business environment in Tehran, a qualitative method is used to collect implicit information and knowledge of experts. It uses interview technique with experts along with literature review's findings. Therefore, this research synthesizes the findings of field studies and literature review in order to design a policy model.

The sampling method used in this research is the purposeful sampling methodology. Because in this research, instead of obtaining information from those who are easily accessible, we must obtain information from certain individuals. That is, certain types of people who are able to provide the information we need, since they are the only people who have such information. Social researchers are usually hoping to find something in a sample or group beyond the boundaries of that group's portfolio. Therefore, when non-probabilistic samples are used, it is

possible to judge whether these samples are as representative of a particular population or group or not (Bliki, 2005).

In order to construct a validation framework in this research, we follow Goba and Lincoln's recommendations regarding the matching of the collected data with the facts, feelings and experiences. The purpose of this method is to increase the accuracy of the research process (Nikenshan et al., 2010). Moreover, reliability is verified by using the methods provided by Rao and Perry, which include consistency in the process of recording and interpreting, as well as the use of two individuals to conduct interviews (Abbaszadeh, 2012).

The interview was conducted with 22 experts working in departments and organizations affiliated with the Municipality of Tehran, university professors and business owners. It is worth noting that sampling continued until to achieve theoretical saturation. The meaning of saturation is the filling of the space of a concept or category and the lack of emergence of new data. In fact, saturation is more than a lack of new data. The common feature of the experts is that they have held a minimum degree of higher education, and they also have 10 years of working experiences or related academic activities.

Since the data in this method is different from quantitative methods, a different method is used than quantitative methods for analyzing data collected through interview. This method has three coding steps including open, axial, and

selective coding used for the analysis of the data. Open coding is an analytical process in which concepts are identified and their features and dimensions are discovered in the data. An open coding for analysis can be considered as a row-to-row, phrase, or paragraph-to-paragraph, and even page-to-page of data collected. Axial encoding is the process of linking categories to subcategories, and linking categories to features and dimensions. This coding is called a central axis that codes around the axis of a category. According to Strauss, selective coding is also the systematic choice of the main components and their association with other components, validating relationships, and filling gaps with categories that need further improvement.

## 5- Results

The research findings are analyzed in the form of the field theory of existing data and, finally, according to available literature, the target framework is presented in the research.

### *Open Coding*

At this stage, 165 unique primary codes are assigned to existing narratives and concepts, which are broadly based on the entire initial coding process of 227 primary codes. It should be noted that at this stage, the initial codes should be identical with the repetition, which is different with the pivot-coding step. In Table 2, a selected part of the initial code along with the frequency of the codes is reported.

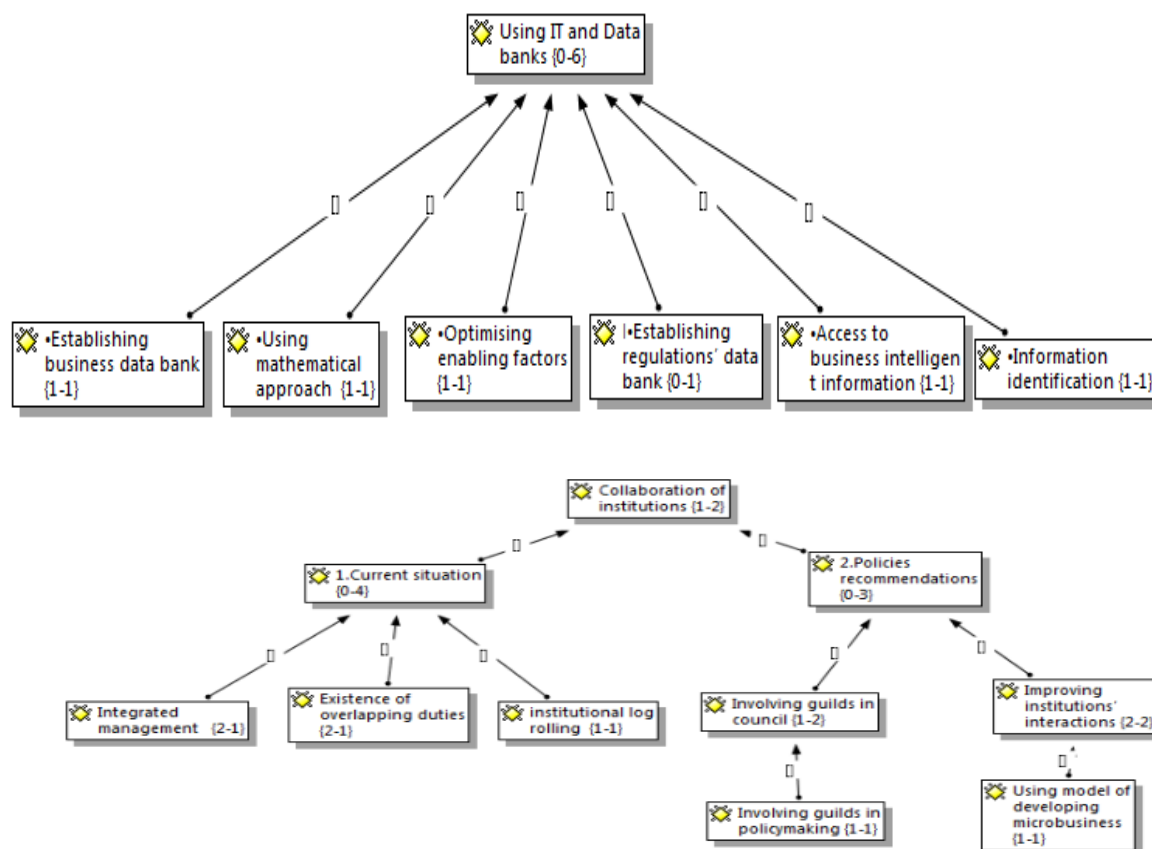
**Table2. Selected open coding findings**

Open Codes	Frequency	Open Codes	Frequency
Solving the problem of transportation with the balanced distribution of services, including businesses	14	Spreading social responsibility in managing businesses	3
Influence of development projects on access and selection of businesses location	7	Spotting urban areas based on capacity	4
Positive non-material effect on businesses	6	Considering approved policy and plan in national lever as a basis for developing interaction and collaboration	3
Improving competition between businesses by engaging them in urban management	7	Limitation of the executive power of the municipality	4
Establishing a system around the market in order to load and handling by truck	1	Management based on people demands	3
Allocation of permission without evaluation	6	The role of municipal bodies in business development	2
Having tools and executive guarantees for advancing legal affairs	1	A comprehensive perspective at the granting of licenses, taking into account potential and actual requests for business units	13
Considering transportation capacity in the construction of commercial complexes	2	Gradual compliance with new rules	3
Considering property rights of businesses	4	Transferring municipal development centers to universities	1
Participating stakeholders in decision making	2	Overlapping of the municipality’s duties in dealing with the subject of business with other institutions	3
Considering environmental issues in business activities	4	Cooperation and convergence and trust improve the business environment	3
Discontinuity of urban management to achieve a sustainable economy and a sustainable environment	3	Cooperation with other institutions	5
Developing culture of innovation in business development	4	Convergence and cooperation between council and municipality in the city management	4

***Axial Coding***

After performing the initial coding step, the existing code should be subjected to a higher level of abstraction for the purpose of research. These categories are based on the subject-matter of the research. Given the size limitation,

we present only two outputs below based on the AtlasTi findings. They include the pivotal coding of information technology and the creation of databases and the collaboration and interconnection of institutions involved in shaping business environment.



These categories include twelve key categories, including the use of information technology and the creation of databases, the need for urban and businesses development and population, migration management, collaboration and communication with other institutions to improve business environment, commercial property licenses, tax support, and the role of

municipal budgets in business development, developmental policies and transport, and the impact on the business environment, reducing transaction costs and their role in improving the business environment, regulatory policies and regulatory provisions, internal organizational factors. Each of these categories has different dimensions referred to assigned codes shown in Table 3.

**Table3. Axial coding categories**

Axial category	Assigned codes
Using Information Technology and Creating Databases	<ul style="list-style-type: none"> <li>• Establishing a database for businesses</li> <li>• Establishing a law and regulation database for stockholders</li> <li>• Access to business information through designing smart platform</li> <li>• Using mathematical methods for calculation of reduction barriers and improvement of benefits</li> <li>• Identification and optimization of enabling factors</li> <li>• Providing identification platform for information</li> </ul>
The need for urban development and development for businesses and the population	<ul style="list-style-type: none"> <li>• Prioritizing the organizing of business distribution</li> <li>• Balanced distribution of service delivery (business)</li> <li>• Identifying business opportunities in neighborhoods</li> </ul>

Axial category	Assigned codes
Commercial Property Permits	<ul style="list-style-type: none"> <li>• Capacity saturation of business licenses without considering the capacity of each area</li> <li>• Creating sustainable revenues for the municipality using international experiences</li> <li>• Impact on unemployment by giving business licenses</li> <li>• Impose a high cost for licensing commercial real estate</li> <li>• Allocation of permission without evaluation</li> <li>• Installment payment for the cost of business licenses</li> <li>• Considering transportation capacity in the construction of commercial complexes</li> <li>• Licensing for businesses, including commercial real estate in line with business demand</li> <li>• Comprehensive review of licensing, taking into account potential and actual demands for business units.</li> </ul>
Tax support and the role of municipalities in business development	<ul style="list-style-type: none"> <li>• Tax incentives</li> <li>• The role of municipal budgets in business development</li> </ul>
Reduce transaction costs in order to improve business environment	<ul style="list-style-type: none"> <li>• Reducing transaction costs by smart city</li> <li>• Reducing transaction costs by infrastructure development</li> <li>• Reducing transaction costs resulting from regulatory provisions</li> </ul>

**Selective Coding**

This stage is the final stage of data analysis. At this stage, the code of the previous stage is used in coding. In fact, at this stage, we choose one category called the core category and makes a relation among all other categories to that category. In this process, after the expansion and improvement of the core categories and the codes available, we provide the thematic framework of

research in the twenty categories. These categories include issues related to improving the business environment in Tehran. These categories along with the findings of the literature review are synthesized in order to provide all required information as a basis for designing a policy model for improving the business environment in the city of Tehran (Table 3).

**Table4. Categories of selective coding**

Row	Codes	Row	Codes
1.	Macro-cultural factors	11.	Physical infrastructure
2.	Financial support	12.	Non-physical infrastructure
3.	Immigration Setting	13.	Laws and regulations
4.	Private business partnership	14.	Institutions and organizations responsible for business improvement
5.	Local-Participatory Governance	15.	Institutional cooperation
6.	Reduce transaction costs and improve business environment	16.	Citizenship policy
7.	Tax support and the role of municipal budget in business development	17.	Organize businesses inside and outside of the city
8.	International capacity	18.	Identify and develop opportunities
9.	City-level competition development	19.	Expansion of supply chain
10.	Sustainable income of urban development	20.	environmental issues

### ***Developing a Model to Improve Tehran's Business Environment***

After analyzing the data from the coding stages, we combine and synthesis the findings from the interview along with the factors identified from the literature review in order to design a model for improving the business environment in Tehran. The dimensions of the model are identified, designed and presented at four levels of urban, micro, macro, and international. The model of improving the business environment in Tehran is presented in Figure 1. The key dimensions of the model are as follows:

#### ***A: Urban Environment Components***

Urban environment components include physical infrastructure, non-physical infrastructure, laws and regulations, institutions relevant to business-affairs, local-participatory governance, international governance, institutional cooperation, urban-level competition development, private business partnerships, Spatial business management, identification and development of opportunities, new knowledge and technology, sustainable income for urban development, urban development, transaction costs and tax support

#### ***B: The Components of the Microenvironment***

The components of the microenvironment include suppliers, labor market, credit market, media and customer.

#### ***C: Macro Environment***

The components of the macro environment have been identified as follows: cultural macroeconomic factors; demographic factors (migration management); environmental, legal, political, technological, economic and social factors

#### ***D: The Components of International Environment***

The components of the international

environment cover cultural, political, technological, and innovation and legal factors. It is worth noting that the main part of the interview's findings is related to areas that can be policy-driven in the municipality, and findings from micro and macro levels are mainly derived from literature review. In this section, after identifying the dimensions and components of the model, we will examine them in details.

### ***Analysis and Discussion of the Findings Related to Mechanisms of Improving Tehran's Business Environment***

The categories presented in the model have different dimensions which we will discuss below. It is worth to note that in this section, the findings of interviews with experts and the findings of the literature review are discussed. This led to integrate and synthesize the findings and eventually design a model for improving the business environment in Tehran.

#### ***A: Urban Environment***

##### ***Physical Infrastructure***

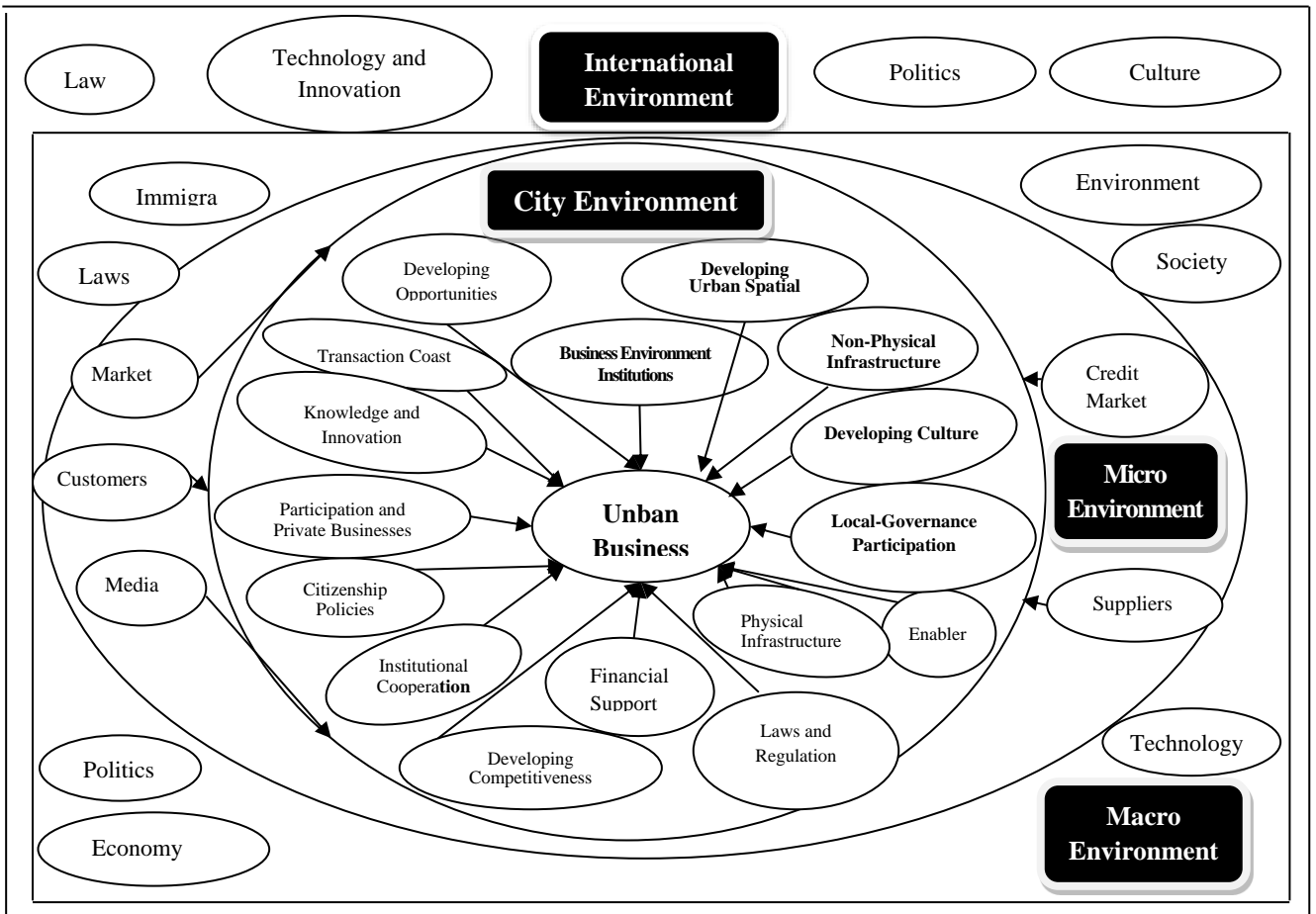
This category is divided into four components: traffic capacity, business and commercial center development, balanced transport infrastructure development, urban service development, and expansion and extension of the lines of buses (BRT). Each of which points to the issue of improving the business and the impact of the municipal institution in relation to the physical infrastructure. With regard to traffic capacity, this can be directly linked to the activity of the businesses of that unit or adjacent units, just prior to the construction of each business unit, especially large commercial complexes, hypermarkets and commercial-cultural campuses. According to Gibson et al. (2015), this category can be adapted to

urban infrastructure policies. These policies discuss how to optimize urban infrastructure to provide and develop infrastructures for the development of high growth businesses (Gibson et al., 2015). These infrastructures can also increase the creation of business opportunities (for example, by expanding the lines of fast-moving or metro and BRT buses), as well as the development of existing active businesses.

**Non-physical Infrastructure**

This infrastructure refers to the use of information and communication technology in municipalities and urban management in order to improve business processes and consequently improve the business environment. This application can be used in the form of databases or smart city management using ICT. Other cases in the infrastructure are linked to the

creation of a single window, as well as the creation of a brand city for the development of businesses and services, for example in the tourism sector. Gibson et al., (2015) study provided key dimensions of urban management through study in 40 cities. They point out that information is one of the tasks of urban management that can be integrated with the digital governance policies pursued in the same direction and highlights the need for databases. In particular, entrepreneurial activities require speed in managing the related affairs. This is worth to note that traditional administrative system with bureaucracy makes permitting processes take longer and, ultimately, increase the transaction costs. For this reason, there is an information system for registering an application, as well as a database to help citizens analyze them and make decision.



**Fig3. Model of improving business environment in the city of Tehran**

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### ***Laws and Regulations***

This area is divided into four dimensions. They include facilitating the process of registering businesses, goods' distribution system, updating laws and regulations, and increasing the perception and acceptance of stakeholders and law enforcement.

In the discussion of laws and regulations, one has to consider the issues: first, it must measure the comprehensiveness and appropriateness of the current rules, and adapt it to the current situation and measure its degree of convergence with the conditions. The extent to which the current legislation complies with the conditions for business development and improvement can be affected by law enforcement and law enforcement by enforcers, since, as a result of the exercise, stakeholders are affected by laws, especially in the business sector, that is, economic actors. Rules need to be measured in terms of time and place.

### ***Institutions Responsible for Improving the Business Environment***

In this context, it is important to consider the institutional arrangements to improve business environment, transparency and accountability as well as the mutual trust between the institutions involved. In this area, firstly, we need to define the scope of the executive power of the municipality affecting on the business environment and commercial businesses. Then the duties of each institution and its impact on the business environment are identified and specified. After these two phases, the expected outcomes should determine the impact of municipal institutions on the business environment, and according to these boundaries, the effect of institutions on the business environment in Tehran is identified.

### ***Local-Participatory Governance***

Governing the city through the participation of the people and the creation of specific districts in each region can be effective in improving the efficiency of urban management and business activities. This approach can be effective in using the experiences of business improvement districts (BIDs) as a benchmark experienced in advanced countries and localization.

Business improvement districts (BIDs) are defined by their areas of valuation that are created by the government initiative and managed by property owners as well as business owners and they are authorized by the state in areas where geographically selected in the city and suburbs.

### ***Citizenship Policies***

This category includes three components of building trust, maintaining and increasing the purchasing power of citizens and promoting entrepreneurship among the community. In the area of promoting municipal entrepreneurship, existing educational programs can be used or promoted in educating potential entrepreneurs. McFarland et al. (2010) believe that local institutions play a leading role in designing and implementing policies and regulations to empower entrepreneurial activities and small business development. The issue of trust can also be very important in the area of citizenship. Citizens' trust in enforcing and existing laws can establish management based on popular demands. Management in different parts of the municipality should also be based on popular demands, since this institution is faced with many citizens. citizens must have mutual confidence in the relations between the ruling parties.

***Institutional Cooperation***

The collaborations among institutions were divided into three components: cooperation with guilds, and cooperation and convergence with the city council in city administration, and cooperation with national institutions. Among the problems mentioned by experts in the interviews, there is generally a lack of understanding among municipal institutions about the business environment improvement. In order to facilitate this cooperation, it is expected that municipal institutions should interact with the guilds as a NGO and use their participation in urban management.

Regarding convergence and cooperation between the council and the municipality, it can be said that by basing on the development documents of the upstream, these documents will be the basis for the development of interaction and cooperation between these two institutions. These collaborations and the development of mutual cooperation are more than necessary to achieve more effective management in order to improve business environment. Because these two institutions play a key role in the city administration and the legislation of urban management. In the case of cooperation with the national institutions, the synergy or cooperation with the main responsible and relevant national institutions are required to improve business environment.

***City-Level Competition Development***

Urban management, such as the management of Tehran by municipality, requires money as well as manpower in order to manage properly this institution. The things that the municipality can take the advantage to consider are the capacities of the city's businesses as well as reducing its responsibilities in the city

affairs to attract, in a part, the participation of the privately owned businesses in the management. This approach is partly taking place in the municipality's partnership and investment organization, but it needs to learn and practice more from benchmarks. This can effectively lead to more competitive business and, as a result, create more opportunities for business development as well as innovation in this field.

***Urban Spatial Development***

One of the issues raised in the experts' interview is the consistency of the supply and demand capacities to prove services for business in various urban areas. The discussion of the review of capacity is supported by the view that we consider the traffic and transportation capacity of the regions, the granting of commercial and economic licenses for business activities. This can be seen from the angle of development of transport infrastructures such as highways or railways within the city.

***Private Business Partnership***

This issue is somewhat different from the issue of developing city-level competition. Because, this partnership is related to the municipality's own demands for the goods and services and even technology needed. The municipality itself as a consumer can be a good marketplace for using business products and services in the city of Tehran. Among the issues that can be mentioned are the technologies that municipal various branches needed. Municipality as a consumer needs a variety of hardware, software, services as well as technologies to deliver services.

***Organizing Business in the City and its Suburbs***

This section is divided into four

thematic areas of the traditional development of businesses and market order, the fragmentation of urban areas, the provision of land and space for the development of business activities, and the classification of businesses in the direction of permissions. The use of traditional models of business layout is one of the issues raised by experts. These models can also have a socio-cultural burden, and can be also beneficial in terms of reducing costs for citizens. The market and traditional models of markets can be restored or launched by studying and using available capacities. Spotting various areas of the city can be one of the policies that the municipality will implement in order to expand the business space needed. These models can include various business services like the car repairers class. The nine policies proposed in order to manage the city in this area. Creating hubs are example to support the development of business in the urban environment in the form of creating poles of innovation in the city or assigning locations in the city to enhance the capacity and business capabilities.

#### *Identifying and Developing Opportunities*

One of the issues to improve or set up new businesses in the city can be based on the city's opportunities and benefits. These opportunities and advantages can be in the sources, types of infrastructure, human resources, as well as the political-economic importance that Tehran has. It is possible to study the opportunities and advantages existing for the city in the areas discussed and used by planning for the desired goals.

#### *Sustainable Income for Urban Development*

The municipality needs to earn money for managing the city. The revenue streams that this institution

depends on should be sustainable.

According to the law, licenses are issued at the beginning of the construction or reconstruction of a business unit from the municipality. Since the imposition of a sudden onset of a charge for a person in the pursuit of economic activity can create a barrier, it can be reduced by explaining mechanisms such as cost allocation of licenses, participation in the profit of a business unit or a share in the unit from the initial financial burden on business activities.

#### *Transaction Costs*

Reducing the costs of transaction, apart from the effects of policy orientations, can have a positive effect on businesses' activities. The result of these policies, like the development of infrastructure, in addition to improving the environment, can reduce transaction costs for businesses in the city. The interviewed experts emphasized the positive role of transaction costs' reduction on the business activities' development, since reducing transaction costs will have a positive effect on current business processes. The municipality is one of the institutions that can act as an external environment for organizations and businesses to reduce the cost for businesses. According to Williamson (1985), the main focus of the organization itself is to design and implement policies that reduce transaction costs and increase the competitiveness of the organization (Moradi, 2017).

#### *Tax and Financial Support*

In the area of tax incentives, municipalities can provide incentives for businesses to grow through the reduction of permission costs, duties as well as tax rates. Subsidy incentives can be implemented in a variety of formats in order to increase new business venture.

***B: Micro Environment***

The micro business environment covers factors such as market structure, labor market, suppliers, market for goods and services, and the money market. In comparison with the macro environment, microenvironment has a closer relationship with business activities (Moradi, 2017). Among the issues mentioned in the experts' interviews are the development of supply chain related to municipality. The municipality acts as a major consumer in the city and in many cases, it needs to meet its domestic demand in order to provide services for citizens. Therefore, it is possible to enhance a supply chain within the city. This can also be done to meet the needs of the municipality and also lead to business participation in the provision of urban services.

***C: Macro Environment***

The macro environment is known in literature as "the general environment" or "the remote environment." Macro environment is generally covers those factors that, compared to the microenvironment, the business entities have less control. They comprise political, economic, social, cultural, and environmental factors.

***Macro-Cultural Factors***

Customs are among the social values that change over time and can affect businesses as well. These changes systematically impact on urban businesses, but in this area, they are only considered to be macro business environment. An important point in this area is that these factors are outside the boundaries of the urban environment, but the municipality can take advantage of existing values in terms of its capacity to improve business activities. According to the existing customs as well as the culture of the

people, we can obtain good information about the establishment of cultural businesses. For example, at the time of the national festivals, people demand special types of goods and services that can be offered by businesses.

***Demographic and Immigration Factors***

Immigration is a part of a social factor that affects businesses in a number of ways. These influences on the use of the elite while the lack of the use is one of the main challenges of development. Tehran is also important city considering as a political and economic capital. The attraction of population can also have a positive or negative impact on business activities. In terms of access to skilled labor, it can create a constructive role for the immigrants to the city, but the inevitably entry of migrants can create some problems such as affecting people's activities and livelihood, even its effect will be worsening if they are not in line with population patterns and city capacity. Traffic and pollution can be mentioned from its effects.

***Environmental Factors***

Issues in business management in Tehran can be viewed in a variety of ways. One aspect is environmental debate. One of the problems facing the municipality is urban air pollution. Different entities play partially a role in urban air pollution. One of these areas can be the presence of polluting industries in the city. Regarding the objective function of organizing these types of industries, their exit or control of their activities can indirectly effect on the health of citizens and economic activities as well as the urban business environment. Of course, due to the enormous nature of these factors, there is little control over the polluting activities and businesses.

Nevertheless, due to the macro nature of this factor, there is little control over the business, but the municipality can play an effective role in improving the situation, given its legal capacity.

#### ***D: International Environment***

International factors, like macroeconomic factors, affect business activities as well. It's worth noting that the macro (national) and international factors are among those factors that businesses do not have much impact on and those factors act as external for businesses. These factors may create either opportunities or threats for business. Businesses are exploiting or losing out based on their ability to adapt in the environment.

The political role and economic potential of the city of Tehran can develop the businesses and create new businesses. The municipality can do so in the area of its authority and use executive power to grow businesses in the international level. One of the policy options is to focus on policy advocacy and investment development for the growth and development of businesses at the international scale. The policy areas comprise the creation of the growth centers and incubators, the establishment of digital governance policies and the development of communication infrastructure for business growth at the international levels (Gibson et al., 2015).

### **6- Conclusion and Discussion**

This article aims to design a model for improving the business environment in the city of Tehran. In order to achieve the goal, the literature was first reviewed. After identifying the factors introduced in the literature, field study is conducted to collect data. Interview method is conducted with 22 experts, and the data

collected through interviews are analyzed. Analysis of interviews is conducted in three stages. They include open, axial and selective coding. The dimensions of the model designed are identified at the organizational, micro, macro, and international levels. The policy recommendations proposed to improve the business climate in Tehran are based on the organizational level are as follows:

**Developing the application of information technology and creating databases:** The use of information and communication technology in municipality and urban management is important in order to make business processes more efficient resulted in improving the business environment. This application can be used in the framework of providing municipal services electronically or by creating databases for introducing business opportunities. In addition to these, digital governance and smart city management can be developed by information and communication technology. Other policies in this area are the creation of a single window and the creation of a brand city for the development of businesses such as tourism services.

**Institutional reforms and the development of institutional interactions:** In this dimension, institutional arrangements for improving the business environment, transparency, accountability and trust are identified. In this regard, first, a clear definition of the scope of municipal executive power are required considering business environment and commercial businesses' activities. Then, the responsibilities and duties of each institution and its impact on the business environment are identified. Governing the city through the participation of the people and the creation of specific

regions such as BID in each specific region can be effective in improving the efficiency of urban management as well as business activities. Developing interactions and institutional cooperation can be classified in three parts: cooperation with guilds, cooperation with national institutions and cooperation and convergence with the City Council. The cooperation between the City Council through the foundation of upstream approved development documents will be a good ground for developing effective interaction and cooperation between the two institutions. These two institutions play a key role in the city administration and the legislation of urban management.

**Reducing transaction costs:** Reducing transaction costs is one of the key policy area that a municipality can play in enhancing business competitiveness. Reforming and reducing the laws and regulations governing various business processes will greatly reduce transaction costs and improve the competitiveness of businesses. Moreover, the development of infrastructure and intelligence means, in addition to improving the business environment, can reduce transaction costs.

**Citizenship:** The citizenship components involve building trust, maintaining and increasing the purchasing power of citizens, and promoting entrepreneurship among the community. Trust can be very important in the area of citizenship. Citizens' trust in enforcers and existing laws can establish an effective management based on popular demands. Since municipality interacts with the citizen in many cases. One must have mutual trust in the relations between the ruling constituents. In the area of promoting municipal entrepreneurship, existing educational programs can be developed.

Moreover, environment stimulation's promotion can be considered in different parts of the municipality based on peoples' demands.

**Urban spatial development:** The establishment of population and activities in the urban area is one of the key issues of urban management. Including suitability of supply and demand capacity for providing business services in different urban areas, paying attention to traffic capacity and transportation network, granting commercial and economic licenses at the geographic level for business activity and development of transport infrastructure, such as highways or railways within the city Is one of the most prominent examples of urban policy in achieving urban amenities. This approach can be effective in using the pattern of business improvement areas in advanced countries and localization.

**Private business partnership:** This issue in urban management is somewhat different from the issue of developing city-level competition because this partnership is in the municipality management and is aimed at satisfying the needs of the municipality. Among the issues that can be mentioned, is the provision of municipal technology needs. The municipality, as a consumer, can be a good market for selling products and services in the city of Tehran. This consumer has various requirements in hardware, software, services, and the need for technology to deliver services.

**Organizing business in the city and suburbs:** Organizing businesses are important for the development and efficiency of business activities. The use of traditional model of business organizing is one of the issues raised by experts. These models can also have a socio-cultural

burden, and can also be beneficial in terms of reducing costs for citizens as well. The models can be restored or launched by studying and using available capacities. Spot in various areas of the city can be one of the policies that the municipality can manage and expand the business space needed in order to provide services. The spot can include service businesses like the car repairer's class, creating poles of innovation in the city or assigning places in the city to provide the capabilities of existing businesses.

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