

# **CHALLENGES DUE TO CURRENT BUSINESS SYSTEMS IN SMALL AND MEDIUM SIZE CONTRACTORS IN IRAN CONSTRUCTION INDUSTRY**

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## **Abstract**

The aim of this paper is outline the current business and also identifies the challenges and problems due to traditional business process facing Small and Medium Size contractors in the Iran construction industry. The construction sector in Iran is not only contributes a wide range of Gross Domestic product (GDP) to country economy but also is a significant source of employment. Drawing on research on small and medium size contractors, the paper will implement both secondary and primary literature. Nine interviews were done to top managers in the Iran construction sector. This included small and medium size contractors' top managers. The paper attributes the current business process of small and medium size contractors in two different factors which are based on traditional systems. Small and medium businesses have been advocated as an important means of sustainable development in which Iran construction sector is not an exception. The paper is mainly concentrated on registered small and medium size contractors which active in Tehran. The study looked at the challenges and problems facing small and medium size contractors working in building projects.

**Keywords:** *Challenges, traditional Business, small and medium size enterprises, Iran construction industry.*

## **I. INTRODUCTION**

Small and Medium contractors (SMCs) play a key role in Iran construction industry. SMCs are powerful instruments of generating job opportunities; can perform small projects at different and remote geographical locations that might be unattractive to large contractors or too costly; low overheads enable small and medium contractors to work at more competitive prices; large number of functional small and medium size contractors can help to decentralize the construction industry dominated by established large contractors; the relatively low skills and resources required at this scale can easily lower the entry point for the small and medium size owners to begin to participate in the industry; and a large number of functional Iranian owned firms can develop a platform for growth and redistribution of wealth in Iran. SMCs are maintaining real economic growth in construction sector, when the public sector and large business are dropping jobs.

The SMCs development program fall under the President Deputy for Strategic Planning and Control (PDSPC) in Iran.

The main mandate of the organization is to rank the contractors which are active in the construction sector. It ensures the firms acting by an efficient and effective evaluation system. In carrying out its mission, the PDSPC is committed to upholding safety and environmental standards for socioeconomic development by making the best use of the country's available resources. The high competition among the small and medium size contractors has contributed to increase financial failures of the emerging market, making the market unsustainable in Iran construction industry [1].

### **Traditional business process and its Challenges**

The design, manufacture and assembly processes within construction can no longer be left to chance, but must become an integrated process to deliver quality, value for money, speed, high productivity and satisfaction for all participants. The process itself must be designed to achieve these goals, hence the need for the production engineering of construction. It is now possible to define production engineering as the management of the complete design, component manufacturing and assembly process as an integrated whole to achieve the highest standards of productivity and quality.

It has been well documented that the construction industry is characterized as being both fragmented [2], [4], [7] and information-intensive [5], [10], [11]. A considerable degree of information flows between the various participants including client, architect, structural designer, quantity surveyor, services engineer, fabricator, subcontractors, contractor and material suppliers. A construction project as a team effort, involves several inter-organizational activities, dialogues and data flows, making it a highly complex process [3], [4]. The information flow in the small and medium contractors in the Iran construction industry is still mostly paper-based and hence slow. The network of communication between the various project partners in a typical construction project is mainly one-to-one, where different stakeholders in a construction project would communicate with one another individually using faxes, telephone networks and electronic

mail [6]. According to Thomas, et al. [11] as a project grows larger in size, its complexity increases and the possibility of communication blockages also grows. Research by Anumba and Evbuomwan [2] has shown that the conventional one-to-one and paper-based methods of communicating information were grossly inadequate particularly in collaborative and concurrent engineering settings where the project team members were geographically distributed. It was therefore very important for construction project teams to explore alternative and more effective ways of communicating throughout the project Lifecycle to increase efficiency and productivity of company. This issue was stated in the Egan report [4] that the construction industry needed to overcome its fragmented nature to formulate efficient and effective business processes. A study which looks at the construction industry in Iran [8] stated that lack of access to finance both during pre-construction which disqualifies emerging SMCs from meeting guarantee and performance bond requirements and during construction which leads to cash-flow problems, incomplete work and even liquidation are financial constraints facing emerging SMCs. Also, Complexity, risks involved in the construction industry have led to enormous failures in Small business those harboring the wrong impression that there is quick money to be made are the most affected [9].

SMCs in Iran construction industry doesn't have a good relationship with other participants especially to the supplier [8]. For example, in a normal relationship, the material supplier provides credit to the firm (30-90 day term), the firm pays on time and the cycle gets repeated. In a bad relationship, the supplier requires cash up front and will not deliver the material until payment is made in full. The reason for this is if the supplier provides credit to the SMC, the firm is often unable to pay on time due to capacity or performance constraints [8].

Other problems due to traditional business systems facing small and medium contractors which identified by the literature, are not unique to the Iran construction industry. The vast majority of construction firms is small contractors that rely on outsourcing personnel as required. This has

severely affected skills training and the retention of expertise in the industry as construction workers become highly mobile, walking in and out of the industry, depending on performance in other sectors of the economy. The impact can be seen in the rigid adherence to management techniques and construction practices handed down from colonial times which, as a result of inadequate skills and capacity. Delays with interim and final payments, as well as onerous contract conditions faced by construction firms, can also impose huge constraints on the industry. Many construction firms have suffered financial ruin and bankruptcy because of delays in payment, which are common with government contracts.

## II. RESEARCH METHOD

This research is conducted in 2012 by the authors revealed the current challenges due to traditional business system in small and medium size contractors in Iran. 9 top managers of the small and medium size contractors were interviewed. Two managers were less than four years; two interviewees were between 5 and 10 years; and five managers had experienced for more than 10 years. There was no SMCs' top manager that had experienced more than 15 years. More than 89 percent of the interviewees believed that the current business within the construction industry in Iran is not favorable for small and medium size contractors to be successful. On the other hand 66% of the respondents think that the construction industry environment is not favorable for the success of the small and medium size enterprises. Three respondents were satisfied with the current business system and six of the respondents were not satisfied. The respondents who are not satisfied with regard to the promotion of current business system.

## III. FINDING AND DISCUSSION

From the research conducted it can be concluded that the relative lack of business success among the small and medium size contractors in Iran is a result of the following problems which must be addressed in order for SMCs in the construction sector to be successful:

- *A lack of resources (financial, business skills, managerial skills and technological tools) for construction work.*
- *The contracts were inevitably packaged in such a way as to exclude small and medium size contractors.*
- *The use of traditional business systems and inadequacy in technological tools using and managerial skills required in project implementation..*
- *Lack of a good relationship between SMCs and other parties in construction sector.*
- *An inadequate approach and insufficient knowledge, time and experience required for the whole process of finding work, once found, insufficient understanding of the contract documentation and the preparation and submission of tenders.*
- *Slow payment by government and non-payment by private sector after completing a government project.*

No cover funding and inadequate technical infrastructure and targeted a wide range of topics, including targeted training, quality circles, research, consulting, design and product development, skills development, infrastructure development the development of exports, technological development and technical support. Small and medium enterprises in the construction industry in Iran are also not able to move quickly and focus resources (financial, business skills, leadership and technological tools).

## IV. COCLUSION

The small and medium size contractors (SMCs) in the Iran construction sector are relatively underdeveloped, mainly constrained by limited access to new technology such as electronic commerce (e-commerce) and high cost of capital and weak support programs from the government. There is also lack of skills. The most important deciding factors in the development of SMCs in Iran are to address the issue of access to finance, shortage of skills and inadequate

technology support must be a priority. Survival, growth and expansion of the small business sector are essential for economic growth and job creation in Iran. It stated that the construction industry is an important pillar of the domestic economy in Iran, contributing about 5.6 % of the GDP and is simply too important to be allowed to stagnate.

To prevent stagnation and to move forward in time, the Iran construction industry should be looking for ways to make the new and revolutionary technologies such as electronic commerce in its day to day working practices merge. The design can reduce the effects of fragmentation through the use of technological tools such as e-commerce, to increase the efficiency and quality of construction projects [4]. The

Egan Report [4] also shows that the construction process can be effectively managed by IT (Information Technology) and Internet innovative planning and management. Construction projects may also result in substantial savings in time and money by being dynamic methods of information exchange and communication facilitated by the computer and Internet e-commerce tools. Collaboration tools of information technology can be used to improve coordination between the project partners. The Internet can pass as a tool to store and view information is used. The use of these technologies can be encouraged to improve construction company business processes and traditional services.

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