



Defining strategic processes in investment companies

An exploration study in Iranian Investment Companies

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Abstract

Purpose – The purpose of this paper is to define the strategic processes or processes with strategic nature of investment companies (ICs). This goal is achieved by proposing a methodology for selecting strategic processes among the processes of ICs based on the Balanced Scorecard (BSC) framework and the statistical analysis.

Design/methodology/approach – Ten leading Iranian Investment Companies (ICs) were selected whose processes represented those in the field. Through administration of a questionnaire, the processes under study were ranked based on their degree of contribution to the IC's strategy.

Findings – This paper defines the common ICs' processes based on surveying the literature review. By using the Balanced Scorecard (BSC) framework, ICs are able to define the processes which are critical in achieving organizations' objectives. These processes are ranked based on company strategy using a statistical survey which finally leads to defining strategic processes. Determining strategic processes in business process reengineering (BPR) is of great importance owing to time and budget limitations.

Research limitations/implications – This research is based on multi case studies. It therefore has its limitations which should be taken into consideration in interpreting and/or generalizing the results obtained from the study. The paper is partially based on previous findings of a literature review. Furthermore, the strategy considered in this study is a competitive one and the strategic processes are chosen according to this strategy which can be changeable. In interpreting the result, these limitations should be kept in mind.

Originality/value – Defining the strategic processes for ICs helps them to allocate their resources to the processes which directly contribute to the company's strategic goal. This paper builds a portfolio of ICs' processes highly related to organization strategic goals. Therefore, these processes are the appropriate candidate in BPR project investment.

Keywords Organizational processes, Corporate strategy, Balanced scorecard, Iran

Paper type Research paper



Introduction

Investment companies (ICs) are financial brokers who sell stocks to people and invest their profits on a variety of portfolios. The main function of an IC is to build a portfolio with desirable risk for the purpose of investing in a profitable way. This can be achieved by selecting the suitable stocks and selling or buying them.

Organizations are required to produce goods and services at a low cost, with high quality and with fast and flexible responsiveness to customers' needs (Venkatraman, 1994; Hughes *et al.*, 2006). This puts pressure on organizations to redesign the way in which they conduct their business and build information systems to support new processes (Venkatraman, 1994; Hughes *et al.*, 2006). In addition, competitive pressures and improvements in information technology constantly force organizations to re-evaluate their business strategies (Venkatraman, 1994; Porter, 2001). The business process reengineering (BPR) framework for organizational and societal impacts of IT is composed of three major pillars: process, people, and technology. These three elements must be aligned with each other as well as with the needs of the customers and the market (Al-Shammari, 2005). As BPR is seen as a relatively new concept for business improvement, its methods and approaches are still developing (Al-Mashari and Zairi, 2000). There are several approaches and methodologies which have been introduced by a number of authors (Yu and Wright, 1997; Kettinger *et al.*, 1997; Davenport and Short, 1990; Petrozzo and Stepper, 1994; Klein, 1994; Barrett, 1994; Harrison and Pratt, 1993; Guha *et al.*, 1993; Johansson *et al.*, 1993; Furey, 1993).

Also, this paper presents the BSC as a useful framework to provide a holistic viewpoint in ICs. In addition, the technique that many companies have selected is the BSC (Keyes, 2005). This heralded by the *Harvard Business Review* as one of the most significant management ideas of the past 75 years. The BSC has been implemented in companies to both measure as well as manages the IT effort (Carr, 2003). The keyword here is "balanced". It reflects the four BSC perspectives (customer, business processes, learning, and innovation and financial), long- and short-term objectives, as well as measures between qualitative and quantitative performance (Keyes, 2005). The BSC approach is more than just a way to identify and monitor metrics. It is also a way to manage changes and increase a company's effectiveness, productivity, and competitive advantage (Keyes, 2005). In the early 1990s, Kaplan and Norton developed the BSC approach to compensate their perceived shortcomings of using only financial metrics to judge corporate performance (Kaplan and Norton, 2000). By mid-1990s, the BSC became the hallmark of a well-run company. Bain & Co's Management Tools report that had surveyed more than 600 businesses, found that 62 percent were using the BSC approach. General Electric, Home Depot, Wal-Mart, and Mobil are among the many well-publicized companies using this approach (Bain & Co., 2003). A beneficial side-effect of the use of the BSC is that, when all measures are reported, one can calculate the strength of relations between the various value drivers (Van Der Zee and Jong, 1999). The BSC identifies the information required to measure performance against the business objectives (Kaplan and Norton, 2000). It provides a way of reaching to a consensus on the priority of IS investment to achieve business objectives (Ward and Peppard, 2002; Ward and Griffiths, 2000).

This study is conducted to identify typical ICs processes. Since the nature of ICs appears in their processes, this research concentrates on determining the processes of ICs especially based on literature review. These processes are categorized into BCS's dimensions. Then the processes are ranked based on the company strategy using a

statistical survey which finally leads to the definition of strategic processes. The final two steps are done by studying ten top Iranian ICs (for questionnaire, Appendix).

This paper is organized in six sections. After the introduction, Section 2 includes theoretical background and Section 3 elaborates the research methodology. Section 4 is dedicated to the research case studies. Finally, discussion and conclusion are in Sections 5 and 6, respectively.

Theoretical background

An IC is an entity which its main duty is to render professional investment management services to the shareholders' invested capitals. Parts A and C of section one of the investment company Act of 1940, defines an IC as:

Any issuer which is engaged or proposed to be engaged in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or are proposed to acquire investment securities having a value exceeding 40 per centum of the value of such issuer's total assets (exclusive of Government securities and cash items) on an unconsolidated basis.

Another definition notices that ICs are organizations which derive their profits solely from the investments in the securities of their subsidiaries in the case of considering IC as a holding company (US Department of Energy, 1994). The result is a huge profit for the investment companies.

According to *Investment Company Fact Book* in 2006, an IC is a corporation, trust, or partnership that invests pooled shareholder dollars in securities appropriate to the entity's – and its shareholders' – investment objectives. The main types of ICs which are shown in Figure 1 are: mutual, or "open-end", funds, closed-end funds, unit investment trusts, and exchange-traded funds which is a relatively recent adaptation of the investment company concept:

- (1) *Open-end (mutual) funds*. A mutual fund is an IC that buys a portfolio of securities selected by a professional investment adviser to meet a specified financial goal. Investors buy fund shares, which represent proportionate ownership in all the fund's securities. A mutual fund is considered as an "open-end" fund for two main reasons:
 - it is required to redeem (or buy back) outstanding shares at any time, at their current net asset value, which is the total market value of the fund's investment portfolio, minus its liabilities, divided by the number of shares outstanding; and
 - virtually all mutual funds continuously offer new fund shares to the public (Investment Company Institute, 2006).

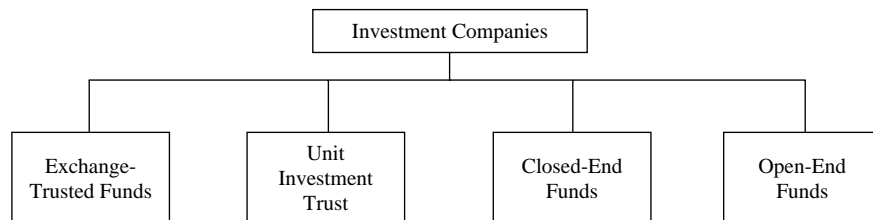


Figure 1.
The different types
of investment companies

Source: Investment Company Fact Book (2006)

- (2) *Closed-end funds*. A closed-end fund is an IC that issues a fixed number of shares that are traded on a stock exchange or in the over-the-counter market. Like mutual funds, the vast majority of closed-end funds are also externally managed. Assets of a closed-end fund are professionally managed in accordance with the fund's investment objectives and policies and may be invested in stocks, bonds, or other securities. Like other publicly traded securities, the market price of closed-end fund shares fluctuates and is determined by supply and demand value in the marketplace (Investment Company Institute, 2006).
- (3) *Unit investment trust (UIT)*. UIT is an IC that buys and holds a generally fixed portfolio of stocks, bonds, or other securities. The UITs are also externally managed. "Units" in the trust are sold to investors, or "unit holders," who, during the life of the trust, receive their proportionate share of dividends or interest paid by the trust. Unlike other investment companies, the UIT has a stated date for termination, which varies according to the investments held in its portfolio. At termination, investors receive their proportionate share of the UIT's net assets (Investment Company Institute, 2006).
- (4) *Exchange-trusted funds (ETF)*. An ETF is an IC, either an open-end fund or an UIT, whose shares are traded within a day on stock exchanges at market-determined prices. Therefore, the ETF has the features of an IC (diversified portfolio, professional management), but its shares trade in the retail market like an equal security. Unlike mutual funds, investors buy or sell ETF shares through a broker just as they do for the shares of any publicly traded company (Investment Company Institute, 2006).

An overview of strategic processes definition methodology

The methodology defined by Hanafizadeh and Moayer (2008) is used to define ICs strategic processes. This methodology helps ICs focus on processes which have more impact on the organization's objectives. In order to achieve these objectives, four steps are designed. The details of steps which are mentioned in the case study section have been shown in Figure 2:

- (1) *Determining the processes of ICs based on the literature review*. In this section, ICs processes are depicted and identified based on literature review.
- (2) *Categorizing the processes using the BSC framework*. ICs' processes are categorized in the BSC perspectives. As mentioned before, the BSC framework not only focuses on financial perspective but also measures organization's objectives based on three other perspectives (customer, internal process, learning, and innovation).
- (3) *Ranking the categorized processes by statistical analysis of the questionnaires*. In this section, experts' viewpoints and also managers' standpoints are used to

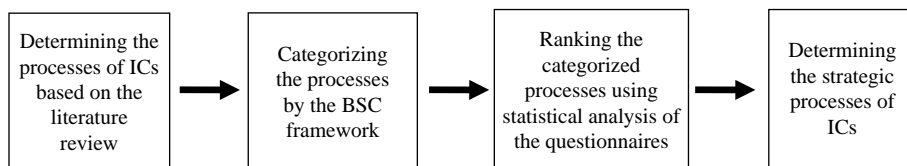


Figure 2.
The steps of the methodology

define strategic processes among other processes that are completely based on the strategy. Generally, the term of competitive strategy is considered as the firm's strategy, in consequence, company's strategy can be changed from one company to another. Our concern of competitive strategy is the strategy which is applicable in the competitive environment. Our intention is to rank IC's processes according to how well they support a particular strategy.

- (4) *Determining the strategic processes of ICs.* This section analyzes the data obtained from the questionnaires. This analysis identifies and ranks the strategic processes in ICs in order to meet the strategy. Then, strategic processes are determined among other processes. Hence, in each perspective, one process with a better rank is chosen as the strategic one.

Case study: implementation of strategic processes definition methodology in investment companies

First step: processes of investment companies

In this section, the different structures of ICs are studied. According to the main documents of Tehran Stock Exchange, 67 percent of ICs are closed-end funds, 28 percent are mutual funds and the last 5 percent are exchange-traded funds. Because of the different nature of ICs compared with other business companies, this research focuses on defining the main processes of ICs which are rather different than others. The closed-end funds are selected among others to increase the validation of this research. In this section, we identify the processes of ICs according to the literature review:

- *Professional investment management.* The full-time, experienced team of professionals that decides what securities should be bought, held, and sold for a mutual fund portfolio (Investment Company Institute, 2006).
- *Diversification.* The practice of broadly investing across a number of securities to reduce risk, and a key benefit of investing in mutual funds and other investment companies (Investment Company Institute, 2006).
- *Liquidity management.* The ability to gain ready access to invested money. Mutual funds are liquid because their shares can be redeemed for current value (which may be more or less than the original cost) on any business day (Investment Company Institute, 2006).
- *Risk management.* To the extent risk management procedures are deemed as the material to an investment decision, they should be, and generally are, fully disclosed (Stevens and Lancellotta, 1995).
- *Financial management.* Monitoring a company's portfolio of agreements, recovering unpaid royalties, evaluating the tax benefits of intellectual property rights and developing shareholder's reporting methodologies (Kaplan and Norton, 2000).
- *Brand licensing.* Identifying key intellectual assets and industry information in establishing the brands, patents and technologies appropriate for licensing the others (Kaplan and Norton, 2000). In addition to the use of licensing as a tool for satisfying market demand and increasing the profit, licensing of IP assets can be an effective tool for generating a stable flow of additional/new revenues in the form of royalty (Kalanje, 2006).

- *Human resource management.* Human resource management is the policies and proceedings which are dependent to the staff activities (Dessler, 1999).
- *Corporate governance.* The signs of the coefficients on the board and ownership structure variables suggest that ICs receive greater compensation when governmental structures are less effective (Core *et al.*, 1999).
- *Shareholders service management.* One of the main processes of ICs is the services they provide to shareholders and customers. These services are periodically reviewing investors' portfolios, adjusting asset allocations, and responding to customer inquiries (Investment Company Institute, 2006).
- *Broker-dealer relationship management.* One of the main activities of ICs is to trade shares. Investors buy shares directly from financial organizations or indirectly from brokers and dealers. Broker-dealer relationship management is one of the key factors for ICs to be successful (Investment Company Institute, 2004).
- *Innovation.* We can assure the success of organizations with innovation. The innovation in the body of ICs causes the competitive advantages for them (Gold *et al.*, 1994).
- *Marketing research and forecast.* measuring the performance of other ICs, evaluating the situation of different industries, evaluating the situation of the companies which are active in that market and evaluating the political and economical conditions are the most important processes of ICs (Raymond, 1989).
- *Business process support.* Business process support is used to determine the new solutions for optimizing the processes (Khomyakov, 2002).
- *Strategic alignment.* The effective alignment between organization and IT should be included in four strategies. These strategies are organization strategy, organization infrastructures (organization processes), IT strategy, and information systems (IS) infrastructures (IS processes) (Henderson and Venkatraman, 1993; Tallon and Kraemer, 1998).

Second step: categorizing the processes in the BSC framework

The BSC provides a framework to communicate with mission and strategy. The four perspectives of the BSC permit a balance between short- and long-term objectives. Since financial measures are valuable in summarizing the readily measurable economic consequences of actions already taken, the BSC retains the financial perspective. The BSC framework is shown in Figure 3.

Financial perspective represents the cost for each office to spend one dollar of its customers' funds. Operating expenditure of each office includes salaries, benefits, training, travel, information technology, and contractor support (Keyes, 2005). In the customer perspective, ICs identify the customer and the market segment in which the business units will compete and also measure the business unit's performance in these target segments. In internal process perspective, ICs identify the critical internal processes in which the organization must excel (Niven, 2002). The fourth perspective of the BSC, learning and growth, identifies the infrastructure that must build by the organization to create long-term growth and improvement (Keyes, 2005; Niven, 2002).

Taking advantage of successful Iranian case studies leads us to categorize the processes. In this section, the processes of ICs are categorized based on the successful

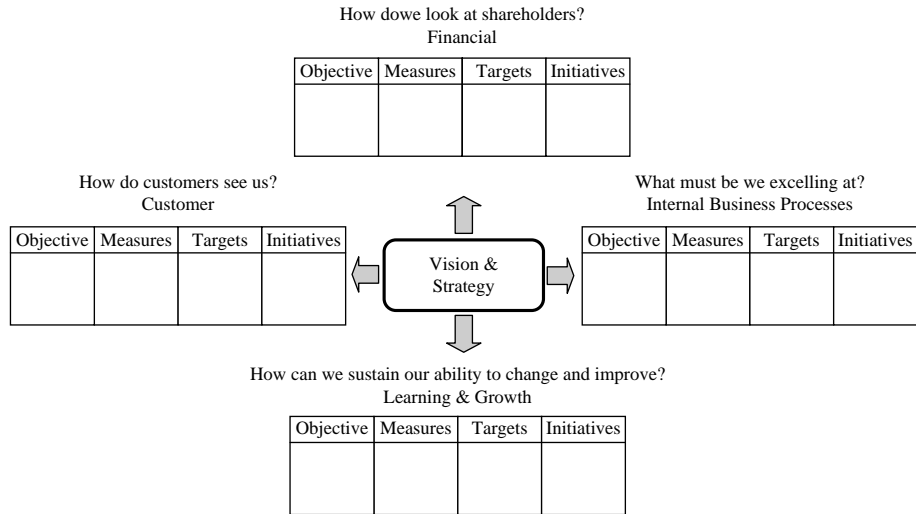


Figure 3.
The Balanced Scorecard
and its four perspectives

Source: Keyes (2005)

Iranian case studies. For instance, Industrial Development Investment Company of Iran has considered a measurement criterion for effective branding system in customer perspective and, in consequence, the brand licensing is put in customer perspective. The summary of this study is shown in Table I.

Figure 4 classifies the processes of Iranian ICs according to Table I. Financial management and four other processes lie within financial perspective because the main focus of these processes is to indicate readily measurable consequences. The three processes: namely shareholders service management, brand licensing, and broker-dealer relationship management are very customer-oriented, so they lie within customer perspective. Based on the study, strategic alignment, corporate governance, business process support, and human resource management are all internal processes. innovation, and marketing research and forecast identify the infrastructure which can build long-term growth and improvement and, in consequence, they are categorized in learning and innovation perspective.

Third step: determining the strategic processes according to IC's strategy

ICs are not able to invest in all processes. Therefore, they should select some processes among others that directly have a contribution in satisfying their strategic goals. Strategic goals are expressed in measurable terms- profit, market share, and so on. Common strategic objectives included in the mission statement might be: Achieving 15 percent of the market share, increasing the sales volume by 10 percent per year for the next five years and so forth (Martin, 1995). We name such processes "strategic processes". As stated before, the company's strategy affects selecting the strategic processes. Here, the strategy of the case is a competitive one and the type of strategy considered here is based on the ICs strategic plan.

First, the combination of respondents is shown in Table II. There are only 44 out of 94 questionnaires which have been duly filled out.

Company name	Process name										Strategic Alignment		
	Professional Investment Management	Diversification	Liquidity Management	Risk Management	Financial Management	Brand Licensing	Human Resource Management	Corporate Governance	Shareholders Service Management	Broker-Dealer Relationship management		Innovation	Marketing Research and Forecast
Qadir Investment Company	FP	FP	FP	FP	FP	CP	CP	CP	CP	CP	LIP	LIP	IPP
Industrial Development Company of Iran	FP	FP	FP	FP	FP	CP	IPP	IPP	CP		LIP	LIP	IPP
Senah Investment Company	FP	FP	FP	FP	FP	CP	IPP	IPP	CP	CP	LIP	LIP	IPP
Insurance Industry Investment Company	FP	FP	FP	FP	FP	CP	IPP	IPP	CP	CP	LIP	LIP	IPP
Industry & Mine Investment Company	FP	FP	FP	FP	FP	CP	IPP	IPP	CP		LIP	LIP	IPP
Rena Investment Company	FP	FP	FP	FP	FP	CP	IPP	IPP	CP		LIP	LIP	IPP
Mellat Investment Corporation	FP	FP	FP	FP	FP	CP	IPP	IPP	CP		LIP	LIP	IPP
Melli Investment Company	FP	FP	FP	FP	FP	CP	IPP	IPP	CP	CP	LIP	LIP	IPP
Tadbir Investment Company	FP	FP	FP	FP	FP	CP	IPP	IPP	CP	CP	LIP	LIP	IPP
Shahed Investment Company	FP	FP	FP	FP	FP	CP	IPP	IPP	CP		LIP	LIP	IPP

Table I.
The typical categorization of the processes of successful Iranian companies based on the BSC frameworks (FP, financial perspective; CP, customer perspective; IPP, internal process perspective; LIP, learning, and innovation perspective)

Figure 4.
Classification of the investment companies' processes based on case studies

Financial Management Diversification	Professional Investment Management	Risk Management Liquidity Management	Financial
Shareholders Service Management	Brand Licensing	Broker-Dealer Relationship Management	Customer
Strategic Alignment Business Process Support	Corporate Governance Human Resource Management		Internal Process
Innovation	Marketing Research and Forecast		Learning and Innovation

Table II.
The combination of respondents to determine strategic processes of ICs

Number of respondents	Education			Organization level	
	Bachelor	Master	PhD	Top manager	Senior expert
44	8	32	4	11	33

This section analyzes the data taken from the questionnaire to identify and rank the strategic processes in ICs. The questionnaire used Likert indicator and Friedman test to rank the processes. Table III indicates the mean ranks of ICs processes. The detailed information about the Friedman test is shown in Table IV. Based on this test, there is a significant difference between the processes. According to Alpha test, statistical reliability is 75.6 percent which is shown in Table V.

Based on the data analysis of Friedman test, the processes of ICs with competitive strategy are ranked in Table VI.

Table III.
The mean ranks of Friedman test for determining strategic processes of ICs with competitive strategy

Process	Mean rank
Professional investment management	8.99
Diversification	10.06
Liquidity management	5.89
Risk management	6.49
Financial management	7.06
Brand licensing	8.88
Human resource management	5.38
Corporate governance	5.17
Shareholders service management	9.64
Broker-dealer relationship management	5.57
Innovation	10.14
Marketing research and forecast	7.68
Business process support	8.64
Strategic alignment	5.44

Discussion

In this research, according to the holistic viewpoint of the BSC framework, one process is chosen from each perspective. It means that, other processes with a better rank in the Friedman test in each perspective are ignored. For instance, although professional investment management and brand licensing are ranked higher in Friedman test, business process support is selected. As a result, diversification, shareholders service management, business process support and innovation are chosen as strategic processes in ICs. Nevertheless, due to the lack of experts in IC's comparing to business companies, the number of respondents is one of the research limitations. The other reasons of their improper reception for questionnaires are as follows:

- They were told that if they have not had enough knowledge and skill in required fields, they should have not answered the questions.
- Carelessness, irresponsibility and not returning the questionnaires in required time are other reasons for the low numbers of questionnaires.

The strategic processes are highlighted in Figure 5.

N			44	Table IV. The result summary of Friedman test for determining strategic processes of managerial holding companies with competitive strategy
χ^2			136.279	
Df			13	
Asymptotic significance			0.000	
Monte Carlo significance	Significance		0.000	
Significance	99 percent confidence interval	Lower bound	0.000	
		Upper bound	0.000	

Reliability analysis-scale (ALPHA)		
1	VAR00001	Professional investment management
2	VAR00002	Diversification
3	VAR00003	Liquidity management
4	VAR00004	Risk management
5	VAR00005	Financial management
6	VAR00006	Brand licensing
7	VAR00007	Human resource management
8	VAR00008	Corporate governance
9	VAR00009	Shareholders service management
10	VAR00010	Broker-dealer Relationship management
11	VAR00011	Innovation
12	VAR00012	Marketing research and forecast
13	VAR00013	Business process support
14	VAR00014	Strategic alignment
Reliability coefficients		
N of cases = 44.0	N of items = 14	
Alpha = 0.756		

Table V.
Reliability analysis
according to alpha test

Process name	Perspective in BSC	Mean rank in Friedman test	Rank in perspective	Total rank
Professional investment management	Financial	8.99	2	4
Diversification	Financial	10.06	1	2
Liquidity management	Financial	5.89	5	10
Risk management	Financial	6.49	4	9
Financial management	Financial	7.06	3	8
Brand licensing	Customer	8.88	2	5
Shareholders service Management	Customer	9.64	1	3
Broker-dealer relationship Management	Customer	5.57	3	11
Human resource management	Internal process	5.38	3	13
Corporate governance	Internal process	5.17	4	14
Business process support	Internal process	8.64	1	6
Strategic alignment	Internal process	5.44	2	12
Innovation	Innovation and learning	10.14	1	1
Marketing Research and Forecast	Innovation and learning	7.68	2	7

Table VI.
Mean rank, perspective rank, total rank, mean, and variance of each process according to competitive strategy

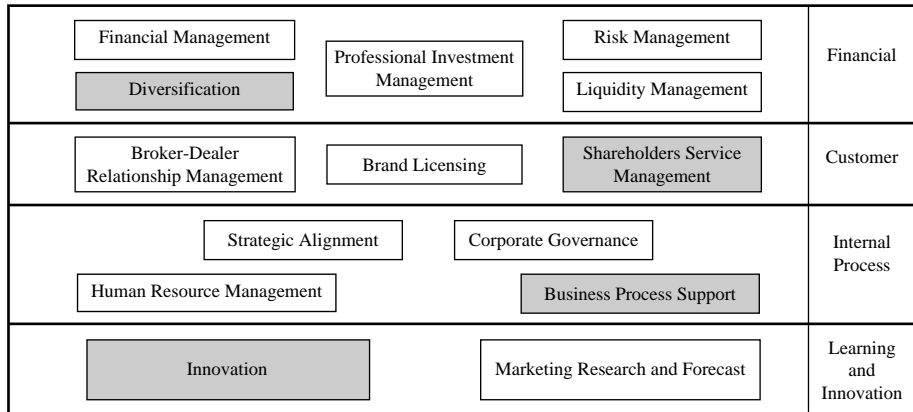


Figure 5.
Strategic processes of ICs based on the BSC framework

Conclusion

Defining the strategic processes or processes with strategic nature is the main goal of this research. Since these processes do not exceed four or three, organizations with limited budget and time are able to focus on such processes. By using this methodology, organizations determine strategic processes which are critical in achieving their objectives.

ICs are able to save their time and budget in achieving their goals by concentrating on their strategic processes. The ICs strategic processes belong to each BSC perspective. These strategic processes play key roles in achieving ICs' strategic objectives.

This research is based on multi case studies. Generalization has to be interpreted cautiously and limitation of the case studies should be kept in mind. Furthermore, the strategy of the research is a competitive one and the strategic processes are chosen according to this strategy. They may be changed based on other strategies.

For future research, critical success factors (CSFs) and key performance indicators (KPIs) can be determined based on the strategic processes. This would be useful for reaching IC's strategic objectives.

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Further reading

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Appendix 1. Questionnaire No 1

Please circle the number to indicate the importance of each process. To add the new processes which are related to the ICs, you would be able to use number 15 and other columns below it. (The strategy is competitive here)

	Much important				Not important	
1	Professional Investment Management	1	2	3	4	5
2	Diversification	1	2	3	4	5
3	Liquidity Management	1	2	3	4	5
4	Risk Management	1	2	3	4	5
5	Financial Management	1	2	3	4	5
6	Brand Licensing	1	2	3	4	5
7	Human Resource Management	1	2	3	4	5
8	Corporate Governance	1	2	3	4	5
9	Shareholders Service Management	1	2	3	4	5
10	Broker-Dealer Relationship Management	1	2	3	4	5
11	Innovation	1	2	3	4	5
12	Marketing Research and Forecast	1	2	3	4	5
13	Business Process Support	1	2	3	4	5
14	Strategic Alignment	1	2	3	4	5
15		1	2	3	4	5
16		1	2	3	4	5
.		1	2	3	4	5
.		1	2	3	4	5

Table AI.

Appendix 2. The websites of Iranian Investment Companies

Qadir Investment Company	No exist
Industrial Development Investment Company of Iran	www.iranidic.com
Sepah Investment Company	www.sinco.ir
Insurance Industry Investment Company	www.iiico.com
Industry and Mine Investment Company	www.imicweb.com
Rena Investment Company	No exist
Mellat Investment Corporation	www.irmic.com
Melli Investment Company	No exist
Tadbir Investment Company	No exist
Shahed Investment Company	www.shahed.co.ir

Table AII.

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