Environmental Influences on Business Practices:
The Case of Iran

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ABSTRACT

The Iranian business people are, typically, considered skillful bargainers, savvy and successful. It is interesting to examine their business practices and their roots. Iran has been influenced by multitude of environmental variables. These have been acting, sometimes, in conflicting manners. Iran has had a well-established identity as a state for more than 2500 years, benefiting from a rich history; culture and tradition. At the same time the Iranian society is, at its roots, religious and extensively influenced by the Shiite faith. For a long period the Iranian business people were traditionally being viewed as individualistic and non-conformist. The strong influence of the Shiite faith, however, pulled them to the other direction of obedience and conformism. Before the 1979 Revolution, the none-conformism approach prevailed. The revolution produced a wave of business nationalizations and since then, the public sector has dominated the Iranian economy. The managers in this sector have transformed into conformist, preferring not to take unnecessary risks. Iran is currently in the midst of an ambitious economic reform and it is very interesting to follow the environmental changes in this country and their impact on the business practices of its people.

Keywords: Business Practices, Environmental Influences, Iran.

INTRODUCTION

The Iranian business people are, typically, considered skillful bargainers, savvy and successful. It might be interesting and constructive to examine their business practices and to explore the roots and causes of their particular business behavior.

People from different backgrounds and environments have usually different investment objectives; attitudes towards risk; time horizons and approaches to

decision making[1]. For example, US executives have usually a very short time-horizon and their investment objective is typically emphasizing short-term profitability. The legal system in the US is such that the executives are, typically, afraid of being sued by aggressive lawyers. Furthermore, the US executives are fearful of being dismissed on a short notice. Therefore, they are reluctant to take the risk of waiting a long time for a potential success of a long-term project. In contrast, Japanese investment objectives, characteristically, emphasize increasing their international market share and adherence to a long-term time horizon. Even though the Japanese concept of "life-time employment" that prevailed in the past has somewhat subsided recently, it still affects the Japanese behavior. While US business decisions are normally influenced by the motivation to avoid risk, Chinese business people, in contrast, like risky ventures, claiming that risk presents opportunities. Japanese executives, routinely, like to make business decisions jointly based on consensus, while in many other countries, business decisions are made mainly by individuals. With respect to the Iranian case, one has to realize that Iran is a big country with a large population composed of different ethnicities; social classes; wealth and other backgrounds; therefore, one has to be careful in making generalizations.

The objective of this paper is to explore the Iranian business practices and the environmental elements, which have formed and reshaped them. Accordingly, we have reviewed some related studies and present their findings. In the next section we describe some characteristics of the Iranian business manners and practices. In the third section we present the environmental settings, which have caused the behavioral attributes of the Iranian business people. We end with brief concluding remarks in the fourth section.

CHARACTERISTICS OF THE IRANIAN BUSINESS CONDUCT

We base our discussion of this issue on the following studies, (from which we often cite with modifications): the Business Etiquette in Iran (2004); Emma Salkill (2005); and the Canadian Centre for Intercultural Learning (2009). These articles highlight the following main attributes:

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[1] See, for example, Hagigi and Sivakumar, (2009).

Dealing with Iranians

The Iranians are very diplomatic and unreadable. It is hard for someone to know how he or she is regarded by the Iranian. They are very polite, particularly to foreigners. They are not openly confrontational in a working relationship but if they are not happy with what they have been asked to do, they will often ignore such requests, or carry them out very slowly, as a form of passive resistance rather than an open snub.

When dealing with Iranian business people, it is important to build a one to one personal relationship right at the outset and to gain their trust and respect. Trust is established through honesty in the business dealings, sensitivity, hospitality and a genuine interest and concern for the Iranian people and their perspective. As one mean of establishing mutual respect, it is customary to use material, economic and symbolic privileges. Privileges should be given out based on accepted norms without provoking any confrontation or suspicion between colleagues. The Iranian workplace is not at all neutral, strict or rigid. Financial or symbolic gestures may act as catalysts to help run the operations smoothly. Privileges should be given in a relatively decent, discreet, and modest way. The culture is more introverted than extroverted. Colleagues and employees frequently hope for special privileges or treatment given a personal relationship or friendship.

When having price negotiations, it is advisable to be well prepared and to know, ahead of time, what is the final acceptable price. Iranians, typically, offer an extremely different price than the one that the other side has anticipated originally. This is quite a normal practice; aimed at assessing how far they could go to. Therefore, there is a need for patience; to reply politely but firmly. It is advisable to try to give in just once, and not to use deadlines or pressure tactics, as this can backfire. Iranians are usually not too direct in their communications and tend to spend long time in discussions on general issues before getting to the main point of the meeting. Iranians are master negotiators and always approach a deal as though they are operating from a position of strength, even if they have more to lose. They are very proud, very polite and difficult to being scrutinized. They appreciate strength and intelligence in their opponents and like challenges. Iranian management is very much top down and, typically, people are very reluctant to go against the stream and risk their position. The level of authority figures who participate in the business meetings reflect the seriousness and respect that the Iranian officials attribute to the other negotiating party.

Managerial Attributes

Education ranks highly among desirable managerial qualities; experience and leadership are also highly viewed. Openness to new ideas is not an essentially desired trait. The following are some additional features related to the managerial attributes:

Gender Status

There are barriers between the two genders, however, women are not humiliated or deterred from having a significant place in the public life. Iranian society is not too homogenous, and attitudes and values vary depending on the social class, level of education, and family background. Presently, women are entering into all areas of life, including law; politics; medicine; engineering and business. Iran, however, is ruled by the Sharia law, which is viewed by the Western world as discriminatory to women. Men are responsible by law for the financial support of the family, women for the domestic duties. Women still do not have the same opportunities for management as men. Women do not have access to the full range of jobs. Salaries are lower for women than for men. Women have difficulty receiving credits and loans through official channels. Financing for business ventures is often raised within the extended family and women have more difficulty obtaining such resources than men. Fathers often continue to give priority to their sons for higher education. On the other hand, at the same time, women are entering the universities in increasing numbers and constitute a significant part of the working force. Currently, many of them are launching their own businesses and are doing very well.

The stance of Religion; Class and Ethnicity at the Workplace

The vast majority of the Iranians are Shi'ite Muslims. There are a few other religions and they are tolerated. Religion plays a role in the hiring of staff within government-run operations. Some private sector employers would also be quite careful about the religious faith of their employees.

There is a noticeable gap between the rich and the poor people. The most prestigious positions in society are occupied by the wealthy and educated people, (such as, for examples, in the medical and engineering professions). Iranians are very class conscious. The social structure is based on family status, wealth and education. This, however, is starting to change as there is a growing middle-class whose children are being educated.

The Iranians are proud of their history and see themselves as more advanced to the other ethnic groups, such as the Kurds, Armenians, Turcoman, Arabs and nomadic groups. However, ethnicity is not a factor that prevents people from working together. Tradition is an important factor and foreigners should not neglect to take into consideration the Iranian cultural sensitivities.

Conduct at the Workplace

Iranians do not often confront someone directly. One may hear about a problem indirectly or well after the fact. This makes it difficult to confront someone as he/she can claim that the problem is merely a rumor. It is better to be open and honest in approaching someone directly to resolve a problem. Good working conditions, money, fear of failure, and a respectful environment are the main motivational factors for the Iranian worker. The Iranian working habits are different than that of many Westerners. Iranians work hard but they also leave room for family activities and recreation in their lives.

ENVIRONMENTAL SETTINGS AND BEHAVIORAL CHARACTERISTICS

Iranian societal norms reflect a multitude of contradictions. Bar (2004) explored and analyzed some of them comprehensively. In the following section we are presenting and citing some of his findings, (with modifications).

Individualism

Some researchers contend that the Iranian tendency for individualism stems from the unique geographical conditions, model of family life, and the autocratic structure of all the political regimes that have been in power in Iran. Those forces pushed the individuals to protect themselves and their families and not to trust anyone outside of their close circle. Individualism, however, does not imply social isolation. The Iranian organizational arrangement is compiled of close knit of “old boys clubs” made up of pals from the army, enlarged families and the clergy with ties to the leadership. The network of personal ties provides the mechanism for social mobility, business success, political acceptance, and protection from the arbitrariness of the regime. Individualism has been seen as the source of another major Iranian characteristic - suspicion and mistrust of anyone outside one’s immediate inner circle, and especially of anyone in power, of governments, and of foreign powers.

"Bazzar" Tradition; Religious Roots and Pragmatic Realism

Iranians pride themselves on traditions of science, rationalism and pragmatism. They frequently contrast their "scientific" mentality as against the Arab "emotionalism". The positive "rational" qualities that the Iranians tend to attribute to their own "character" include: "cleverness", patience in negotiation, sophistication, bargaining skills and pragmatic realism - a tendency towards keeping their options open with the ability to disguise them. Many of these attributes are popularly associated with the concept of the bazaar merchant (bazaari). At the same time, Iranian society is, at its roots, religious. Iranians tend to characterize themselves as highly spiritual (rohani), in contrast to, what they believe, the materialistic West and the Arab worlds. One has to note, however, that this popular religiosity is not consistent with the low esteem in which many Iranians hold their clergy. This negative view of the clergy has been imbedded in the Iranian tradition for centuries and is not related the present regime necessarily. Both the "bazaar culture" and the Shiite faith history of an oppressed minority led towards pragmatism. Shiite Islam provides defense mechanisms for survival: passive acceptance of political situations, disguise regarding their religious identity in order to stave off oppression, religious and cultural blending, and allowing for the absorption of non-mainstream practices.

Cultivating Superior Negotiation Skills

One important manifestation of the pragmatic realism is the development of a successful negotiating style. The Iranian negotiating techniques reflect many of the above mentioned cultural attributes. Iranian negotiators are methodical and have demonstrated a high level of preparations and a detailed-oriented approach. At the same time, however, their communication tends to be extremely ambiguous, and indirect. In many cases the message can be interpreted differently depending on the context in which it is transmitted. Stalling is another key characteristic of these techniques. This stands in sharp contrast to the American communication style, which calls for saving time and getting right to the point.

Other features of this technique are collective decision-making and the creation of back channels mechanism. Even in high-level meetings, Iranian negotiators typically hold talks in the presence of an official representative as a silent witness. In many cases, these channels seem to have been no more than a mean for holding back the negotiation process to facilitate, meanwhile, gathering operational information prior to the actual negotiations. A frequent negotiating tactic used by Iranians is to get into "virtual negotiations" on new and unexpected

issues, which become the focal point of the talks. The non-Iranian side finds itself forced to negotiate back to the original issue, and then finds that it has paid for the return to the first original place. This seems to be aimed to wear out the other sides and to learn their weaknesses before raising the real issues. It also may be a reflection of the "bazaar instinct. Iranian negotiation techniques are notoriously short-term focused. Very rarely will Iranians offer a deal in which the tradeoff from the other side will emerge only years later.

Conformism versus Non-conformism

Abbas J. Ali and Mirahmad Amirshahi (2002) researched another important related issue dealing with the work values and orientations of the Iranian manager. In the following section we are presenting and citing some of their findings, (with modifications).

Abbas Ali (2005) alludes to the distinction between "outer-directed" versus "inner-directed" managers. The outer-directed refers to conformist managers with socio-centric values. These managers are adaptive to their situation in life; they like structure and accept rules, policies and group norms. They prefer a stable environment and job. They tend not to set goals but rather to live according to someone else's plans. In contrast, the inner-directed managers are with ago-centric, manipulative and existential values. They are assertive and expressive, bending the rules in order to accomplish what they want. They are always attempting to influence the environment and make changes to it. Abbas and Amirshahi found, in their empirical study that, in contrast to the previous periods, currently, Iranian managers are inclined towards obedience rather than to the freedom of choice. Abbas and Amirshahi contend that Iran differs from the rest of its neighboring Middle-Eastern countries in that as a state it has had a well-established identity for more than 2500 years. By the period of the Safavid dynasty (1501-1732), most of the Iranian people had already adopted the "Ikhtiar" or "choice" school of thought. This approach views managers as entitled to work based on their own understanding and solely responsible for their actions. People are seen as socially independent and responsible actors who strive to achieve their goals in a harmonious and competitive environment. In this setting, self-reliance is a virtue, as it facilitates the continuity of the community existence. Abbas and Amirshahi contend that, in contrast, most of the countries surrounding Iran have officially adopted the other school of thought that emphasizes compulsion or pre-destination ("Jabria"). This approach is the extreme opposite of Ikhtiar, as it asserts that tradition must take precedence over choice. The Ikhtiar School nurtures logic, and condones "Qiyas" (analogical human reasoning), and "Ijtihad"

(exercise of opinion in questions of law). The Jabria School discounts these qualities and treats them as mere “Bedaa” (foreign fabrication).

The results of Abbas and Amirshahi's empirical study indicate that, after the 1979 revolution, the majority of the Iranian Managers changed to be conformists and socio-centric. They contend that these recent behavioral changes were caused by the recent political and cultural changes. Previously, during the Shah era, the Iranian society was exposed to the Western culture. At that time, the government supported conformism in business. Later, the Islamic revolution pushed towards conforming to the Islamic values. The emphasis has shifted towards values such as human dignity and on societal causes, rather than on personal materialistic gains. The religious regime constantly reminds the public about the outside threat and the need to sacrifice personal gains for the sake of the society. In addition, the core philosophy of the regime is that the poor and unfortunate segments of the society must have access to political and economic opportunities. Therefore, helping others and observing social and religious norms are considered virtues. This may explain why, in their empirical study, Abbas and Amirshahi found no differences in the conformist value across the selected demographic and organizational variables. It may also explain why neither gender nor age influences value systems: male and female, young and old- all participants appear to be committed to the normative values that are advocated at the government and social levels. The researchers conclude by saying that Iran is in a transition period now, while currently Iranian managers' inclined towards conformity, the struggle between the two approaches has not ended yet in Iran.

Strategic Change and Decision-Making in the Iranian Manufacturing Firms

Factors influencing organizational performance have always been a key focus of strategic management scholars. There is a debate going on among scholars between proponents of two different views: the industrial organization (underlining a long-term planning) versus the resource based view (stressing the short-term planning). The first view emphasizes the importance of the business unit within its industry and focuses on lowering the cost of the product. It perceives the environment to be stable and certain, and thus seeks to continue the stability and control in the firm’s operations in order to achieve maximum efficiency. It seeks to avoid the risk associated with strategic changes. In contrast, the second school of thought emphasizes strategic action and differentiation, which is more likely to change in the short term. This dispute has been intensified by the increasing speed of environmental changes and the recent global economic crisis.

The Iranian business background seems to be an ideal context to test these two competing approaches. There are in Iran's case some strong reasons to support each of the differing stresses. There are, in Iran, forces driving for stability: strengths such as the nation's long history, its natural richness, its geostrategic importance and its young population. In Iran, religious faith plays a substantial role, which, again contributes to stability. On the other hand, economic problems such as inflation and unemployment act in the opposite direction. These problems have been intensified due to the economic sanctions.

Professors Zamani, Parnell, Labbaf and O'Regan (2013) discussed and tested empirically this issue and we have present and cite some of their findings. They contend that Iranian businesses, which managed to pursue a combination of both low-cost and differentiation strategic actions performed the best. Due to the trade sanctions, the Iranian business environment appears to be much more turbulent than those in other developed western nations. In their opinion strategic group characteristics should relate to how managers perceive the environment regardless of the actual level of environmental turbulence and uncertainty.

The Managerial Core Cultural Orientations

Professors Hamid Yeganeh and Zhan Su (2007) studied the cultural orientations of the Iranian managers. Their findings suggest that the Iranian managerial culture is characterized by traditional values such as collectivism, past orientation, high hierarchical distance and evil orientation (as it is called in the academic literature) expressed in terms of mistrust and conspiracy. We present and cite some of their findings.

The findings of Yeganeh and Su portray Iran very differently than the image that people usually have for a predominant Islamic/Middle-Eastern country. Located in the Middle East, Iran has many commonalities with its neighboring Muslim countries; however, due to its unique historical, linguistic and racial identities it has a different and unique culture. When asked about the determinant factor in shaping their cultures, more respondents attributed it to their country of birth (Iran), than to their religion. The nationalist aspect of the Iranian culture is related to the Ancient Persian civilization and Zoroastrianism heritage which date 3000-2000 BC and are still prevalent in the society. On the other hand, the Shiite Islamist aspect is relatively younger and dated only to the eighth century. This conceptualization is very meaningful, since the Iranian culture and Islam have always been in constant mutual interaction. Depending on historical instances and social strata they may have different degrees of divergence or convergence. By and large, the Iranian society has been developed by the overall impact of both forces. After the Islamic conquest in the seventh century, many aspects of the Iranian

culture were influenced by the Islamic teachings. Reciprocally, the primal version of Islam was highly enriched by the Iranian culture and civilization. Influenced by the heritage of the Persian mythology and the other historical events, the Islamist aspect was transformed ultimately into Twelver Shiite which is the religion of the vast majority of the Iranian population. Shiites accept Mohammad as the prophet, but they believe that the leadership of the Muslim community passed from Mohammad to Ali and subsequently to 11 of his descendants (Imams). The 12th Imam believed to continue to live on the earth, but in occultation. Hence, he is the messiah (Mahdi) promised by the God who will establish the reign of justice throughout the world. According to some branches of Shiite, in the absence of the 12th Imam, Muslim judicial experts should act as guardians of the faith and its principles. By theorizing this idea after the revolution of 1979, the Shiite clergy proclaimed the Islamic Republic and assumed control of the state and its institutions.

The results of this study suggest that the Iranian management culture is characterized by highly traditional values such as collectivism, past orientation, hierarchical distance and evil orientation expressed in terms of mistrust and conspiracy[2]. Yeganeh and Su assert that these cultural orientations are deeply rooted in the Iranian mythology, history, religion, and societal structure and as such, they may have important implications. Some organizational outcomes can be mentioned as networking, personal connections and informal channels, bending rules, nepotism and favoritism, implicit and high-context communication, compensation on ascription rather than achievement, paternalistic management, neglecting plans or setting short time horizon, dissimulation and suspicion, and emotion-based actions.

Communicating Information for Decision-making: Financial Reporting Issues

Another factor which affects managerial decision-making relates to the way the financial information is communicated externally to the public and internally to the managers. Different accounting methods and estimates which are used in the corporate financial statements might result in portraying completely different pictures and, as a consequence, calling for completely different business decisions.

Mirshekary and Saudagaran (2005) studied the perceptions and characteristics of the financial statements users in Iran. Their results suggest that annual reports are regularly used as a basis for making investment and other economic decisions. They found that the decision-makers depend more heavily on information obtained from the published annual reports than from stockbrokers' advice; acquaintances or

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[2] For a detailed discussion of cultural values and behavior see, for example, Hofstede (2001).

from tips and rumors. Mirshekary and Saudagaran contend that by the time of the 1979 Islamic revolution, Iran had enjoyed already almost two decades of rapid economic growth as well as huge changes in its social structures. The country attracted a number of multinational companies, some of which were listed on the Tehran Stock Exchange. However, after the Islamic revolution occurred, Iran changed course dramatically and had established new social, economic and political structures and instabilities arose with the redirection of the political power. Under the Shiite Islamic regime, developmental policies have shifted towards achieving the declared multiple objectives of social justice, modernization, and 'politically correct' Islamic institutions.

Financial reporting practices are determined by various environmental variables[3] such as, tax regulations; governmental structures; economic settings and cultural factors, among others. Therefore, accounting practices vary across different countries. Mashayekhi and Mashayek (2008) discussed the interesting case of Iran and we present and cite (with modifications) some of their findings. They contend that the evolution of Iran's accounting practices has been influenced mainly by the following factors: financial markets, privatization, tax laws, joining the World Trade Organization (WTO), and the legal systems.

A well organized and active stock exchange in a catalyst for business development and requires an advanced financial reporting system. The outbreak of World War II and subsequent economic and political events delayed the establishment of the stock exchange in Iran until 1967, when the Stock Exchange Act was ratified. The Tehran Stock Exchange (TSE) opened in April 1968. Initially only government bonds and certain state-backed certificates were traded on the market. During the 1970s, the demand for capital boosted the demand for stocks. At the same time, institutional changes, like the transfer of shares of public companies and large monopolies to employees and the private sector led to the expansion of stock market activity. The restructuring of the economy which followed the Islamic Revolution expanded public-sector control over the economy and reduced the need for private capital. At the same time, the interest-bearing bonds were abolished. Because of these events, the TSE experienced a period of standstill. This stagnation ended in 1989 with the revival of the private sector through the privatization of state-owned enterprises and the promotion of private-sector economic activity based on the First Five-year Development Plan of the country. Since then the TSE has expanded continuously.

Since the victory of the Islamic Revolution in 1979, the importance of the taxation system has increased. Nevertheless, an efficient taxation system has not been enforced yet, which has led to governmental problems and has intensified the

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[3] See, for example, Hagigi and Sponza (1990).

problem of income distribution. In Iran, the financial accounting procedures follow the tax accounting rules and this causes difficulties to the accounting standard setters. For example, using the "historical value" concept in the tax law is an obstacle for using "market values" in the financial statements.

Effects of the Economic Settings

One of the important factors affecting managerial decision-making is the business and economic environment. In Wikipedia (2014) there is a detailed report about the Iranian economy and from there we present and cite (with modifications) some of the main parts.

The Iranian economy is mixed and transitional with a large public sector. Some 50% of the economy is centrally planned. It is dominated by oil and gas production, although over 40 industries are directly involved in the Tehran Stock Exchange. With 10% of the world's proven oil reserves and 15% of its gas reserves, Iran is considered an energy superpower.

Price controls and subsidies, particularly on food and energy, burden the economy. Contraband, administrative controls, widespread corruption, and other restrictive factors undermine private sector-led growth. The legislature in late 2009 passed a subsidy reform plan, which was the most extensive economic reform since the government implemented gasoline rationing in 2007.

Due to its relative isolation from the global financial markets, Iran was initially able to avoid recession in the aftermath of the 2008 global financial crisis. Yet, following the sanctions imposed by the international community as a result of the country's nuclear program, oil exports fell substantially. Iran's highly educated population constrained by the economy and insufficient foreign and domestic investment prompted an increasing number of Iranians to seek overseas employment, resulting in a significant "brain drain".

Prior to 1979, Iran's economy developed rapidly. Traditionally an agricultural country, by the 1970s had undergone significant industrialization and modernization. Following the nationalizations in 1979 and the outbreak of the Iran-Iraq War, over 80% of the economy came under government control. The eight-year war with Iraq claimed at least 300,000 Iranian lives and injured more than 500,000. The cost of the war to the country's economy was some $500 billion. After the cease of the hostilities in 1988, the government embarked upon developing the country's communication, transportation, manufacturing, health-care, education and energy sectors (including its prospective nuclear power facilities), and began integrating its communication and transportation systems with those of its neighboring countries.

The government's long-term objectives since the revolution were stated as achieving economic independence, full employment, and a comfortable standard of living, but still the economy is facing many hurdles. Iran's population more than doubled between 1980 and 2000 and its median age declined. Although many Iranians are farmers, the agricultural production has consistently fallen since the 1960s. By the late 1990s, Iran imported much of its food. At that time, the economic hardship in the countryside resulted in many people moving to the cities. A unique feature of Iran's economy is the presence of large religious foundations called Bonyad, which are criticized for reaping huge subsidies from the government, while siphoning off production to the lucrative black market and providing limited and inadequate charity to the poor.

However, the country is currently in the midst of an ambitious economic reform. Iran is considered an energy superpower and has a potential to overcome its economic challenges.

CONCLUSIONS

The Iranian business people are, typically, considered skillful bargainers, savvy and successful. It is interesting and valuable to examine their business practices and to explore the roots of their particular business behavior. The country is big and with a large and diverse population; therefore, one has to be careful with generalizations. Iran has been influenced by multitude of environmental variables, which have been acting, sometimes, in conflicting manners. Iran has had a well-established identity as a state for more than 2500 years, encompassing rich history; culture and tradition. At the same time the Iranian society is, at its roots, religious and has been also strongly influenced by the Shiite faith. The Iranian culture and Islam have always been in constant mutual interaction. Depending on historical instances and specific situations they have had different degrees of divergence or convergence. On the whole, the Iranian society has been cultivated by the overall impact of both forces. It is very constructive to follow the formation of the business practices resulting from the various environmental settings in the country. For a long period Iranian business people were viewed as individualistic and non-conformist. This had already been manifested during the period of the Safavid dynasty (1501-1732). However, the strong influence of the Shiite faith, pulled to the other direction of obedience and conformism. Before the 1979 Revolution, the none-conformism approach prevailed. Since then, however, due to the wave of business nationalizations, the public sector has dominated the Iranian economy and the managers in this sector have been transformed into conformist, preferring not to take unnecessary risks.

Iran is currently in the midst of an ambitious economic reform and it is fascinating to follow the environmental changes in this country and their impact on the business practices of its people.

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